

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

October 31, 2016
CWS Capital Partners
Semi-Annual Conference Call

November 24 & 25, 2016
Thanksgiving Day and Day After
CWS Offices Closed

December 26, 2016 (Observed)
Christmas Day
CWS Offices Closed

January 2, 2017 (Observed)
New Year's Day
CWS Offices Closed

January 17, 2017
4th Quarter 2016 Est. Tax Payment Due

January 27, 2017
4th Quarter 2016
Quarterly Distributions Mailed

March 15, 2017
Year 2016 K-1's Mailed

April 17, 2017
2016 Federal & State Tax Filing Deadline
1st Quarter 2017 Est. Tax Payments Due

April 18, 2017
CWS Annual Partners Meeting
Newport Beach Marriott Hotel and Spa
Newport Beach, CA (Fashion Island)

April 28, 2017
1st Quarter 2017
Quarterly Distributions Mailed



www.cwscapital.com

CWS AND THE SUCCESS OF FOUNDER-LED FIRMS



By Gary Carmell

"To live in a great idea means to treat the impossible as though it were possible. It is just the same with a strong character; and when an idea and a character meet, things arise which fill the world with wonder for thousands of years."

-Johann Wolfgang von Goethe

Apple, Facebook, Google, Amazon, Wal-Mart, Salesforce, Space-X, Snapchat, Uber, Microsoft, Costco, Oracle, Netflix, Berkshire Hathaway, Nike, Blackstone, Dell, and Intel. What do they all have in common? They have had extraordinary success and been on the leading edge of innovation while taking risk and driving change. Although some don't have a long history (e.g. Facebook, Snapchat, Space-X, and Uber), they have still been able to generate explosive growth and come to dominate their markets and are only getting stronger. What else do they have in common that has been the main reason for their success? They were founded and run by fanatics.

When you hear the names Jobs, Walton, Bezos, Zuckerberg, Musk, Gates, Ellison, etc. one instantly thinks of the firms they founded

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and their intensity and ruthless focus on dominating and disrupting their industries. They are or were zealots and they were intent on letting nothing get in their way. Steve Jobs famously said he wanted to leave a dent in the universe and it's hard to argue that he was not successful at having done this. Many of these fanatics are still actively involved with their companies and the ones who are not have left their indelible marks on their firms. While I don't invest much in the stock market, it does seem like an investment strategy centered on investing with fanatics would do quite well (more on this shortly). Charlie Munger seems to agree with this as he has said:

"So you do get an occasional opportunity to get into a wonderful business that's being run by a wonderful manager. And, of course, that's hog heaven day. If you don't load up when you get those opportunities, it's a big mistake.

Occasionally, you'll find a human being who's so talented that he can do things that ordinary skilled mortals can't. I would argue that Simon Marks—who was second generation in Marks & Spencer of England—was such a man. Patterson was such a man at National Cash Register. And Sam Walton was such a man.

These people do come along—and in many cases, they're not all that hard to identify. If they've got a reasonable hand—with the fanaticism and intelligence and so on that these people generally bring to the party—then management can matter much."

I recently read a Harvard Business Review article written by a partner at Bain & Company that discussed the significant outperformance of publicly traded firms in which the founder still plays an important role as CEO, chairman, board member, or owner advisor. The article leverages off research done by three professors at Purdue University and is complemented by research done by Bain & Company.

"Specifically, the study found that S&P 500 companies where the founder is still CEO are more innovative, generate 31% more patents, create patents that are more valuable, and are more likely to make bold investments to renew and adapt the business model — demonstrating a willingness to take risk to invent the future."

The author wanted to know why this was the case. I was struck by how applicable the findings were to CWS. Although Steve Sherwood joined CWS approximately seven years after its founding by Jim Clayton and Bill Williams, Steve is, for all intents and purposes, a founder because after he joined the firm he helped catalyze the growth of CWS by expanding beyond the west and being instrumental in developing the systems and management team to scale that growth. He and Bill helped to formulate our extraordinary culture, values-based approach to business, long-term orientation, and our intense commitment and focus on not losing money for our investors by emphasizing preservation of capital first. These not only remain with us today, but are hugely important in terms of how we run the company and make critical decisions.

CWS is very fortunate to continue to have Steve actively involved in the business and Bill as a member of our advisory board. They are also two of our largest investors so they have a vested interest in the firm continuing to perform optimally. Steve's active involvement in the business and Bill's support of CWS have helped us make better decisions and allowed us to navigate very turbulent waters over the years while being able to position ourselves to capitalize on one of the greatest apartment investing cycles in our lifetimes.

The \$3.5 billion (CWS' asset base) question is: Does CWS have the characteristics of these very successful founder-led or influenced firms that have produced long-term profitability and returns for its investors? I think the answer is unequivocally yes.

Before turning to the author's findings and seeing how they apply to CWS, let's first see how well founder-led firms have done relative to the rest of the pack. The following graph shows how dramatic this outperformance has been.



This chart is pretty compelling in terms of elucidating how founder-led companies outperform the rest quite significantly over a long period of time. Given this meaningful and sustained outperformance I was deeply interested to learn what the secret sauce was for founder-led firms and how CWS can best utilize them if they are not in place and, if they are, how we might focus and improve upon them.

According to the author, only one in ten companies are able to sustain profitable growth for over a decade and disproportionately the founder still has involvement with the company. They were either running the company, on the board of directors, or their principles and focus on how to operate were still in place (IKEA is an example of that).

CWS has been in business since 1969 and with few exceptions we have been on a growth trajectory during these 47 years. Much of this success can be attributed to founder involvement and the key operating principles, culture, and values that have been cultivated and effectively maintained over the years despite a much larger number of people in the organization spread across a wider geography.

So what are the most powerful characteristics of founder-led companies? After going into the field and analyzing 200 founder-led companies via a series of interviews of executives and founders, three consistent findings emerged. How the founders built the company from the inside influenced its success on the outside for many years. The three most important founder-led characteristics are as follows.

Insurgency: Waging war on industry norms on behalf of underserved customers.

For a firm with approximately \$3.5 billion in assets, CWS is unusual in that our focus has been heavily on individual investors versus institutions like pension funds, endowments, and life insurance companies. Most firms find it difficult to scale to our size with that focus as institutions are usually far more deep pocketed than individual investors. We believe that this is an underserved customer category.

At CWS we desire to be one of the best places for individuals to invest in apartments by offering highly competitive returns with compelling dividend yields, appreciation potential, and tax benefits. We currently serve over 900 individual investors and produce in excess of 7,000 K-1s annually. We also have a core competency in being able to carry out 1031 tax-deferred exchanges for properties we sell and for individuals who come to CWS looking to exchange with us. This reinforces our focus on patient, long-term capital that allows us to navigate through all economic cycles and to make the necessary investments in our organization to optimally serve our residents and investors. We believe this gives us the best chance to preserve our capital and take advantage of the inherent growth characteristics that well-located apartment communities can offer in dynamic economies.

At CWS we strive to instill confidence with every interaction with our investors. We know that it is inevitable that we will hit some bumps in the road and the best way to navigate challenges and downturns is to have a very strong relationship with our investors built on trust, mutual respect, and our intention to communicate important information in a timely manner. We want to treat our investors as we would want to be treated if we were on the other side. And yet, we are on the other side because we invest in all of our projects. Our intimate and daily connection to our investments puts us at an information advantage that we are able to communicate through our reporting and responsiveness to investor queries.

We believe that individuals are underserved in terms of having access to firms like CWS with a long, successful history, deep capabilities, and a unique skill set in serving individual investors while offering a very reasonable and competitive fee structure. It is our intention to strengthen our capital access and increase our competitiveness as credible buyers to enable us to source and secure the best opportunities. We will continue to cultivate and grow our individual investor base along with serving private 1031

exchange investors who seek the professional management and capabilities of a firm like CWS.

Front Line Obsession: This manifests itself through a love of details and a culture that makes heroes of those at the front line of the business and gives them power.

Sam Walton said "We just got after it and stayed after it." This is something we take to heart at CWS. Steve Sherwood is particularly impassioned by making heroes out of front line stars. We know the rubber meets the road in delighting our resident and investor customers. It takes a service-oriented mindset and effective and well-coordinated systems and communication processes to ensure our people are supported and can deliver great service efficiently. This is not always easy and it is critical we honestly assess where we are falling short and figure out how to improve. We have 80+ laboratories in terms of the properties we own which allow us to test new approaches to running the business, particularly on the technology front, to have enough data to evaluate performance somewhat rigorously, and to be able to identify and recognize top performers.

We take advantage of data at CWS to help us separate the signal from the noise. We also dive into the details of all aspects of the business so we have deep domain expertise and understand the critical nuances that can allow us to capitalize on opportunities that others may miss and to avoid pitfalls. One of my favorite quotations is "It's better to be a meaningful specific than a wandering generality" and we try to apply this throughout the organization. We want specifics and details when trying to assess a situation and make key decisions. Generalities don't do much for us.

Owner's Mindset: Dialing up speed to act and taking personal responsibility for the risk and cost.

The author cites venture capitalist Ben Horowitz in one of his blogs listing three reasons his VC firm prefers founder CEOs as a real world example of why a prominent investor likes them:

- Founders have the moral authority to make the hard choices
- They know the detail of the business and have better instincts
- They have a long-term perspective on investments and building a company that lasts

I think this sums up CWS quite well and the great value our founders have brought to us and helped perpetuate with the next generation of leaders. Having an owner's mindset is vitally important among our key people. This sometimes means that the best course of action is to seek forgiveness rather than permission if time is of the essence. My partner Mike Engels is fond of saying that "perfection is the enemy of the good." There is a tradeoff between the marginal value of getting the next piece of information versus acting now. That is not to say we should be hasty when making important decisions, but if we can staff our properties and organization with individuals possessing a deep commitment to the company, to the welfare of our customers, and look at money being spent as their own precious capital, then we should ultimately benefit from this even if some mistakes are made over time due to occasional overzealousness.

At CWS when we are diving into each of our properties during our annual budgeting sessions we always ask the question, "If this were your property what would you do?" We make an effort to hire and retain individuals with a long-term, owner-oriented mentality. As mentioned previously, we also make a concerted effort to report to our investors how we would want to be communicated to.

The following excerpt from the book *DREAM BIG: How the Brazilian Trio behind 3G Capital - Jorge Paulo Lemann, Marcel Telles and Beto Sicupira - acquired Anheuser-Busch, Burger King and Heinz* is a great summation of the ideal employees that can carry on the founder's approach to running CWS:

"I once asked, "What is the essence of the type of person you are looking for?" The answer: "We are looking for fanatics." We live in an age when people want a quick fix, a shortcut to exceptional results. But there is no such easy path. There is only an intense, long-term, sustained effort. And the only way to build that kind of enterprise is to be fanatic. Such obsessed people do not become the most popular people, as they often intimidate others, but when fanatics come together with other fanatics, the multiplicative effect is unstoppable."

So what is the final recommendation of the author?

"The implication for today's business leaders? Cultivate a founder's mentality as a key strategic asset, and talk about it, measure it, monitor it, and reward it. We believe it is the most important indicator of the health of a company on the inside — which is almost always where the deep root causes of failure to perform on the outside reside. The founder's mentality is an indicator of a company's readiness to act quickly, to adapt to change, to retain the ground-level instincts of a founder, and to innovate to invent — and not fight the future."

While we are no means perfect at CWS and have had our fair share of challenges and disappointments, overall, however, the totality of what we have been able to create in terms of investor returns and a long-term, growing, sustainable organization has been quite impressive. We have clearly beaten the odds to this point and we owe much of this to the founder-led culture, mentality, values, business principles, and active contribution from Steve Sherwood and Bill Williams. Fortunately we have done a good job of passing this on to those now leading the charge at CWS. These contributions have helped us to create powerful filters through which we can make hiring decisions, capital allocation choices, and to continue to grow our company with a unique culture that focuses greatly on creating sustained value over the long-term.

Thank you Steve and Bill, as well as Jim Clayton, for creating an organization that continues to thrive and grow 47 years later.

SAVE THE DATE

CWS 2017 Annual Partners Meeting Tuesday – April 18, 2017

Our Annual Partners Meeting will be held, once again, at the Newport Beach Marriott Hotel and Spa at Fashion Island in Newport Beach, CA. The meeting will be held on Tuesday, April 18th, 2017. During the meeting, investors have the opportunity to receive updates on their respective CWS properties as well as hear from our principals on the state of the company, the real estate market, and our near-term strategy. Please mark your calendars and we will communicate more details soon.

CWS Semi-Annual Conference Call Monday – October 31, 2016

Please join us for our Semi-Annual Conference Call. It's your opportunity to have all of your questions answered on one call and an ideal forum to hear about your investments and how they are performing. We will also give a brief outlook for the coming year.

Date: October 31, 2016

Time: 12:00pm (Pacific Standard Time)

Dial-in #: (888) 632-5023

Passcode #: 1115306

If you are not able to make the call, you will be able to hear the replay of the call by dialing (888) 203-1112 and entering the passcode of 1115306.

INVESTOR RELATIONS RECAP

*For more information on CWS investment opportunities, contact
Marcus Lam at (800) 466-0020 ext. 1011 or mlam@cwscapital.com*

SALES and/or ACQUISITIONS

Marquis on Cedar Springs (Dallas, TX) – On August 1, 2016, we sold Marquis on Cedar Springs located in Dallas, Texas. Investors can log into their CWS Investor Portal at www.cwscapital.com to view information regarding the sale. Once logged in and on the dashboard, click on the dropdown named “My Documents” and then choose “Recaps, Indications, & Ballots” and proceed to search for the year and property transaction.

The Marq at Weston (Cary, NC) – On August 17, 2016, we acquired a brand new 302-unit luxury apartment community that is currently in lease-up. The property is located near the Raleigh/Durham International Airport, Research Triangle Park, and the new Park West Shopping destination. Amenities include a luxury resident clubhouse, a resort-style swimming pool and sundeck, a 24-hour fitness center, business center, and courtyard with covered fireplace, TV’s, and grilling area.

Anthem on 12th (Seattle, WA) – On September 15, 2016, we acquired a brand new 120-unit apartment community located near downtown Seattle. The property is close to major employment centers, shopping, universities, medical centers, cafés, restaurants, and the Seattle nightlife. The interior amenities include wood plank flooring, high ceilings, solid quartz countertops, and stainless-steel Energy Star appliances with washer and dryer in every unit. Community offerings include a beautiful rooftop terrace with lounge seating, barbeques, and fire pits providing expansive views of downtown Seattle and Mt. Rainier, a state-of-the-art fitness center, and a community lounge with kitchen area. The building has LEED Gold certification for energy efficiency.

Marquis at the Reserve (Katy, TX) – On September 22, 2016, we acquired a 356-unit luxury apartment community. Located within the Houston submarket, the city of Katy has a very diverse employment center with eight out of ten employers not associated with the energy industry. Built in 2011 by Martin Fein, one of the nation’s highly-regarded developers, Reserve has numerous high-end amenities including travertine countertops, custom 42-inch kitchen cabinets, stainless-steel sink and appliances, kitchen islands, oversized bathroom tubs, 9-foot ceilings, a resort-style clubhouse including game lounge, a 24-hour fitness club, and one of the largest swimming pools in the city of Katy.

Marquis at Volente (Austin, TX) – On September 29, 2016, we sold Marquis at Volente located in Austin, Texas. Investors can log into their CWS Investor Portal at www.cwscapital.com to view information regarding the sale. Once logged in and on the dashboard, click on the dropdown named “My Documents” and then choose “Recaps, Indications, & Ballots” and proceed to search for the year and property transaction.

Marquis at Star Ranch (Hutto, TX) – We are in the process of acquiring a 402-unit luxury apartment community located in the city of Hutto, Texas, within the Austin metropolitan area. Built in 2010, Marquis at Star Ranch includes spacious interiors and luxurious resort-style amenities including chef-inspired kitchens

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with granite countertops, stainless-steel appliances, walk-in closets, wood plank flooring, private patio/balcony, swimming pool and spa, club-quality fitness center, playground, and an electronic gated community entrance. The property is located adjacent to The Golf Club of Star Ranch, a championship 18-hole golf course.

Burnet Marketplace (Austin, TX) – We are in the process of acquiring a brand new 343-unit apartment community named Burnet Marketplace located in Austin, Texas. The apartment units feature high 10-foot ceilings, private patios or balconies, walk-in closets, washer/dryer connections, modern kitchens with stainless steel appliances, granite countertops with tile backsplashes, butcher block islands, and improved lighting packages including under cabinet lighting. Community amenities include a resort-style swimming pool, Zen garden courtyard, 24-hour fitness center, cinema room, social lounge, and modern-styled clubhouse.

Marq Midtown 205 (Charlotte, NC) – We are in the process of acquiring a brand new 261-unit apartment community located in Charlotte, North Carolina. Marq Midtown 205 is located in one of Charlotte's most desirable neighborhoods and is among numerous retail, entertainment, shopping, and dining options. Amenities include a fitness center with separate yoga and cycle rooms, large open resident lounge, retail space on the first floor, saltwater swimming pool, and a pet spa. Unit interiors include modern finishes with stainless-steel appliances, granite countertops, and espresso finished wood plank flooring.

Grove at Morrison Plantation (Mooresville, NC) – We are in the process of acquiring a luxury apartment community located in Mooresville, North Carolina, approximately 25 miles from downtown Charlotte. Built in 2014, Grove at Morrison Plantation is a Craftsman-style designed property with 281 units. Interior amenities include tall 9-foot ceilings with crown molding, faux-wood flooring, modern nickel hardware and fixtures throughout, granite countertops, stainless steel appliances, under cabinet lighting, and island or breakfast bars with pendant lighting. The community features a resort-style saltwater swimming pool, business center, cyber café with iMac stations, fitness center, grilling stations, and a pet park.

REFINANCES and/or SUPPLEMENTAL LOANS

The Marquis at Waterview (Dallas, TX) – The refinance of The Marquis at Waterview closed on August 31, 2016. The refinance resulted in the property lowering its variable interest rate by over 80 basis points and making a significant one-time distribution that returned 100% of original investment capital.

Marquis at Cinco Ranch (Katy, TX) – The refinance of Marquis at Cinco Ranch closed on September 15, 2016. As a result of the refinance, the property was able to extend its interest-only payment period for five additional years and make a one-time special distribution to investors.

SoNA (Austin, TX) – The refinance of SoNA closed on September 30, 2016. As a result, the property lowered its variable interest rate by 20 basis points and allowed for a one-time special distribution to investors.

OFFERINGS

Please contact Marcus Lam if you are interested in investing opportunities with CWS by calling 800-466-0020 ext. 1011 or e-mailing mlam@cwscapital.com. Investors may also visit our website at www.cwscapital.com and log in to their account to learn more about our current offerings.



Web Portal Corner 3QI6

Security of Your Data is Paramount

In today's world, it is imperative that individuals and businesses are diligent about cybersecurity. At CWS we take the security of your information very seriously. That is why we have partnered with AmericanEagle.com to host the CWS Capital Partners website and investor portal. AmericanEagle.com hosts over 3,000 websites, many of them in the financial services vertical market. Their framework is built to PCI (Payment Card Industry) standards, which means they meet the requirements necessary to host websites that engage in ecommerce transactions. Annually we request they provide us with an Attestation of Compliance which results from 3rd party testing of their systems. In addition, our site utilizes a technology from Incapsula which not only speeds up and improves the performance of our site but also protects it from attacks.

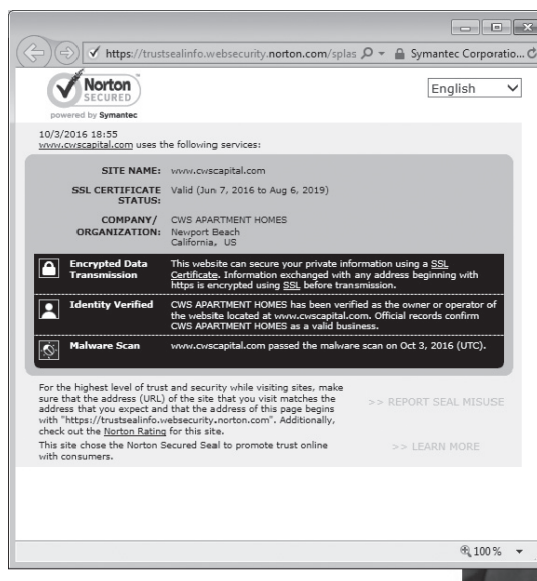
It's great that CWS has a secure website, but in an age of copycat websites and spoofed emails, how can you be sure you are really on our website when you click a link to take you there? First, before clicking a link in any email, check the "From" address and the links. All emails from us will be from the cwscapital.com domain and should end with that. To confirm the link is taking you where you expect to go, hover your mouse over the link to ensure the website address starts with "www.cwscapital.com." Mobile users can do the same by pressing and holding the link.

Once you have been directed to a website, confirm it is ours. Just click the Norton Secured logo at the bottom of our page:



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Doing so will provide you with information that verifies the site is ours:



The security of your data does not stop there. You play a role, too! If you share your password among many sites, implement a weak password, or have security questions easily answered with a public records search or a quick read of your Facebook page, for instance, you might as well leave your doors unlocked at night in a crime-ridden neighborhood!

Working together we can ensure you have the convenience of online access 24/7/365 and the peace of mind that your data is secure.

Comments or questions regarding CWSCapital.com?
Please contact Susan Rayshell
srayshell@cwscapital.com

**CWS Apartment Portfolio
PERFORMANCE SUMMARY
1/1/2016 - 9/30/2016**

<i>Number of Properties:</i>	<i>77</i>	<u><i>Actual</i></u>	<u><i>Budget</i></u>	<u><i>Variance</i></u>	<u><i>%</i></u>
Total Revenue		\$251,703,545	\$248,705,143	\$2,998,402	1.21%
Total Operating Expenses		\$112,780,265	\$112,413,974	\$(366,291)	- 0.33%
Net Operating Income/(Loss)		\$138,923,280	\$136,291,168	\$2,632,111	1.93%

Revenue - when actual is greater than budget result is positive variance
Operating Exp. - when actual is greater than budget result is negative
NOI - when actual is greater than budget result is positive

CWS INVESTMENTS PRIVACY NOTICE

We provide this notice to our individual investors as required by regulations adopted under the federal Gramm-Leach-Bliley Act in order to inform you about our policies with respect to the non-public personal information we maintain about you. We have been sensitive about the personal information we have received regarding our investors and plan to continue that tradition.

In connection with our private investment activities, we collect and maintain non-public personal information from the following sources:

- Information we receive from you in subscription agreements, investor questionnaires, applications or other forms or in other communications; and
- Information about your transactions with us, any of our affiliates or others.

CWS may share nonpublic personal information to unaffiliated third parties only under the following circumstances: (i) disclosure of account and transaction data to other financial institutions, auditors, attorneys, or regulators to facilitate your investment or as required (or requested by law enforcement) and permitted by law or regulation (ii) disclosure of personal information in limited circumstances to perform background checks as required by law, (iii) disclosure of your personal contact information to companies that help us service your accounts or assist CWS in reaching out to investors for activities such as annual meetings, special votes, or new offerings. We have contracts with these companies that prohibit them from using your personal information for their own purposes. **Outside of these limited exceptions, CWS will not share your personal information with third parties unless you have specifically requested that information be released to them.**

We intend to maintain non-public personal information of our former investors and apply the same policies to that information that apply to current investors. We employ physical, electronic and procedural safeguards to protect your non-public personal information in our possession or under our control.

We reserve the right to change our privacy policies and this Privacy Notice at any time. The examples contained within this notice are illustrations only and are not intended to be exclusive. This notice complies with the privacy provisions of the Gramm-Leach-Bliley Act. You may have additional rights under other United States or non- United States laws that may apply to you.

Please contact Investor Relations at (949) 640-4200 or investorrelations@cwscapital.com if you have any questions.

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CWS

CAPITAL PARTNERS LLC

AN INVESTMENT MANAGEMENT COMPANY

PURPOSE:

ENHANCING LIVES
THE CWS WAY

VALUES:

A DEMAND FOR EXCELLENCE WITH
A SENSE OF URGENCY

A RESPECT FOR PEOPLE

REQUIREMENT FOR PROFITABILITY
AND SUSTAINABILITY

HONORING OUR WORD

ETHICAL DEALINGS ARE PARAMOUNT

CWS QUARTERLY UPDATE

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