

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

November 20, 2015

CWS Capital Partners
Semi-Annual Conference Call

November 26 & 27, 2015

Thanksgiving Day and Day After
CWS Offices Closed

December 24 & 25, 2015

Christmas Eve and Christmas Day
CWS Offices Closed

January 1, 2016

New Year's Day
CWS Offices Closed

January 15, 2016

4th Quarter 2015 Est. Tax Payment Due

January 29, 2016

4th Quarter 2015
Quarterly Distributions Mailed

February 29, 2016

Year 2015 K-1's Mailed

April 15, 2016

2015 Federal & State Tax Filing Deadline
1st Quarter 2016 Est. Tax Payments Due

April 19, 2016

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

April 29, 2016

1st Quarter 2016
Quarterly Distributions Mailed



www.cwscapital.com

LESSONS FROM ANDREW CARNEGIE

By Gary Carmell

Over the years I have written about individuals who have had a great influence on my thinking in business and life. Examples include Shakespeare, Charlie Munger, Warren Buffett, George Soros, and Arthur Schopenhauer, to name some of the notable ones. One newcomer to the party is Andrew Carnegie. I am not sure why it took me so long to



read his autobiography but in this case it is truly better late than never. Carnegie is a titanic figure in the history of American business and philanthropy. Until reading his book, however, I did not realize how deep a thinker he was and the magnitude of the impact he has left on the United States (and Scotland) in many positive ways. In this article I wanted to highlight what I think are some of his most important ideas and how we try to utilize some of them at CWS and how every serious investor and introspective human being can benefit from Carnegie's wisdom.

Continued on Page 2

Carnegie was born in 1835 and immigrated to the United States in his early teens. His family was quite poor and yet Carnegie was extremely happy as he loved his parents very much, especially his mother, and he was extremely motivated to do his share to contribute to the family financially. From an early age he showed great initiative, hard work, and ingenuity and was noticed by his superiors for promotion.

“It was Saturday night. I handed over to mother, who was the treasurer of the family, the eleven dollars and a quarter and said nothing about the remaining two dollars and a quarter in my pocket — worth more to me then than all the millions I have made since.”

Carnegie’s delight at contributing to his family’s well-being is something we can relate to at CWS. When it comes time for us to make our quarterly distributions or special distributions from a sale or refinance, I often times think about how the receipt of these funds might be positively impacting the lives of our investors. We derive a lot of satisfaction from knowing we are doing our small part to enhance the lives of those who invest with CWS.

The Arts, History, and Travel

I have always believed that a liberal arts education encompassing many disciplines, combined with world travel, can be extremely beneficial for investors. Investment insights often come from connecting the seemingly unconnectable which can only come from having an open mind, broad thinking, and a global perspective. Carnegie was a great believer in the benefits of the arts on society and the soul of an individual. He loved books and said he had “a taste for literature which I would not exchange for all the millions that were ever amassed by man. Life would be quite intolerable without it.” His first trip to Europe opened his eyes to art and how to judge what was truly great. He believed everyone should see the world as it allows one to have a broader perspective.

“[Y]ou feel on your return that you have seen (of course only in the mass) all there is to be seen. The parts fit into one symmetrical whole and you see humanity wherever it is placed working out a destiny tending to one definite end.”

Optimism

Most successful people have an optimistic streak in them and Carnegie was no different. In fact, Carnegie credited much of his success to his optimistic nature.

“True indeed; most of the troubles of humanity are imaginary and should be laughed out of court. It is folly to cross a bridge until you come to it, or to bid the Devil good-morning until you meet him — perfect folly. All is well until the stroke falls, and even then nine times out of ten it is not so bad as anticipated. A wise man is the confirmed optimist.”

At CWS and personally I have come to learn how important it is to always ask the question as to what could go wrong and deal with challenges as they arise without catastrophizing them. That is not to say we bury our head in the sand or see the world with rose colored glasses but we can't look too far ahead because that often only serves to create unnecessary fear and anxiety. As it's been said, "the only way out is through" so we might as well go through with an optimistic and realistic attitude.

Internal Judge

Carnegie believed that we shouldn't rely on others to judge us since there is no more powerful judge than ourselves.

"The judge within sits in the Supreme Court and can never be cheated. Hence the grand rule of life which Burns gives: 'Thine own reproach alone do fear.'"

At CWS we are our most severe critic and hold ourselves to very high standards. Steve, Mike, and I have very large percentages of our net worth invested in CWS and our investments so we are "eating our own cooking" as they say. We feel a tremendous obligation to do our utmost to make the best decisions we can in terms of managing the hard-earned capital our investors have entrusted us with. We know there are times we may fall short and if and when this occurs, we do all we can to understand why this was the case and communicate openly with our investors. Charlie Munger said that envy is the worst of the seven sins because, unlike the other six, no pleasure comes with it. We try to stick to our core competencies, deliver returns we think compensate investors for the risk borne, and assess our performance honestly based on our own yardsticks. We try not to worry about how others are doing... only ourselves.

Focus

Carnegie was a great believer in focusing all of one's capital, energy, and time in one's business versus outside ventures. I wrote extensively about this in a recent blog post at www.garycarmell.com that I suggest you read to learn more about how Carnegie came to this conclusion and why it worked for him. I would summarize it by saying that there is no better return on one's time than trying to become a master of one's enterprise and that the opportunities that can arise from knowing something so well and sticking to one's knitting offer a far more compelling risk-reward relationship and sense of satisfaction than speculating in areas one has no advantages in terms of information and skill.

Hire the Best & Know Human Nature

Carnegie knew what his strengths were as well as his limitations. He shored up his weaknesses by hiring the best in those areas in which he fell short.

"I treasure the remembrance of this plan as the earliest evidence of organizing power upon the development of which my material success in life has hung— a success not to be attributed to what I have known or done myself, but to the faculty of knowing and choosing others who did know better than myself. Precious knowledge this for any man to possess. I did not understand steam machinery, but I tried to understand that much more complicated piece of mechanism — man."

"There is no way of making a business successful that can vie with the policy of promoting those who render exceptional service."

At CWS we always endeavor to hire from within as our people know our culture and values and have proven themselves. We also prefer practical experience over pedigree, which is something Carnegie espoused.

"It is not the rich man's son that the young struggler for advancement has to fear in the race of life, nor his nephew, nor his cousin. Let him look out for the 'dark horse' in the boy who begins by sweeping out the office."

We also know that real estate can be a very cyclical business and the ups and downs can create great strains on an organization. At CWS we strive to manage our growth and personnel decisions such that we may not be as successful as others during the expansion phase but hopefully manage the downturns with far less negative repercussions than our more aggressive competitors. The last thing we want to do is to let go of talented, committed people when times get tough because that is when the most opportunities arise. Carnegie shared a similar philosophy.

"The best men as men, and the best workmen, are not walking the streets looking for work. Only the inferior class as a rule is idle. The kind of men we desired are rarely allowed to lose their jobs, even in dull times. It is impossible to get new men to run successfully the complicated machinery of a modern steel plant."

Carnegie believed that people needed much more than money to derive satisfaction from their jobs.

"It is not solely, often it is not chiefly, a matter of dollars with workmen. Appreciation, kind treatment, a fair deal — these are often the potent forces with the American workmen."

He believed that all of his innovative programs generated employee goodwill which was extremely valuable to his enterprise.

"No expenditure returned such dividends as the friendship of our workmen."

How did Carnegie strive to be able to handle the tough times? By having a relentless focus on quality and building a financial fortress.

Quality

Carnegie was a fanatic for focusing on quality versus price and by doing so he was convinced that profits would follow. He was proven right.

"The surest foundation of a manufacturing concern is quality. After that, and a long way after, comes cost."

Like Paul O'Neill in his approach to running Alcoa and having safety be the unifying principle of the entire organization, Carnegie's was quality and welcomed any feedback and measurement that could help the organization improve its standards, processes, and quality.

"Instead of objecting to inspectors they should be welcomed by all manufacturing establishments. A high standard of excellence is easily maintained, and men are educated in the effort to reach excellence. I have never known a concern to make a decided success that did not do good, honest work, and even in these days of the fiercest competition, when everything would seem to be matter of price, there lies still at the root of great business success the very much more important factor of quality. The effect of attention to quality, upon every man in the service, from the president of the concern down to the humblest laborer, cannot be overestimated."

Carnegie proved that profits followed quality.

"It sounds like a fairy tale to-day to record that in 1906 the one-hundred-dollar shares of this company sold for three thousand dollars — that is, thirty dollars for one. Large annual dividends had been paid regularly and the company had been very successful — sufficient proof of the policy: 'Make nothing but the very best.' "

At CWS we adhere to the same philosophy. We invest heavily in having the best people and systems to support our people so they can deliver outstanding service to our residents, investors, and CWS employees with the firm expectation that this focus will translate into compelling returns for our investors.

Financial Fortress

Carnegie learned through some very challenging financial panics the importance of not overextending oneself by excessive borrowing, personal guarantees, or guaranteeing other people's or companies' debts.

"Mr. Drexel said he would like me to explain how I had been able to steer clear of these unfortunate troubles. I answered: by strict adherence to what I believed to be my duty never to put my name to anything which I knew I could not pay at maturity; or, to recall the familiar saying of a Western friend, never to go in where you couldn't wade."

Carnegie also realized that having a deep reserve of capital was crucial to provide a margin of safety when financial panics ensued.

"But in a critical period like this there was one thought uppermost with me, to gather more capital and keep it in our business so that come what would we should never again be called upon to endure such nights and days of racking anxiety."

The end result was a financial fortress that allowed Carnegie to access capital when others could not and to take advantage of opportunities when others were drowning financially.

"The fright which Pittsburgh financial institutions had with regard to myself and our enterprises rapidly gave place to perhaps somewhat unreasoning confidence. Our credit became unassailable, and thereafter in times of financial pressure the offerings of money to us increased rather than diminished, just as the deposits of the old Bank of Pittsburgh were never so great as when the deposits in other banks ran low."

During the Great Recession which started back in 2008, we were very fortunate that our credit worthiness provided us flexibility with our lenders and the ability to modify some of our loans that were maturing in a very difficult lending environment. Having strong relationships with our lenders and a history of never losing a property gave them the confidence to believe in CWS as well as our ability to turn around many of our properties' operations during a time of heightened vacancies and reduced cash flows.

One of our goals at CWS is to design a company that enables us to be on offense when everyone else is on defense. To do this requires that we buy good properties in excellent locations in growing markets with prudent leverage and investors who have staying power should difficulties emerge.

Giving Back

"Steel had ascended the throne and was driving away all inferior material. It was clearly seen that there was a great future ahead; but so far as I was concerned I knew the task of distribution before me would tax me in my old age to the utmost. As usual, Shakespeare had placed his talismanic touch upon the thought and framed the sentence — 'So distribution should undo excess, And each man have enough.' "

Carnegie Hall, Carnegie Mellon, the Carnegie Institute of Peace, and hundreds of public libraries are just some of the most notable philanthropic commitments made by Carnegie that still exist today. By the time he died he gave away \$350 million, which is many billions in today's dollars. Carnegie loved literature so much as a child that a true Godsend to him was when

"Colonel James Anderson — I bless his name as I write — announced that he would open his library of four hundred volumes to boys, so that any young man could take out, each Saturday afternoon, a book which could be exchanged for another on the succeeding Saturday.

Later, when fortune smiled upon me, one of my first duties was the erection of a monument to my benefactor."

Carnegie believed that libraries were a great equalizer between rich and poor and offered an unlimited return on a child's time as long as they had a desire to learn and put in the effort.

"It was from my own early experience that I decided there was no use to which money could be applied so productive of good to boys and girls who have good within them and ability and ambition to develop it, as the founding of a public library in a community which is willing to support it as a municipal institution.

The fundamental advantage of a library is that it gives nothing for nothing. Youths must acquire knowledge themselves. There is no escape from this."

After Carnegie had climbed the highest mountain he looked down and determined that the sole purpose for that which he accumulated was to distribute it to improve society through the arts and learning and to those less fortunate but willing to improve themselves. And the more he gave away the more his faith in humanity grew.

Like Carnegie we too at CWS believe that giving back is central to human satisfaction and motivation. To work for something greater than oneself and to support others in doing so is something CWS has been doing for over 20 years with our BRIDGE program. We believe that supporting our employees in what they have great passion for results in a happier, more fulfilled person that can only have positive spillover effects to the workplace.

Carnegie truly left the world a better place than he found it, not only as a result of the institutions he endowed that remain to this day, but also because of his ideas that were far ahead of his time from which all deep thinking individuals and organizations can still benefit from, including CWS.