

## Understanding the Capital Stack: How Bluestone “stacks-up”

Real estate is typically capitalized with a mixture of equity and debt, together called the capital stack. While Bluestone Private Credit Fund (“BPCF”) sits in the senior debt layer of the stack, many other real estate-based investments available to private investors are subordinate to senior debt. It is important for you to understand where your capital is on the stack as you make investment decisions and analyze your risk tolerance.

**The Capital Stack.** There are typically four layers of capital used to finance real estate. A diagram of this capital stack is shown to the right.

Common Equity - typically, an investment from operators or investors required to be made before financing can be secured. This layer is paid after all others are paid and sits in a first-loss position. However, if the property performs well, returns could be high and are not capped.

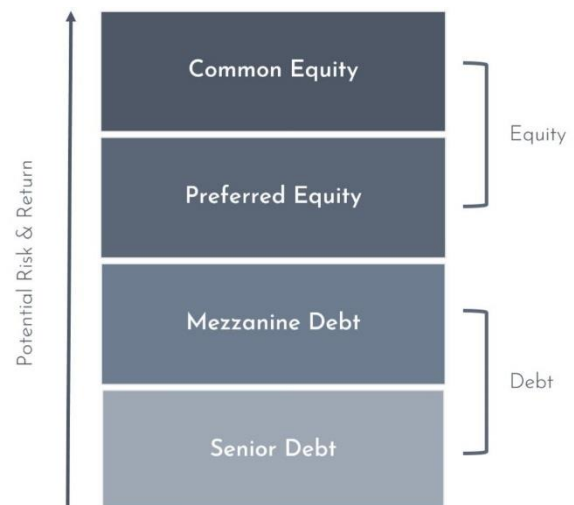
Preferred Equity - this layer of the cap stack can vary from deal to deal. Typically, it has a priority claim on payment above common equity and typically has a fixed or capped yield.

Mezzanine Debt - this debt is subordinate to senior. It gets paid after the senior debt is fully paid and typically has a second position lien on the property.

Senior Debt - has the highest priority in the capital stack and will get paid first before any other position is paid. If the borrower defaults on payments, the lender of this debt can foreclose on the property thus recouping the loan amount and excess fees. Often the term, “first lien position” is used to describe how this layer is secured against the property.

**Bluestone’s model.** Our fund underwrites Senior Debt loans. This means that our loans are secured against default by the value of the property. Our underwriting process uses a multi-dimensional model with the goal of lending to borrowers who can both make the monthly interest payments and successfully exit the loan. One aspect of our underwriting process is to use a conservative loan to value

(“LTV”) so that we can successfully recoup our investors’ capital via the foreclosure process in the event of a default.



**Investors’ Decision.** Knowing where your investment sits in the capital stack allows you to judge how much risk you are taking in your real estate-based investment. Joining a partnership to buy commercial real estate is the least secure layer of the capital stack. Conversely, Bluestone’s Private Credit Fund provides attractive risk adjusted returns in the most secure layer of the capital stack. How does your investment “stack up”?