CEF INSIGHTS | REAL ESTATE STRATEGIES FOR A DIVERSIFIED PORTFOLIO

CEFA was joined by Kate Davis, President & Portfolio Manager of Broadstone Real Estate Access Fund at Broadstone Real Estate. The following Q&A recaps a discussion about the impact of institutional quality real estate strategies to reduce volatility and diversify investment portfolios. As part of CEFA's CEF Insights podcast series, the podcast audio can be heard here.

Kate Davis

CEFA: **Welcome to CEF Insights, your source for Closed End Fund information and education, brought to you by the Closed End Fund Association; my name is Diane Merritt. Today we are joined by Kate Davis, President and Portfolio Manager of Broadstone Real Estate Access Fund, thank you for being with us.**

Kate: Thank you for having me.

CEFA: **Kate, Broadstone manages over three billion dollars in real estate investments through private real estate investment trusts and a publicly available interval fund. Let's begin with Broadstone's investment focus, can you discuss the key characteristics of real estate investments, as well as the benefits and risks they present to investors?**

Kate: Sure. The main benefit to owning real estate is that it's going to perform differently than your other investments. Pricing won't fluctuate or have the volatility that the stock market does, and real estate tends to have a low correlation to the investments that comprise the traditional stock and bond portfolio; it's a great diversifier to those types of investments.

Institutions have practiced using real estate and other alternatives as diversifiers in their portfolios to great success. If you look at Harvard's endowment fund or the Teachers Retirement System of Texas for example, they have significant allocations to real estate investing, 10% to 15% of the overall portfolio. And that makes sense seeing as when you look at various asset classes by size, real estate is actually the third largest asset class behind fixed income and equity.

However, many individual investors are under allocated to the asset class. They may own a primary residence and perhaps a second home, or a vacation home, but for many investors their exposure to alternatives and specifically to real estate, lags their bond and equity holdings. It's interesting because they're actually several ways that an individual investor can participate in real estate investing outside of owning personal property. Probably the easiest to invest in is probably traded REIT stocks. However, those often mirror the broader equity markets in terms of price movement and volatility, and so I would say don't truly act like real estate in a portfolio.

You have real estate private equity funds, but many of those are closed end, which introduces vintage risk in that all of the properties in the portfolio were likely bought around the same time in the market cycle, and therefore don't mitigate timing risk. In addition, these funds often carry heavy commissions and or performance fees.

Crowd funding platforms and other similar vehicles have come to market as well, but generally lack diversification. For an individual investor it is hard to incorporate real estate into your portfolio and do so while maintaining diversification.

CEFA: **Broadstone is an active investment manager of real estate investments, what is your investment philosophy and approach to structuring real estate portfolios?**

Kate: Broadstone carries at its core two main tenets. One, we believe real estate is a longer term asset class, and so we offer products that are continuously offered, and therefore allow investors to effectively invest through cycles. Investors are able to dollar cost average into our offerings over time. And two, we believe in investor friendly fee structures, we have an unrelenting focus on delivering value with structures that have below market fees and no carry, or incentive compensation associated with them.

I should say too that Broadstone, as a manager, invests in each of its products, and it does so at the same terms as all other investors. Since we offer perpetual life vehicles, we do not attempt to add value by timing the market so to speak. We look to provide diversified portfolios of real estate that have been built thoughtfully over time. Diligent upfront underwriting and ongoing analysis underpins our investment and portfolio management philosophy. Every day we are evaluating our portfolios and asking ourselves what do we want to own, and do we still want to own what we currently own?

We think that we provide a lot of value to our investors with such an active portfolio management approach, and we offer a platform of products that allows financial advisors to use Broadstone across their book of clients; so that clients small and large can smartly incorporate real estate into their portfolio.

CEFA: **Kate your firm has recently launched an interval fund, Broadstone Real Estate Access Fund, ticker symbols BDREX, and BDRWX, why did Broadstone launch this fund?**

Kate: BDREX, as we refer to the fund, is a response to requests from advisors with whom we have long standing relationships. These advisors were asking for a product that offers Broadstone's expertise in real estate investing to a broader audience. While our other two offerings our Reg D offerings and carry significant minimum investments, investors need not be accredited to invest in the interval fund, and the minimum is very low. This, to me, is great, because it means the fund can provide diversified access for just about anyone who wants a real estate allocation in their portfolio, but doesn't want to be overly concentrated in one strategy.

CEFA: **What are the objectives of the fund and how is the portfolio structured?**

Kate: BDREX is providing access to real estate investments through three sleeves. Public real estate equities, private real estate funds, and direct real estate transactions. These sleeves work in concert to provide broadly diversified access to real estate, while also achieving the objectives of the fund, which are to provide a return comprised of both income and appreciation, with lower volatility and lower correlation to the broader markets.

The public real estate equity sleeve not only provides the fund with ample liquidity, it also offers significant diversification to the portfolio. We also have a covered call strategy in place on that sleeve, with the objective of further enhancing the yield, while dampening the volatility.

Our investments into private real estate offer access to institutional quality real estate, with a focus on stable growth and total return.

As a manager we look to diversify this sleeve of the portfolio into strategies beyond traditional core funds, and aim to add value by selecting a group of well performing strategies, managed by best in class real estate managers. While we are running the first two sleeves in a way that we feel is differentiated in the market, I believe it is the third sleeve, the direct real estate transaction sleeve, which is where the fund has the ability to hold bricks and mortar assets in the portfolio that is unique to our interval fund.

CEFA: **Why do you believe an interval fund is the best structure for this type of portfolio?**

Kate: The interval fund structure is really the only way, in my mind, to get the benefits of being invested in real estate, that is dampened volatility and low correlation to fixed income and equities, while still having the opportunity for liquidity. Additionally, since interval funds are 40 Act funds, they'll offer investment in multiple types of securities. This allows the fund structure the ability to be incredibly diversified. As an example, our fund is diversified across asset types, asset class, geography, and even across the capital stack. That kind of diversification can really protect investors.

CEFA: **Some investors may be hesitant with investments like an interval fund that provide them with liquidity that is less frequent than daily. How do you view this structure benefiting an investor?**

Kate: If you want to invest in real estate that acts like real estate, in that its valuation does not react in the same way that fixed income and equities do to market swings, the interval fund structure is really perhaps the best way to do so. Also, if managed well, the fund structure allows for there to be no cash drag on the fund, so unlike many traditional real estate investment strategies that have to time capital flows to match investment opportunities, the fund is able to efficiently deploy investors capital on any given day.

CEFA: **How do you believe an allocation to a diverse pool of real estate investments, is best positioned in an investors diversified portfolio?**

Kate: I think if an offering is appropriately diversified, it can be the only real estate holding in an investor's portfolio, and that takes a lot of the guess work out of trying to assemble a diversified portfolio on one's own.

CEFA: **The US economy, obviously, seems to be in the latter stage of a long period of expansion, while in many areas of the world, growth is quite slow. How does this impact the way you structure your portfolio?**

Kate: The benefit of a continuously offered vehicle is that you're able to approach investing with the long term in mind. We believe that it's how you should think about real estate investments, as a long term hold. However, a meaningful reason for our three sleeve approach to the portfolio, is that it allows us to consider where the best value is in any given macro environment. For example, there are times when public valuations are at a premium, and others such as at the end of last year when they are discounted. Our strategy has the ability to be opportunistic about its entry point to both public and private real estate in either scenario.

CEFA: **Where are you seeing the best opportunities in real estate investments?**

Kate: When you're able to look at the whole spectrum of real estate investments versus only specific segments, you're able to really evaluate holistically where the best opportunities lie. There isn't a blanket answer that industrial is the asset class to be in right now, or secondary markets are where to invest. Instead, it's about identifying good deals in markets with growth and demand drivers, managed by sponsors that can reliably execute on their business plan.

CEFA: **Kate, we appreciate that you have taken the time to join us today.**

Kate: Thank you so much for having me, I enjoyed it.

CEFA: **And we want to thank you for tuning into another CEF Insights podcast. For more educational content please visit our website at www.cefa.com.**