OCTOBER 2022
MONTHLY UPDATE

Evolve Slate Global Real Estate Enhanced Yield Fund

BILT is an actively managed fund that aims to provide a recurring income from the underlying rental income derived from publicly listed real estate issuers. Through BILT, investors may benefit from the real estate investing experience of Slate Securities L.P., with the added value of an active covered call strategy applied on up to 33% of the portfolio.

TSX **BILT** **ETF TICKER:** BILT (HEDGED)

SLATE

Slate Securities is an investment management platform specializing in real estate investing, across the public and private real estate markets. As a wholly owned subsidiary of Slate Asset Management, a global investment and asset management platform focused on real assets, Slate Securities benefits from deep expertise, insights and Slate investment opportunities. Slate Securities was founded with the objective of being the real estate solution for allocators.

REITS GLOBAL OVERVIEW

Market review

REITs rose along broader markets in October, posting the first positive monthly performance since July as markets expected the Fed to slow the pace of monetary policy tightening. Most global REIT sectors posted positive returns with the FTSE EPRA/NAREIT Developed Index up 3% for the month. Price to NAV discounts remained well above 20% with an average implied cap rate above 6%.

Almost every asset class had a difficult year and global REITs have been no exception. While economic headwinds will have an impact on real estate operating fundamentals and, eventually, asset values, we believe the current decline in many sectors is overdone. The current real estate cycle has seen lower new supply than prior cycles due to higher costs and lower availability of labor and materials, which means many landlords will retain better pricing power in a downturn. As the private real estate market has seen limited declines as of now, we believe publicly listed real estate remains an attractive way to achieve exposure to the sector at a lower relative cost.

Global REITs continue to trade at a significant discount to what we calculate as their fair value, the cheapest seen in over a decade. Specifically, the office, industrial and residential sectors are currently trading at levels below those reached at the onset of the pandemic. The few sectors, such as self-storage, which may be trading closer to underlying property values remain attractively valued versus their history.

Additionally, M&A activity remains strong as we have seen from several transactions this year. It is expected that large private investors such as Blackstone, Brookfield, GIC and others will continue to take advantage of existing dislocations, which is ultimately a natural hedge and opportunity for upside in the price of global REITs in general.

In terms of growth, fundamentals remain sound in most countries and sectors, with rental income largely growing in line with inflation. We are also seeing a few markets with accelerating rental trends such as Singapore, Hong Kong and Japan as these countries are just now reopening from COVID restrictions, with better earnings and expectations than last year.

Portfolio Strategy and Activity

During the month, we increased exposure to Hong Kong grocery-anchored retail as this high-yielding sector is expected to provide stable income. In addition, given attractive valuation, we added to our exposure to Digital Realty Trust, a global datacenters landlord. The focus remains on REITs with strong fundamentals and low leverage, providing better flexibility to deal with the new interest rate environment. As such, we are overweight Australian and Singapore REITS as they balance income growth and manageable debt expiries. We are underweight European REITs as those companies operate with higher financial leverage while growth expectations have fallen dramatically. Specifically, Swedish REITs are suffering from higher leverage and short debt maturities which will disproportionately impact earnings in the near term.