

# 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

### Performance

Global REITs had a challenging year in terms of performance with the annual return for the FTSE EPRA/NAREIT Developed Index of -24.4%. Fourth quarter returns, however, posted a rebound with the FTSE EPRA/NAREIT Developed Index returning 7.1%. The positive return for REITs in the final quarter of the year was a result of several themes showing signs of moderation. Global inflation, although remaining high, began to stabilize and Central Banks signaled that the pace of future interest rate increases may slow. Although geopolitical tensions continue to be elevated, initial supply chain disruptions have started to ease and the price of energy fell with warmer temperatures across Europe.

Given this year's performance, global REITs are trading on average at a substantial discount to what we calculate as their fair value. Specifically, the industrial and residential sectors are currently trading at levels below those reached at the onset of the pandemic and well below what we believe to be fair value. A few sectors, such as self-storage and healthcare, are trading closer to underlying property values but remain attractively valued versus their history.

Despite the selloff in REIT prices, however, the direct or private real estate market has not seen the same degree of value correction. Proxies for private market values, such as the NCREIF-Open End Diversified Core Equity Index or Blackstone's private REIT, have exhibited positive valuations for the year. This compares to REITs within the same geography which are down more than 20%. Looking at the disconnect between public and private real estate, we note that most sectors are trading at some of the cheapest valuations of the last decade,

potentially setting the stage for positive performance ahead. Taking US REITs, as an example, we can see that discounted REITs have typically signaled a very good entry point for the asset class with solidly positive performance over the year ahead.

Fundamentals are not broken. Despite fear from investors regarding leverage and the potential negative impact on future earnings as interest rates increase, most major REIT markets such the US, UK and Hong Kong are generally well positioned. Based on our modelling of cashflows, our expectations for FFO growth have come in during the year but remain solidly in positive territory. We believe this will also continue to support the attractive dividend yields in the asset class, averaging ~5% and well covered by operating cash flows.

With good fundamentals and depressed REIT prices, we were not surprised that the year was active from an M&A perspective. Direct market transactions are an important valuation support for REITs and it was encouraging to see well capitalized investors remaining active in 2022 taking public REITs private at a significant premiums to their share prices and, in most cases, at a premium to their underlying asset values.

In North America, we generally believe that asset values will remain stable while earnings in several sectors should continue to tick higher. Leverage is not really a concern except in Canada. Combining fundamentals and valuation, we believe the outlook for storage, data centers, industrial and multifamily appear attractive.

## We believe North America REIT opportunities in 2023 will be within:

- Manufactured housing which continues to have strong pricing power.
- Towers, as growing data usage requires more infrastructure.
- Industrial as current rents remain much higher than expiring rents which in turn is driving NOI growth; and
- Canadian residential as immigration and the regulatory environment improve.

In Asia and Europe, our expectations are that asset values will remain generally stable except in Australia and the UK markets (which have seen a more rapid increase in interest rates). Earnings growth across most regions is expected to remain resilient due to a better macro scenario in Hong Kong and the benefits of rental indexation in Japan and Europe. Leverage is a mixed bag with Singapore, Japan and much of Europe flashing red while Hong Kong, Australia and the UK screen well. When we combine these factors with current valuations, Hong Kong and the UK stand out as our preferred regions.

## We believe Asia and Europe REIT opportunities in 2023 will be within:

- Hong Kong landlords and developers which will benefit from relaxed COVID measures and the opening of the border with China.
- Industrial and logistic REITs in both Asia and Europe which will maintain strong rental growth.
- Towers in Europe as the sector continues to consolidate in addition to benefitting from indexed rental growth; and
- More contrarian, we feel that the heavily leveraged and beaten down sectors in the Nordics and Germany may right size balance sheets through asset sales, possible dividend cuts and new equity (which we expect will be longer term positive).

We believe that central bank tightening will finally cool the global economy which should help moderate inflation. Financing spreads should start to stabilize which in turn will give real estate buyers the confidence they need to continue executing transactions. An active M&A market should once again show that REIT values over the last year have overshot to the downside.

---

Commissions, trailing commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs) and mutual funds. Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs and mutual funds. Please read the prospectus for a complete description of risks relevant to the ETF and mutual fund. Investors may incur customary brokerage commissions in buying or selling ETF and mutual fund units. This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual.

Certain statements contained in this documentation constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "anticipate", "believe", "intend" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Evolve undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.