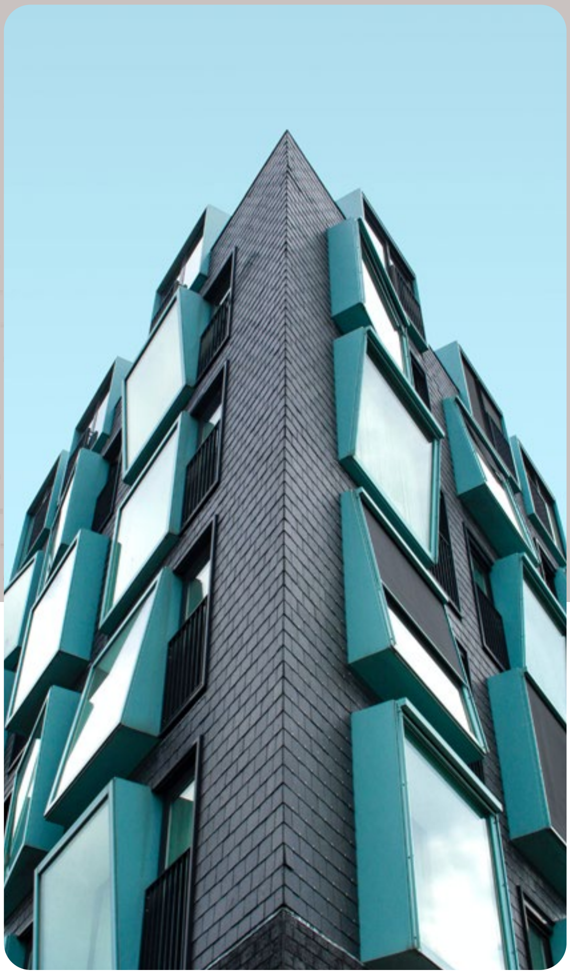
Five Ways Private Real Estate Can Help Improve Your Portfolio



The Potential Benefits of Private Real Estate

Institutional investors have long appreciated the benefits of allocating to private real estate, especially during periods of public market volatility and high inflation. Now, this asset class — historically only accessible to institutions and high-net-worth individuals — is available for inclusion in individual investor portfolios.

This paper explains five potential benefits of private real estate and why we believe the asset class should be a part of any well-diversified investment portfolio.

10%+

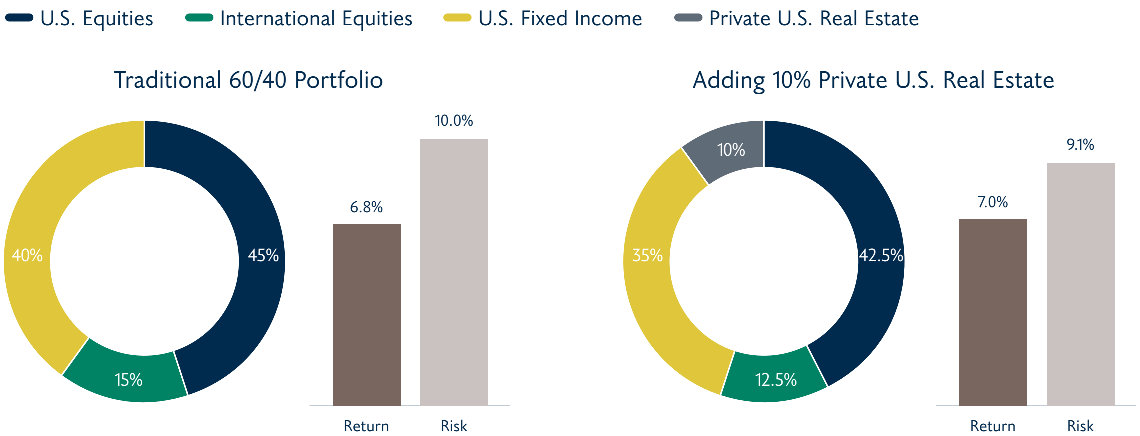
The largest institutional investors allocate more than 10% of their portfolios to real estate[1]

Historically, Private Real Estate Has Improved Risk-Adjusted Returns

Private U.S. real estate has historically increased returns and lowered risk when added to a traditional portfolio, split 60% to equities and 40% to bonds. For example, adding a 10% allocation to private U.S. real estate would have boosted annualized returns over the past 20 years to 7.0% from 6.8% and lowered the standard deviation of returns to 9.1% from 10% (**Figure 1**).

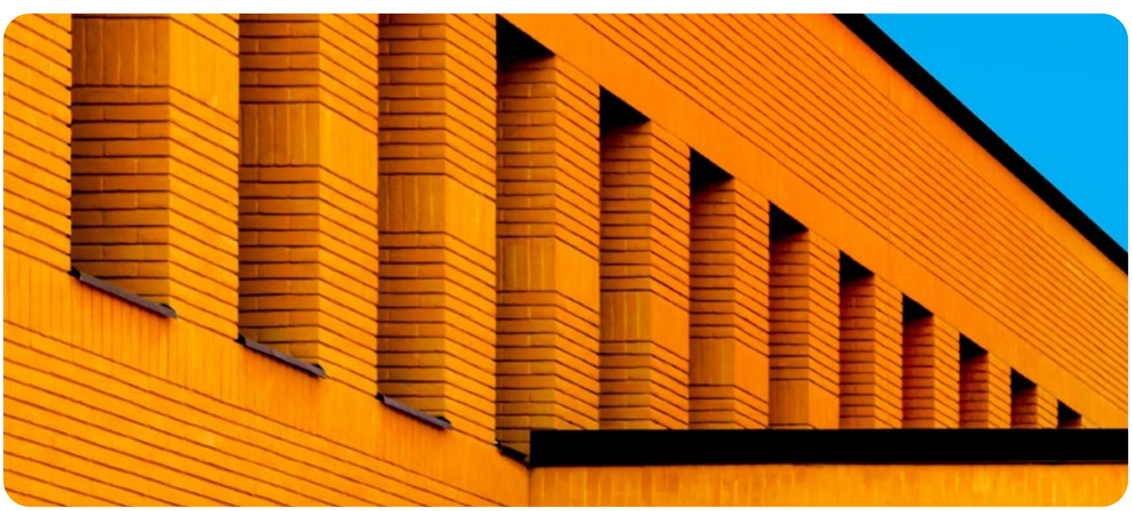
Figure 1: Private U.S. Real Estate Has Historically Improved Risk-Adjusted Returns

Trailing Return and Risk (2003-2023)



Past performance does not guarantee future results. Total return and risk measured by standard deviation of quarterly returns for 20 years ending December 31, 2023 for the hypothetical portfolio shown. Private U.S. Real Estate represented by NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE), U.S. Equities by S&P 500 Index, International Equities by MSCI EAFE Index, and U.S. Fixed Income by Bloomberg Barclays U.S. Aggregate Index. An investor cannot invest in an index. Indices do not reflect the impact of transaction costs, management and other investment-entity fees and expenses or the costs associated with raising capital or being a public company, which lower returns.

Source: Bloomberg, National Council of Real Estate Investment Fiduciaries, as of December 31, 2023.

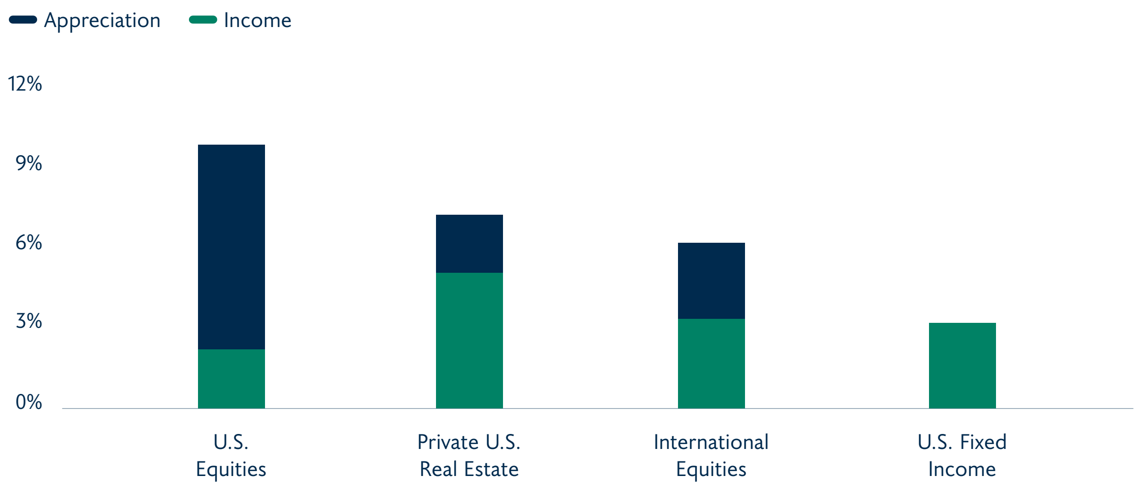


Has Historically Generated Income

Over the past 20 years, private real estate has delivered attractive annualized total returns with a significant portion of its total return derived from income (**Figure 2**). As an asset class, it seeks to offer the potential for similar total returns to equities coupled with attractive income when compared with bonds.

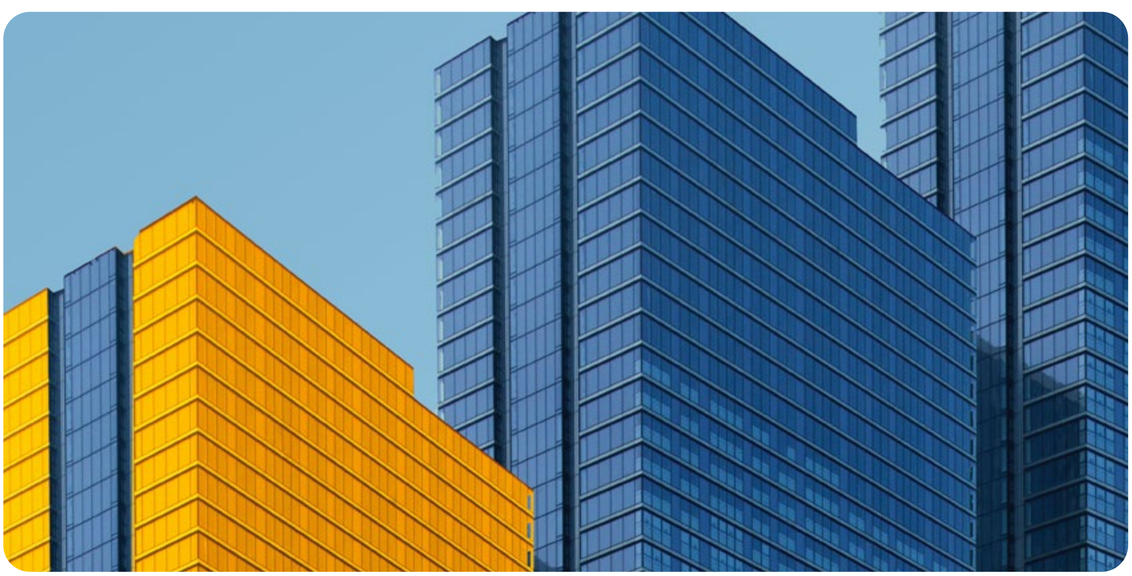
Figure 2: Private U.S. Real Estate: Strong Returns Over Past 20 Years

Annualized Total Return (2003-2023)



Past performance does not guarantee future results. Private U.S. Real Estate represented by NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE), U.S. Equities by S&P 500 Index, International Equities by MSCI EAFE Index, and U.S. Fixed Income by Bloomberg Barclays U.S. Aggregate Index. Indexes are unmanaged and cannot be purchased directly by investors. Index performance shown for illustrative purposes only and does not predict or depict the performance of any investment.

Source: Bloomberg, National Council of Real Estate Investment Fiduciaries, as of December 31, 2023.



Diversification

Private real estate can add diversification benefits to a portfolio; over the past 20 years, the asset class has exhibited low correlations with U.S. and international stocks, U.S. bonds, and even with public U.S. real estate (**Figure 3**).

Figure 3: Public U.S. Real Estate Has Historically Exhibited Low Correlation to Other Asset Classes

Annualized Asset Class Correlations (2003-2023)

	U.S. Equities	International Equities	Public U.S. Real Estate	U.S. Fixed Income	Private U.S. Real Estate
U.S. Equities	1.00	0.89	0.76	0.07	0.04
International Equities		1.00	0.69	0.11	(0.01)
Public U.S. Real Estate			1.00	0.23	0.14
U.S. Fixed Income				1.00	(0.26)
Private U.S. Real Estate					1.00

Diversification does not ensure a profit or protect against loss in a declining market. Past performance does not guarantee future results. Private U.S. Real Estate represented by NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE), U.S. Equities by S&P 500 Index, International Equities by MSCI EAFE Index, Public U.S. Real Estate by S&P United States REIT Index, and U.S. Fixed Income by Bloomberg Barclays U.S. Aggregate Index. Indexes are unmanaged and cannot be purchased directly by investors. Index performance shown for illustrative purposes only and does not predict or depict the performance of any investment.

Source: Bloomberg, National Council of Real Estate Investment Fiduciaries, as of December 31, 2023.

Correlation Explained

Correlation measures how two investments move in relation to each other. A correlation coefficient of 1 indicates a perfect positive correlation, meaning that they move in the same direction by the same amount. A coefficient of -1 indicates a perfect negative correlation, meaning that they have historically moved in the opposite direction.

A key benefit of a portfolio with low correlation among its various assets is reducing the volatility of overall returns.

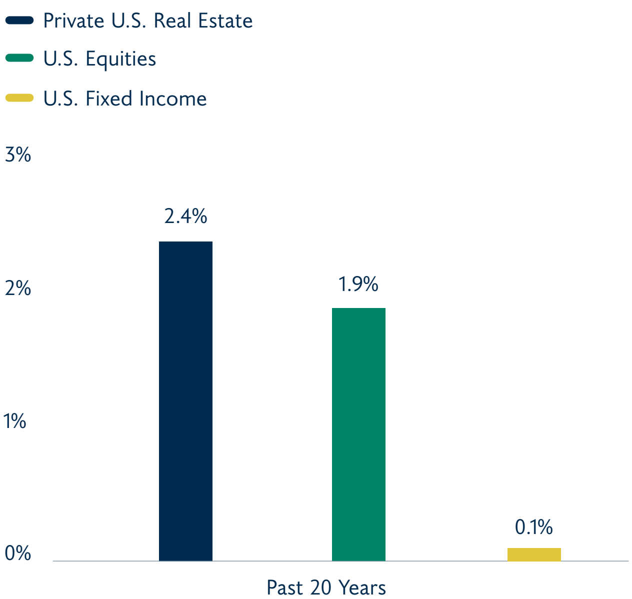
Inflation Hedge

We believe private real estate can help insulate an investment portfolio from the negative effects of inflation.

Rents often rise with inflationary expectations, sometimes even in excess of inflation. In addition, the value of real estate assets tends to increase as replacement costs rise. As a result, real estate has historically outperformed U.S. equities and bonds during periods of above-average inflation (**Figure 4**).

Figure 4: Private Real Estate Has Generated Strong Returns Amid High Inflation

Average Quarterly Returns When U.S. Consumer Inflation Was Above Average



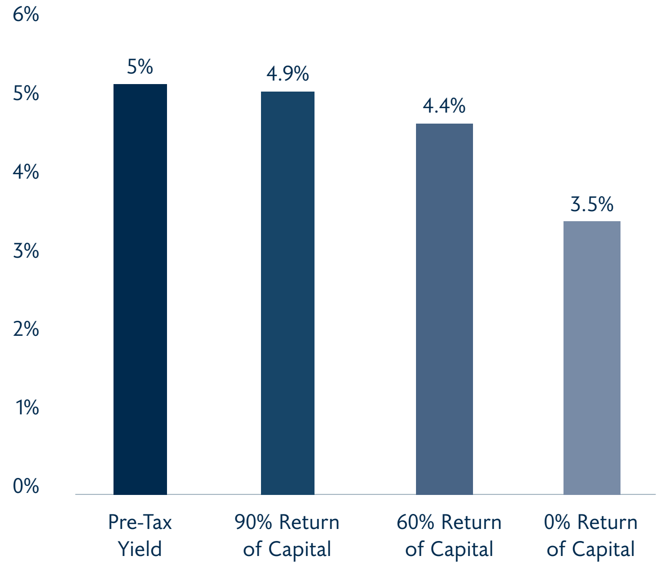
Past performance does not guarantee future results. Higher-than-average inflation is measured as when the year-over-year U.S. Consumer Price Index exceeded 4%. During those periods, we examined the average returns of Private U.S. Real Estate represented by the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE); U.S. Equities by the S&P 500 Index; and U.S. Fixed Income by the Bloomberg U.S. Aggregate Bond Index. Indexes are unmanaged and cannot be purchased directly by investors. Index performance shown for illustrative purposes only and does not predict or depict the performance of any investment.

Source: Bloomberg, National Council of Real Estate Investment Fiduciaries, as of December 31, 2023.

Potential Tax Advantages

Direct real estate ownership can help reduce an investor's effective tax rate and can increase after-tax yields—particularly in scenarios where return of capital is high (**Figure 5**).

Figure 5: Real Estate Can Offer Attractive After-Tax Yield[2]



Historical analysis does not guarantee future results. For illustrative purposes only and assumes $100,000 investment with 5% ($5,000) annualized distribution taxed at highest federal tax bracket. The example does not include state taxes. An investor could be subject to state income tax in their state of residence, which would lower the after-tax yield received by the investor. The illustration is provided for informational purposes only and does not predict tax effects or depict the performance of any investment.

Source: Bloomberg, National Council of Real Estate Investment Fiduciaries, as of December 31, 2023.

Real Estate Tax Terminology Explained

- For tax purposes, non-traded real estate investment trusts (REITs) distributions are taxed at different rates depending on whether they are characterized as ordinary income, capital gains or return-of-capital.
- Distributions are paid out of available cash flow, which reflects non-cash items, such as depreciation, instead of net income.
- Return-of-capital distributions are tax-deferred and reduce the shareholder's cost basis.
- An investment sold for a gain after more than one year would be taxed as a long-term capital gain.

The tax information herein is provided for informational purposes only and does not constitute tax advice. Because each investor's tax position is different, investors should consult with their own tax advisor.

Endnotes

[1] Source: 2020 Institutional Real Estate Allocations Monitor; Ithaca, NY: Cornell University's Baker Program in Real Estate, and Hodes Weill & Associates, LP, October 2020. The report includes research collected on a blind basis from 212 institutional investors in 24 countries. Data as of 2020.

[2] After-tax yield does not take into account other taxes that may be owed on an investment in a REIT when the investor redeems his or her shares.

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A Word About Risk

Real Estate investing is subject to some degree of risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results.

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brookfieldoaktree.com

info@brookfieldoaktree.com

+1 855-777-8001

Index Definitions

Bloomberg Barclays U.S. Aggregate Index is a broad-base, market-capitalization-weighted bond market index representing intermediate-term investment-grade bonds traded in the United States.

Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services.

MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia and Far East) outside of the U.S. and Canada.

NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) is a capitalization-weighted, gross-of-fees, time-weighted return index that measures performance of the largest open-end commingled funds pursuing a core real estate investment strategy.

S&P 500 Index is an equity index of 500 widely held large-capitalization U.S. companies.

S&P United States REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.