INVESTMENTS®

The opportunity in commercial real estate debt

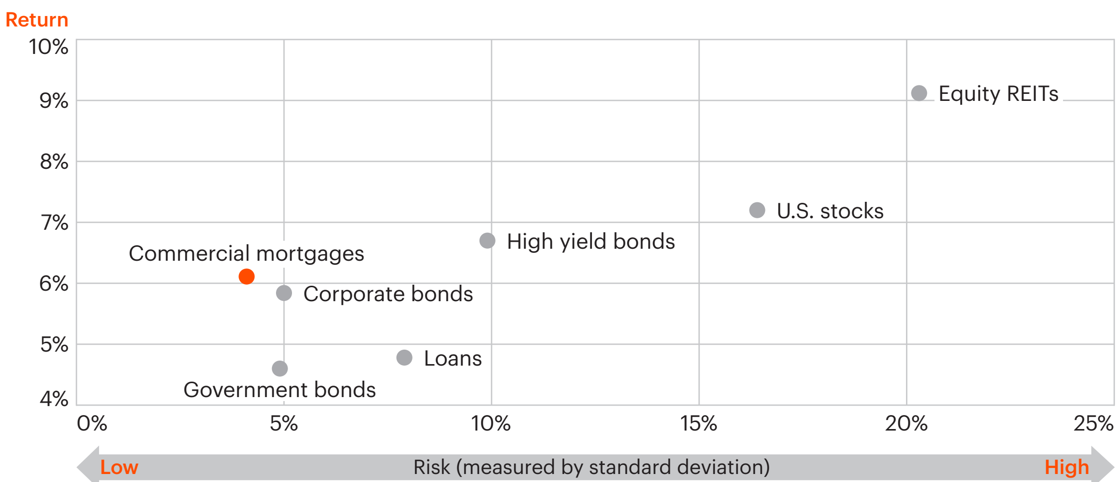
Investing in commercial real estate debt may provide an alternative source of income and portfolio diversification.

Attractive risk-adjusted returns

An allocation to real estate, and more specifically, commercial real estate (CRE), is a staple within the portfolios of many individuals seeking income and portfolio diversification. Investors have historically accessed this asset class through equity-based real estate investment trusts, or REITs.

While equity REITs have generated higher returns than many other asset classes, they have exhibited significantly higher levels of volatility. By comparison, CRE debt, and specifically commercial mortgages, delivered approximately 67% of the returns of equity REITs with just 20% of the volatility.

ANNUALIZED RISK AND TOTAL RETURN (1998–2017)[1]



Commercial mortgages delivered

67%

of the returns of equity REITs with just

20%

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Past performance is not indicative of future results. The beginning time periods referenced are based on the availability of index data.

The performance of traditional fixed income investments, such as corporate and government bonds, has been driven in part by favorable long-term macro trends, which may not be replicated in the coming years.

1 Data from 1/1/1998–12/31/2017. Commercial mortgages are represented by the Giliberto-Levy Commercial Mortgage Performance Index. The Giliberto-Levy Commercial Mortgage Performance Index measures the investment performance of select private-market investments in commercial real estate debt. Commercial mortgages may be subject to default risk. Government bonds are represented by the Bloomberg Barclays U.S. Treasury Index. The Bloomberg Barclays U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Government bonds may be subject to interest rate risk. Corporate bonds are represented by the ICE BofAML U.S. Corporate Index. The ICE BofAML U.S. Corporate Index tracks the performance of U.S. dollar-denominated investment grade corporate debt publicly issued in the U.S. domestic market. Corporate bonds may be subject to default and interest rate risk. Equity REITs are represented by the FTSE NAREIT All Equity REITs Total Return Index. The FTSE NAREIT All Equity REITs Total Return Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Equity REITs may be subject to market and interest rate risk. U.S. stocks are represented by the S&P 500 Total Return Index. The S&P 500 Total Return Index is a benchmark of large-cap U.S. equities. The index includes 500 leading companies, captures approximately 80% coverage of available market capitalization and assumes all resulting dividends are automatically reinvested. U.S. stocks may be subject to market risk. Loans are represented by the Credit Suisse Leveraged Loan Index. The Credit Suisse Leveraged Loan Index tracks the investable market of the U.S. dollar-denominated leveraged loan market. Loans may be subject to default risk. High yield bonds are represented by the ICE BofAML U.S. High Yield Index. The ICE BofAML U.S. High Yield Index is designed to track the performance of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market. High yield bonds may be subject to a higher default risk than loans. Each asset class is suitable for specific investor objectives, which vary greatly.

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Opportunity for diversification

CRE debt has exhibited low correlation to major asset classes.

CORRELATION OF CRE DEBT TO MAJOR ASSET CLASSES (1998–2017)[1]

-0.17	-0.01	0.12	0.26	0.40	0.51
U.S. stocks	Loans	High yield bonds	Equity REITs	Government bonds	Corporate bonds

Investing in commercial real estate: debt vs. equity

While investing in both the equity and debt of commercial real estate properties may provide investors with income, there are some key differences that investors should consider.

CRE EQUITY INVESTORS

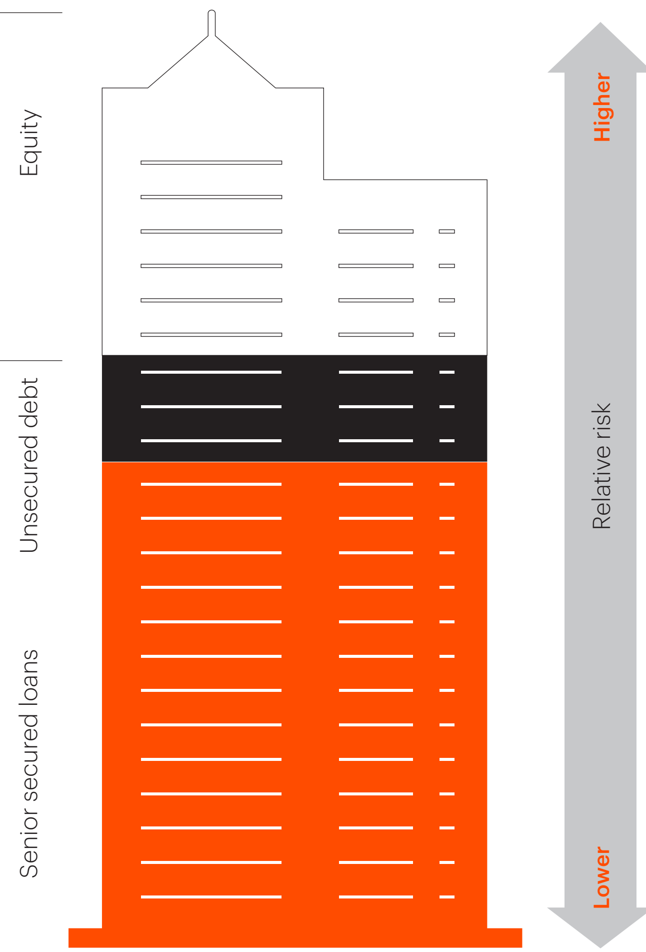
Investors in the equity of commercial real estate properties act as the "landlord."

- Returns based on rental income and changes in real estate prices
- Last to be repaid and first to experience loss in the event of a borrower's default

CRE DEBT INVESTORS

Investors in commercial real estate debt act as "the bank" by providing loans and other sources of debt financing to property owners.

- Returns based on interest income
- First to be repaid in the event of a default
- The coupons of floating rate commercial loans adjust as market interest rates rise or fall, which helps preserve value as interest rates change.



Summary

Investing in CRE debt may offer a differentiated way to invest in real estate and provide an alternative source of income and diversification at a time when both are hard to find.

LEARN MORE ABOUT INVESTING IN CRE DEBT

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