Meeting Recap: Bluerock Total Income+ Real Estate Portfolio Manager Adam Lotterman...

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Manager

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On October 29, 2021, CAPTRUST's Investment Research team met with representatives from Bluerock to receive an update on the Bluerock Total Income+ Real Estate fund. In the meeting from Bluerock were Portfolio Manager Adam Lotterman, Senior Analyst Paul Dunn, and Relationship Manager Angelo Pirri. Representing CAPTRUST was Charlie MacBain.

Key Takeaways

- Recent activity in the portfolio has been an acceleration of what Portfolio Manager Adam Lotterman and the team were focusing on before the COVID-19 pandemic, which is property sectors with strong tenant growth, as well as those related to consumer demand. This focus has resulted in an emphasis on industrial and multi-family housing. Bluerock initiated its overweight to industrial in 2014, before most peers.

- Bluerock is also focusing on specialty real estate sectors with attractive supply and demand environments, such as medical office, life sciences, senior housing, student housing, storage, and technology and media-focused properties. In the case of medical office, life sciences, and technology and media, these properties are more complex, which supports tenant retention and higher rental rates.

- Bluerock Total Income+ Real Estate was up more than 16% year-to-date through the end of October. Performance has been driven by strong returns in the sectors where the fund is overweight. These include positions in large shipping centers, last-mile warehouses, and life sciences properties.

Business Update

- The Total Income+ Real Estate fund had reached $3.1 billion in assets under management through the end of the third quarter and is averaging about $100 million in monthly inflows.
- Bluerock uses a line of credit to manage the inflows and efficiently deploy capital. The team uses the credit line to make investments and uses the inflows from investors to replace the credit line as they come in. However, as inflows have increased this year, Bluerock is using the line of credit a little bit less.
- Mr. Lotterman and the team try to forecast their commitments to new or existing investments out by at least a year so that they can create effective plans for deploying new inflows and using the credit line.

An Emphasis on Active Management

- Bluerock takes an active approach to managing the strategy, which differs from other private real estate interval fund managers.
- Mr. Lotterman and his team will actively look for opportunities to make new investments or redeem from strategies that have fallen out of favor or aren't in line with the team's views.
- Bluerock implements this active approach by allocating a significant portion of the portfolio to single-strategy or sector-specific real estate funds in addition to the large multi-sector funds that are common in the real estate space.
- By using sector-specific funds, Bluerock can be more selective about the types of properties it is investing in and can execute on its investment views in a direct way.
- This approach allows Mr. Lotterman and his team to emphasize their top ideas and has contributed positively to the fund's performance.
- Another way Bluerock implements its active approach is by seeking seats on the limited partner advisory committees (LPAC) of most of the funds they invest in.
- Mr. Lotterman wants to be involved with the management of the underlying funds because he believes it is important to have a voice and a vote.

Liquidity Risk

- While allocating to sector-specific funds has helped performance, it also comes with risks. Although most of the large multi-sector funds are open-end funds, some of the sector-specific funds are closed-end, private equity style funds with no liquidity.
- By allocating to these types of funds, Bluerock Total Income+ Real Estate becomes less liquid and that can be a risk for investors seeking to redeem during times of market stress.
- Another factor that reduces the liquidity of the portfolio is Mr. Lotterman's preference to keep the allocation to public real estate securities low as his aim is to provide as much private real estate exposure as possible.

- To preserve liquidity in the fund, Bluerock maintains a small cash position and limits position sizes to 10% of the fund.
- However, liquidity management is still an important consideration for the fund.

Broad Portfolio Update

- Mr. Lotterman and his team have been active with Bluerock's investments over the last year as activity in the real estate space has picked back up following the shutdown early in the pandemic.
- Bluerock sold about $600 million and bought about $700 million of real estate in the second half of 2020.
- As capital has come into the fund this year, the team has continued to make investments, but has not been as active with redemptions.
- According to Mr. Lotterman, they have been accelerating what they were doing prior to the pandemic, which is slanting the portfolio towards industrial, multi-family, and specialty properties.
- As of September 30, 2021, the portfolio's sector allocations were:
    - 38% industrial
    - 30% multi-family/apartment
    - 16% specialty
    - 12% office
    - 4% retail
- Many of their investments are focused on sectors where there are favorable consumer trends and supply-demand fundamentals, such as industrial and multi-family/apartment, or sectors where demand isn't directly linked to GDP, such as life sciences, healthcare, and biotech.
- The portfolio is 93% occupied.
- As of September 30, 2021, the asset allocation is:
    - 77.54% private real estate equity
    - 14.04% real estate debt
    - 2.98% public real estate equity
    - 5.44% cash

Sector Updates

- Industrial
  - Bluerock has increased its allocation to industrial over the past year from 32% to 38% based on long-term demand drivers and the growth of e-commerce.
  - The portfolio is invested in multiple types of industrial properties including warehouses, last-mile facilities, and cold storage.
  - From a geographic perspective, most of the industrial focus has been on port cities and growing metro areas.
- Multi-Family/Apartment
  - The allocation to multi-family/apartment has come down over the past year from 37% to 30% given corresponding increases to industrial and specialty.
  - However, Mr. Lotterman continues to have conviction in the sector based on favorable demographic trends and seemingly persistent under-supply and high demand.
  - According to Mr. Lotterman, the National Multifamily Housing Council (NMHC) reported in 2019 that the U.S. would need to provide 330,000 new housing units per year to meet current housing demand. However, the U.S. has only built more than 300,000 new units in a year one time in its history. This backdrop should continue to supportive of both tenant demand and rent growth.
  - Bluerock prefers to keep a bout one-third of the multi-family/apartment exposure in debt investments to help manage risk and keep the fund's income up.
  - In the multi-family/apartment portfolio, Mr. Lotterman and his team are focused on the Sun Belt region, which is seeing strong population growth.
  - They tend to avoid investments that target high end, trophy assets in major cities because the market for those assets is less liquid.
- Specialty
  - Bluerock has increased its allocation to specialty assets over the past year from 11% to 16%.
  - Specialty sectors include senior housing, medical office, student housing, life science, and media/content creation.
  - The media/content creation properties are newer types of office space that require specific characteristics for their tenants. It is also a supply-

    constrained space with intriguing growth prospects.
    - Most of Bluerock's recent specialty investments have been focused on the life sciences space and the fund has added to its investments in IQHQ and Bain Capital Real Estate, which are life sciences-focused strategies.
    - A lot of the life science investments are concentrated in Boston, San Francisco, San Diego, and the Pacific Northwest.
- Office
    - Bluerock has reduced its office exposure from 14% at the end of Q3 2020 to 12% at the end of Q3 2021.
    - Mr. Lotterman has more conviction in the industrial, multi-family/apartment, and specialty categories.
- Retail
    - Bluerock has reduced its retail exposure from 6% at the end of Q3 2020 to 4% at the end of Q3 2021.
    - The team has low conviction in the growth of retail, so they prefer to allocate more to other sectors.
    - The retail properties Bluerock has exposure to are all grocery-anchored, which have proven to be resilient.