

CROMWELL CENTERSQUARE REAL ESTATE FUND

Portfolio Manager Eric Rothman highlights a primary difference between public real estate investment trusts (REITs) and private real estate, the composition of the REIT market, the perception versus reality of the effect rising rates have on REITs, and the important role REITs play in a portfolio.

▶ What are some of the primary structural differences between private real estate funds and public REITs?

Public REITs and private real estate funds differ considerably in terms of:

- 1. Liquidity.** Public REITs are listed on a national exchange where investors can purchase or redeem shares on a daily basis, with no restrictions on size. Conversely, private real estate funds are not traded. While they may offer opportunities for liquidity at certain intervals, when there are more redemption requests than the stated redemption limits, investors may not receive their full redemption request and must wait for a future period to receive the additional proceeds.
- 2. Pricing.** In the REIT market, daily pricing occurs. Any news is often immediately incorporated into real estate valuations as investors' views of value affect stock prices via trading activity. In the private market, pricing lags occur that do not reflect current market conditions. Values are assigned through a comparison of similarly closed transactions. When the capital environment deteriorates, as it did in 2022, this valuation method can dramatically overstate property values until the properties are periodically repriced. Therefore, the portfolio, taken as a whole, does not reflect current valuations since the properties within the portfolio are repriced at different intervals.

▶ Would you please discuss the current composition of the REIT market and what areas appear attractive?

The REIT market continues to evolve from a diversification standpoint and has dramatically changed over the years.

Over the past 15 years, the REIT market has transitioned to include data centers, cell phone towers, logistics facilities, cold storage, medical office buildings, self-storage units, and single-family rentals. REITs within these areas now comprise over 50% of the total REIT universe. In comparison, office and regional malls, which we typically avoid in the Fund, comprise less than 6.2% of the overall REIT market.

We see growing opportunity in these newer REIT offerings, particularly data centers, cell phone towers, cold storage units and single-family rentals. For example, in single-family rentals, as interest rates rise and affordability of housing falls, there is a large demographic wave of millennials who are starting families and moving to the suburbs. Many of these families—burdened by higher mortgage costs and college debt—find it challenging to buy a home.



CLASS	INCEPTION	TICKER
Institutional	2/24/17	MRASX
Investor	12/31/97	MRESX

Fund Facts

Specialty: **Real Estate**

Fund AUM: **\$132.9 million**

Holdings: **57**

Sub-Advisor



CenterSquare Investment Management, the Fund's sub-advisor, is a management-owned firm specializing in real estate strategies, with \$13 billion in assets as of 3/31/23 and approximately 100 employees in 5 offices throughout the world. The Fund's portfolio managers have managed the Fund since 2006.

PORTFOLIO MANAGERS



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Portfolio Manager
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▶ **What is the perception of how rising interest rates affect REITs compared to reality?**

The price decline in public REITs in 2022 was not fundamentally driven as many REITs beat earnings expectations throughout 2022. Rather, the performance was driven by the perceived impact of higher rates.

Interest rates affect REITs, yet it is not about the level of interest rates. REITs typically enjoy long-term fixed rate financing and have little variable rate financing. If interest rates change dramatically, unexpectedly, and permanently, REIT equities fall in price which increases the yield. We believe this reset has occurred in 2022 in the public REIT market.

Importantly, in 2022, REIT property incomes grew. Albeit higher debt costs, REITs use half as much leverage on average compared to private real estate. REITs also have many different sources of access to capital. While traditional banks comprise about 40% of lending to commercial real estate, REITs can engage in joint ventures, issue public bonds or asset-backed financing, or obtain an unsecured loan from a bank.

And finally, with rising interest costs, there was a decline in new real estate supply, which translates to less competition and higher property value over time.

▶ **As hard assets, what role do REITs play in an investor's overall portfolio?**

We believe REITs play a more defensive role in an overall portfolio and add diversification due to the following features:

- » **Durability of income.** For REITs, income does not significantly change. At the property level, REITs have averaged about 3% net operating income growth over the past 25 years.
- » **Well-covered dividend with growth.** REITs have averaged a 70% payout after deducting the amount of capital needed to maintain and manage the assets. In addition, the dividend is growing: So far in 2023, there were over 30 REITs that have increased their dividend an average of 11%.
- » **Lower correlation to the overall market.** As of 12/31/22 based on monthly performance, the 10-year average correlation between the S&P 500 and the FTSE Nareit All Equity REITs Index was 0.72.¹

For investors seeking growing income streams and lower correlation to the broader equity market, REITs may be an appropriate complement to an overall portfolio.

¹ eVestment. Data based on monthly performance.

Investors should carefully consider the Fund's investment objectives, risks, charges and expenses before investing. For this and other information, please call 855.625.7333 or visit thecromwellfunds.com for a prospectus. Read it carefully before investing or sending money.

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risk considerations similar to those associated with the direct ownership of real estate. Real estate valuations may be subject to factors such as changing general and local economic, financial, competitive, and environmental conditions. A greater percentage of the Fund's holdings may be focused in a smaller number of securities which may place the Fund at greater risk than a more diversified fund. Investing in initial public offerings (IPOs) is risky and the prices of stocks purchased in IPOs tend to fluctuate more widely than stocks of companies that have been publicly traded for a longer period of time. Stocks purchased in IPOs generally do not have a trading history, and information about the companies may be available for very limited periods. Market prices of investments held by the Fund may fall rapidly or unpredictably due to a variety of economic or political factors, market

About Cromwell Funds

Headquartered in Baltimore, MD, the Cromwell Funds provide Financial Advisors with high-quality, differentiated and actively managed strategies in a mutual fund format. The Funds are sub-advised by asset managers who have built a national reputation managing their investment strategies.

Cromwell Funds' Sub-Advisors:

- » CenterSquare Investment Management
- » Foresight Group
- » Marketfield Asset Management
- » Tran Capital Management

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conditions, disasters or public health issues, or in response to events that affect particular industries or companies. Companies that are in similar industry sectors may be similarly affected by particular economic or market events; to the extent the Fund has substantial holdings within a particular sector, the risks associated with that sector increase.

The FTSE Nareit All Equity REITs Index is an index of U.S. equity REITs. Constituents include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property. The S&P 500 Index is a capitalization-weighted index of 500 stocks. Indices are unmanaged, are not available for investment and do not incur expenses.

Correlation measures the extent to which two variables are related.

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