

# Active Management and Structure Matter

Market conditions are constantly changing. We believe that an actively managed strategy that dynamically allocates across the four quadrants of the real estate market may offer a differentiated return profile when compared to real estate strategies with limited opportunity sets. Furthermore, a multi-manager structure utilizing real estate securities may allow for more efficient allocation across property sectors, which could help to mitigate risk across market cycles.

## Real Estate Quadrants

The commercial real estate investment market is commonly broken down into four quadrants: Private Equity, Private Debt, Public Equity and Public Debt. Each quadrant has its own unique set of risk-return considerations and each plays a key role within a real estate portfolio. The table below illustrates how each quadrant moves in and out of favor as market conditions change.

## Annual Returns of Real Estate Quadrants

(December 31, 2002 - December 31, 2022)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Public Equity 37.13%	Public Equity 31.58%	Private Equity 20.15%	Public Equity 35.06%	Private Equity 14.84%	Private Debt -4.85%	Public Debt 34.54%	Public Debt 53.76%	Private Equity 14.96%	Public Debt 20.52%	Private Equity 12.90%	Public Equity 28.03%	Private Equity 13.95%	Public Equity 8.63%	Public Debt 9.75%	Private Equity 7.36%	Public Equity 28.66%	Private Debt 5.50%	Public Equity 41.30%	Private Equity 6.55%
Private Equity 8.28%	Private Equity 12.00%	Public Equity 12.16%	Private Equity 15.27%	Private Debt 4.82%	Private Equity -10.70%	Public Equity 27.99%	Public Equity 27.95%	Public Equity 8.28%	Public Equity 19.70%	Public Debt 3.53%	Private Equity 11.46%	Public Equity 2.83%	Private Equity 7.79%	Public Equity 8.67%	Public Debt 5.46%	Public Debt 11.59%	Private Equity 0.34%	Private Equity 21.02%	Private Debt -9.72%
Public Debt 6.68%	Public Debt 6.98%	Private Debt 2.73%	Public Debt 8.79%	Public Debt -15.27%	Public Equity -37.73%	Private Debt 13.84%	Private Equity 15.26%	Public Debt 6.59%	Private Equity 9.79%	Public Equity 2.86%	Private Debt 6.55%	Private Debt 1.88%	Public Debt 4.97%	Private Equity 6.66%	Private Debt 1.84%	Private Debt 7.54%	Public Debt -0.86%	Public Debt 6.28%	Public Debt -13.38%
Private Debt 4.31%	Private Debt 4.36%	Public Debt 2.37%	Private Debt 3.81%	Public Equity -15.69%	Public Debt -66.91%	Private Equity -30.40%	Private Debt 9.37%	Private Debt 6.06%	Private Debt 3.85%	Private Debt 2.06%	Public Debt 4.72%	Public Debt -0.59%	Private Debt 2.07%	Private Debt 4.82%	Public Equity -4.04%	Private Equity 4.39%	Public Equity -5.12%	Private Debt 3.60%	Public Equity -24.95%

**Past performance is not indicative of future results.** Source: Apollo Analysts and Bloomberg. For discussion purposes only. The information provided herein is based on the views and opinions of Apollo Analysts as of a particular point in time. As such, the analysis is based on certain assumptions which are subject to change without notice. Performance reflects the reinvestment of dividends or other distributions. "Public Equity" represented by the FTSE Nareit All Equity REITs Index. "Public Debt" represented by the Bloomberg CMBS Investment Grade BBB Total Return Index. "Private Equity" represented by the NFI-ODCE Net Return Index. "Private Debt" represented by the GL1 (Giliberto-Levy) Net Return Index, net return estimated using an 80 basis point annual expense assumption. An investment cannot be made in an index, which is unmanaged and has returns that do not reflect any trading, management or other costs. These indices may not necessarily be indicative of the investment strategies utilized by Apollo Diversified Real Estate Fund. Assets and securities contained within indices are different than the assets and securities contained in Apollo Diversified Real Estate Fund and will therefore have different risk and reward profiles. Returns presented herein are not indicative of the performance of Apollo Diversified Real Estate Fund or any Apollo affiliated products.

The interval fund structure provides the ability to invest in both private and public real estate within the same portfolio, which may be a key differentiator for investors when considering other real estate investment strategies. Further, the ability to actively manage across all quadrants of the commercial real estate market may provide for a differentiated return profile.

## Real Estate Sectors

Similarly, returns across commercial real estate sectors are driven by a variety of factors which may cause some sectors to outperform others. The table below illustrates how such sectors have performed over market cycles.

### Annual Returns of Real Estate Sectors

(December 31, 2002 - December 31, 2022)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Retail 17.15%	Retail 22.95%	Multifamily 21.15%	Hotel 23.57%	Office 20.51%	Retail -4.11%	Retail -10.95%	Multifamily 18.21%	Multifamily 15.45%	Retail 11.61%	Retail 12.87%	Industrial 13.42%	Retail 15.28%	Industrial 12.31%	Industrial 13.07%	Industrial 14.30%	Industrial 13.36%	Industrial 11.78%	Industrial 43.33%	Industrial 14.55%
Multifamily 8.90%	Multifamily 13.04%	Industrial 20.31%	Office 19.16%	Hotel 18.10%	Industrial -5.76%	Multifamily -17.51%	Retail 12.62%	Industrial 14.59%	Multifamily 11.23%	Industrial 12.32%	Retail 13.12%	Industrial 14.87%	Retail 9.04%	Multifamily 6.16%	Hotel 7.57%	Office 6.59%	Multifamily 1.83%	Multifamily 19.91%	Hotel 9.97%
Industrial 8.23%	Industrial 12.07%	Retail 19.98%	Industrial 16.96%	Industrial 14.95%	Office -7.29%	Industrial -17.85%	Office 11.74%	Retail 13.77%	Industrial 10.71%	Multifamily 10.42%	Office 11.50%	Hotel 13.20%	Multifamily 7.33%	Office 6.03%	Office 6.85%	Multifamily 5.51%	Office 1.57%	Office 6.12%	Multifamily 7.07%
Hotel 6.05%	Office 12.02%	Office 19.46%	Multifamily 14.63%	Retail 13.51%	Multifamily -7.29%	Office -19.10%	Industrial 9.37%	Office 13.76%	Office 9.49%	Office 9.86%	Hotel 11.06%	Office 12.50%	Office 6.20%	Retail 5.67%	Multifamily 6.07%	Hotel 3.51%	Retail -7.48%	Hotel 5.48%	Retail 2.69%
Office 5.67%	Hotel 10.16%	Hotel 18.99%	Retail 13.35%	Multifamily 11.36%	Hotel -9.35%	Hotel -20.40%	Hotel 8.97%	Hotel 11.79%	Hotel 8.23%	Hotel 7.68%	Multifamily 10.29%	Multifamily 11.99%	Hotel 4.71%	Hotel 4.93%	Retail 2.18%	Retail 1.90%	Hotel -25.56%	Retail 4.22%	Office -3.37%

**Past performance is not indicative of future results.** Source: Apollo Analysts utilizing NCREIF Property Index (NPI) sector returns between 2003 through 2022. For discussion purposes only. The information provided herein is based on the views and opinions of Apollo Analysts as of a particular point in time. As such, the analysis is based on certain assumptions which are subject to change without notice. There is no guarantee that the investment strategies will work under all market conditions. Returns presented herein are not indicative of the performance of any Apollo affiliated investment products. An investment cannot be made in an index, which is unmanaged and has returns that do not reflect any trading, management or other costs.

# Conclusion

An actively managed real estate strategy utilizing a multi-manager structure may reposition by directing capital into securities with specific real estate sector concentrations without the friction generally associated with buying and selling properties. In contrast, a direct real estate investment strategy may only be adjusted by buying and selling properties. In fact, given the speed at which markets move today, it may not be feasible for certain direct real estate strategies to timely reposition in response to evolving market conditions.

In today's investment environment, market conditions are constantly changing and an actively managed real estate strategy that dynamically allocates across the four quadrants of the commercial real estate market may offer a differentiated return profile relative to real estate strategies with limited opportunity sets. Moreover, the multi-manager structure may allow for more efficient allocation across property sectors which may in turn offer the potential for alpha generation and risk mitigation across market cycles.

Apollo Diversified Real Estate Fund's<sup>1</sup> actively managed, multi-manager structure provides exposure to private and public real estate securities across all four quadrants of the commercial real estate market. This approach and structure allow for tactical sector allocation, which may offer investors sustainable, risk-adjusted returns across market cycles.

## Glossary of Terms:

**Alpha:** A measure of risk-adjusted return implying how much a fund/manager outperformed its benchmark, given its risk profile.

**FTSE Nareit All Equity REITs Index:** A free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the Index include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

**Bloomberg CMBS Investment Grade BBB Total Return Index:** A fixed-rate, investment grade benchmark that measures the Bbb-rated market of U.S. Agency and U.S. Non-Agency conduit and fusion CMBS deals with a minimum current deal size of \$300 million. The Index includes both U.S. Aggregate eligible (ERISA eligible) and non-U.S. Aggregate eligible (non-ERISA eligible) securities.

**G-L 1 (Giliberto-Levy) Net Return Index:** Measures the investment performance of select private-market investments in commercial real estate debt. Specifically, the Index tracks fixed-rate, fixed-term senior loans that are made by and held in the investment portfolios ("on balance sheet") of institutional lenders such as life insurance companies and pension funds.

**National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI):** A quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment.

**NFI-ODCE Net Return Index:** An index of investment returns reporting on both a historical and current basis the results of certain open-end commingled funds pursuing a core investment strategy. The NFI-ODCE Net Return Index is capitalization-weighted and is reported net of fees.

*Apollo Diversified Real Estate Fund (the "Fund") is a closed-end interval fund. Limited liquidity is provided to shareholders only through the Fund's quarterly repurchase offers for no less than 5% and no more than 25% of the Fund's shares outstanding at net asset value. The Fund is only suitable for investors who can bear the risks associated with the limited liquidity of the Fund and should be viewed as a long-term investment. There is no secondary market for the Fund's shares and none is expected to develop.*

1. Effective May 2, 2022, Griffin Institutional Access<sup>®</sup> Real Estate Fund was renamed Apollo Diversified Real Estate Fund.

# Talk to your financial advisor about how Apollo Diversified Real Estate Fund's actively managed portfolio of private and public real estate may help generate durable income.

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Investing involves risk, including loss of principal.

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