

APOLLO DIVERSIFIED REAL ESTATE FUND





Portfolio Construction, Real Estate and the Potential Benefits of a Multi-Manager Structure

Most investors subscribe to the theory that asset class diversification mitigates portfolio risk and is a core principle of portfolio construction regardless of a portfolio's size. Most investment portfolios are broadly diversified by asset class and sector, and within those sectors, further diversified by characteristics such as industry, company, credit, duration and various other factors. Institutional investors have long allocated to property markets to enhance portfolio diversification as the return profile of real estate is generally less volatile than that of the broader stock market, potentially improving risk-adjusted returns across the portfolio. This paper summarizes our belief that in order to mitigate risk and preserve capital, investors should consider an allocation to commercial real estate to complement a traditional portfolio of stocks and bonds. Furthermore, we believe that a multi-manager approach may be the ideal access point to fulfill key principles of portfolio construction.

The Case For Real Estate

As the chart below illustrates, commercial real estate is the third-largest investable asset class domestically. Commercial real estate is consistently utilized as a source of diversification by institutional investors because it provides potentially unique return characteristics in the form of both income and capital appreciation. For these reasons, we believe individual investors should consider an allocation to commercial real estate. However, investors should first examine the various types of investment vehicles providing access to commercial real estate to determine the most appropriate vehicle and structure through which to invest.

Commercial Real Estate May Offer Compelling Benefits

		INCOME ORIENTED	CAPITAL APPRECIATION ORIENTED
Stocks	Approx. \$52 Trillion Total U.S. Stock Market Capitalization		
Bonds	Approx. \$48 Trillion Total U.S. Debt Outstanding		
Commercial Real Estate	Approx. \$7.5 Trillion Worth of U.S. Commercial Real Estate	 Potential income from tenant rents	 Potential capital appreciation from increased property values

Different investment solutions have unique benefits and risks. If the goal of incorporating a real estate allocation is to provide for favorable risk-adjusted returns, we believe that following broad portfolio construction principles is the best way to achieve that goal. Specifically, a focus on broad diversification across managers, sectors, geographies, tenants and the capital stack (equity and debt) may help address common risks associated with real estate investing. As shown on the next page, a portfolio with real estate has historically delivered higher returns with lower risk when compared to a portfolio comprised of only traditional asset classes.

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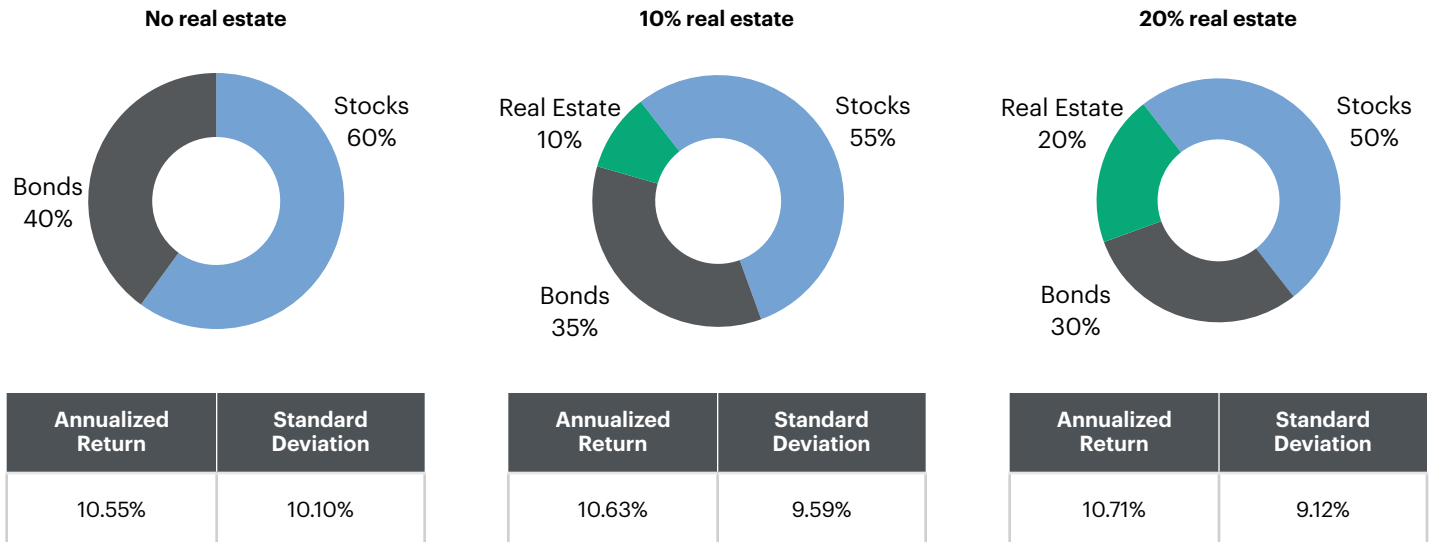
Apollo Diversified Real Estate Fund (the "Fund") is a closed-end interval fund. Limited liquidity is provided to shareholders only through the Fund's quarterly repurchase offers for no less than 5% and no more than 25% of the Fund's shares outstanding at net asset value. The Fund is only suitable for 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.

Diversification does not eliminate the risk of experiencing investment losses. The Fund is actively managed and its characteristics will vary. Active portfolio management could result in underperformance.

Sources: Securities Industry and Financial Markets Association (SIFMA) and Pension Real Estate Association (PREA). Market size for U.S. stocks and U.S. bonds are estimated as of Q4 2021 and Q3 2021, respectively. The market size for U.S. commercial real estate includes estimated values of public real estate debt and equity, as well as private real estate debt and equity using data from 2020 to January 31, 2022 with most figures as of Q4 2021.

Hypothetical Portfolio Returns

(1978 – 2021)



Potential Benefits of a Multi-Manager Structure

The goal of incorporating a core real estate allocation is not to take on additional risk or to earn an outsized return, but rather reduce risk and generate a consistent return. That said, a multi-manager structure may potentially help achieve the aforementioned goal by providing:

- Diversification by manager, sector, geography, tenant, or position in the capital stack.
- Active management allowing for exposure rotation as market conditions evolve.

Past performance is not indicative of future results. These charts are only intended for illustrative purposes and do not represent the returns of any Apollo affiliated investment products. Diversification does not eliminate the risk of experiencing investment losses. An investment cannot be made directly in an index, which is unmanaged and has returns that do not reflect any trading, management or other costs. Stocks and bonds are typically more liquid than direct investments in real estate. Tax efficiencies of investments in stocks and bonds may vary from those related to investments in real estate depending on the unique circumstances of the assets in the portfolio, portfolio management decisions, the tax status of the structure in which assets are held, and the tax status of the investor. Direct investments in real estate and bonds tend to have less volatility than investments in stocks due to general and industry-related market fluctuations, but the vehicle in which those assets are owned can also have a material impact upon that volatility. Expenses related to an investment in a professionally managed interval fund may be higher than the expenses associated with an investment in a publicly traded stock or bond. The risks associated with an investment in real estate may materially differ from an investment in a publicly traded stock or bond and one should therefore review risk factors prior to making any such investment. There is no assurance that real estate investments will achieve capital appreciation or provide regular, stable distributions.

Data source: Morningstar Direct as of 12/31/1977 – 12/31/2021 using quarterly returns. Hypothetical portfolios rebalanced on a quarterly basis. Stocks are represented by the S&P 500 Index. Bonds are represented by the Bloomberg U.S. Aggregate Bond Index. Real estate is represented by a 70% allocation in the NCREIF Property Index (private real estate) and a 30% allocation in the FTSE Nareit All Equity REITs Index (public real estate). Please see the glossary for descriptions of these indices.

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The Case for Diversification

Because of high investment minimums or the inability for managers to raise capital efficiently, among other reasons, investors in private real estate offerings are often presented single-manager fund structures with portfolios that range in size from \$250 million to \$10 billion. A pool of real estate assets concentrated in a single-manager fund structure may potentially expose investors to idiosyncratic risks that they may not have considered. Concentration in a sector, geography or specific investment that encounters challenges can have adverse impacts on the value and cash flows of the investment. Additionally, it becomes challenging to rotate the portfolio as the physical assets take time to sell and subsequently reinvest. Investors choosing to allocate to real estate through a single manager and a single portfolio may be adding unintended risk by making a concentrated investment in an asset class that is intended to reduce risk within a mixed-asset portfolio.

Contrast a multi-manager structure incorporating 10 managers, each with \$10 billion of assets under management (AUM), versus a single-manager structure with \$10 billion of AUM. In such an example, an investor utilizing a multi-manager structure is diversified across an asset base comprised approximately of \$100 billion of real estate whereas an investor utilizing the single-manager structure is invested in approximately \$10 billion of concentrated real estate. The difference in diversification by manager, number of assets, tenants, credits, and geographies could be staggering. Consider the differences in risk associated with a portfolio of equities in which a manager owns 10 stocks versus a manager diversifying across 100 companies.

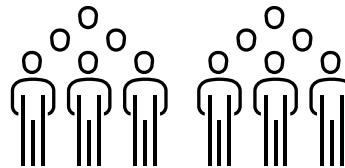
Investing the same amount of capital in a multi-manager structure as opposed to a single-manager structure may potentially provide an investor with a significant degree of diversification, which should subsequently serve to potentially reduce idiosyncratic risk.

Single-Manager Structure



\$10 billion
of real estate

Multi-Manager Structure



\$100 billion
of real estate

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The Case for Active Management

Most successful investors recognize the key to long-term investment success is to remain invested through market cycles. Proper diversification may help to limit down periods and improve consistency of returns. As investors stay invested, different sectors within different asset classes move in and out of favor as conditions change.

Real estate is no different. Rarely do we observe that the best performing sector of the real estate market is the same year after year. The single-manager structure is generally a static pool of assets that may only be adjusted via transaction activity (selling and buying). Buying and selling direct real estate assets within a single-manager portfolio may be time consuming and expensive as the market for such assets is generally less liquid and transaction costs can potentially erode profits. Further, utilizing cash raised from investors to reposition a single-manager portfolio can take significant time as it takes a considerable amount of capital to acquire a single institutional-quality asset, let alone multiple institutional-quality assets to meaningfully shift the overall composition of the portfolio.

Adjusting the composition of a multi-manager portfolio investing in real estate securities may be less onerous. Utilizing cash raised from transaction activity (selling and buying) and investors is less arduous and more cost efficient when compared to similar activities within a single-manager portfolio pursuing direct real estate investment. Cash raised can be directed into large pools of assets (existing funds) with specific sector concentrations in an effort to adjust the portfolio composition without incurring transaction costs, while capital flows can simultaneously be directed out of other positions to reduce exposure. As market conditions change, a multi-manager structure investing in real estate securities may reallocate more efficiently and at a lower cost when compared to a single-manager structure pursuing direct real estate investments.

It is important that investors understand their investment objectives, goals, and risk appetite when contemplating the investment vehicle and portfolio structure most appropriate for their individual situation. The potential for income generation and capital appreciation, risk mitigation, and lower volatility are the primary objectives when incorporating core real estate into a mixed-asset portfolio. That said, we believe a multi-manager structure provides for a more effective solution to achieve such goals.

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Prologis Oakland 5
INDUSTRIAL | Oakland, CA
Prologis Targeted U.S. Logistics Fund

As market conditions change, a multi-manager structure investing in real estate securities may reallocate more efficiently and at a lower cost when compared to a single-manager structure pursuing direct real estate investments.



South San Francisco Life Science Portfolio
SPECIALTY | South San Francisco, CA
Ventas Life Science and Healthcare Real Estate Fund



Cortland Biltmore
MULTIFAMILY | Phoenix, AZ
Cortland Growth and Income Fund



Livermore Distribution Center
INDUSTRIAL | Livermore, CA
BGO Diversified US Property Fund

GLOSSARY

Annualized Return: Calculated by annualizing cumulative return (i.e., adjusting it for a period of one year). Annualized return includes capital appreciation and assumes a reinvestment of dividends and distributions.

Bloomberg U.S. Aggregate Bond Index: Measures the performance of the U.S. investment grade bond market.

Bond: A debt instrument, also considered a loan, that an investor makes to a corporation, government, federal agency or other organization (known as an issuer) in which the issuer typically agrees to pay the owner the amount of the face value of the bond on a future date, and to pay interest at a specified rate at regular intervals.

Capital Stack: A term that references the structure of capital in an investment, generally referring to a specific tranche such as pure debt, hybrid debt, and equity.

Core Real Estate: High-quality, high-value properties located in primary markets that require very little redevelopment or maintenance. These properties offer predictable cash flows and are commonly fully leased from quality credit tenants.

Cumulative Return: The compound return of an investment. It includes capital appreciation and assumes a reinvestment of dividends and distributions.

Idiosyncratic Risk: The possibility that the price of an asset may decline due to an event that could specifically affect that asset but not the broader market.

FTSE Nareit All Equity REITs Index: A free-float adjusted, market capitalization-weighted index of U.S. equity real estate investment trusts (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.

National Council of Real Estate Investment Fiduciaries (NCREIF): A member-driven, not-for-profit association that improves private real estate investment industry knowledge by providing transparent and consistent data, performance measurement, analytics, standards and education.

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.

Standard Deviation: Measures the average deviations of a return series from its mean, and is often used as a measure of volatility/risk. A large standard deviation implies that there have been large swings in the return series of the manager.

S&P 500 Index: An index based on market cap of the 500 largest companies having stock listed on the New York Stock Exchange (NYSE) or NASDAQ.

Stock: An ownership interest in a company. The value of the ownership stake will rise and fall according to the success of the underlying business.

This material is neither an offer to sell nor a solicitation to purchase any security. Investors should carefully consider the investment objectives, risks, charges and expenses of Apollo Diversified Real Estate Fund (the "Fund"). This information and other important details about the Fund are contained in the prospectus, which can be obtained by visiting www.apollo.com. Please read the prospectus carefully before investing.

Past performance is not indicative of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Investing involves risk, including loss of principal. Performance includes reinvestment of distributions and reflects management fees and other expenses. The Fund return does not reflect the deduction of all fees, including any applicable Fund share class sales load, third-party brokerage commissions or third-party investment advisory fees paid by investors to a financial intermediary for brokerage services. If the deduction of such fees was reflected, the performance would be lower. Returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. The ability of the Fund to achieve its investment objective depends, in part, on the ability of the Adviser to allocate effectively the assets of the Fund among the various securities and investments in which the Fund invests. There can be no assurance that the actual allocations will be effective in achieving the Fund's investment objective or delivering positive returns. Current performance may be lower or higher than the performance quoted. The most recent performance is available at www.apollo.com or by calling 888.926.2688.

The Fund is a closed-end interval fund, the shares have no history of public trading, nor is it intended that the shares will be listed on a public exchange at this time. No secondary market is expected to develop for the Fund's shares. 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. There is no guarantee that an investor will be able to sell all the shares that the investor desires to sell in the repurchase offer. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Due to these restrictions, an investor should consider an investment in the Fund to be of limited liquidity. The Fund is suitable only for investors who can bear the risks associated with the limited liquidity of the Fund and should be viewed as a long-term investment. Investing in the Fund is speculative and involves a high degree of risk, including the risks associated with leverage and the risk of a substantial loss of investment. There is no guarantee that the investment strategies will work under all market conditions. You should carefully consider which class of shares to purchase.

The Fund's distribution policy is to make quarterly distributions to shareholders. Shareholders should not assume that the source of a distribution from the Fund is net profit. A portion of the Fund's distributions includes return of capital. Please refer to the Fund's most recent Section 19(a) notice for an estimate of the composition of the Fund's most recent distribution, available at www.apollo.com, and the Fund's semi-annual or annual reports filed with the U.S. Securities and Exchange Commission (the "SEC") for additional information regarding the composition of distributions. The Fund's distributions may be affected by numerous factors, including but not limited to changes in Fund expenses, investment performance, realized and projected market returns, fluctuations in market interest rates, and other factors. There is no assurance that the Fund's distribution rate will be sustainable in the future nor are distributions guaranteed.

Investors in the Fund should understand that the net asset value ("NAV") of the Fund will fluctuate, which may result in a loss of the principal amount invested. The Fund's investments may be negatively affected by the broad investment environment and capital markets in which the Fund invests, including the real estate market, the debt market and/or the equity securities market. The value of the Fund's investments will increase or decrease based on changes in the prices of the investments it holds. This will cause the value of the Fund's shares to increase or decrease. The Fund is "diversified" under the Investment Company Act of 1940. Diversification does not eliminate the risk of experiencing investment losses. Holdings are subject to change without notice. The Fund is not intended to be a complete investment program.

The Fund will not invest in real estate directly, but, because the Fund will concentrate its investments in securities of REITs and other real estate industry issuers, its portfolio will be significantly impacted by the performance of the real estate market and may experience more volatility and be exposed to greater risk than a more diversified portfolio. The value of companies engaged in the real estate industry is affected by: (i) changes in general economic and market conditions; (ii) changes in the value of real estate properties; (iii) risks related to local economic conditions, overbuilding and increased competition; (iv) increases in property taxes and operating expenses; (v) changes in zoning laws; (vi) casualty and condemnation losses; (vii) variations in rental income, neighborhood values or the appeal of property to tenants; (viii) the availability of financing and (ix) changes in interest rates and leverage. The value of securities of companies in the real estate industry may go through cycles of relative underperformance and outperformance in comparison to equity securities markets in general. By investing in the Fund, a shareholder will not be deemed to be an investor in any underlying fund and will not have the ability to exercise any rights attributable to an investor in any such underlying fund related to their investment. The Fund's investment in Private Investment Funds will require it to bear a pro rata share of the vehicles' expenses, including management and performance fees. Also, once an investment is made in a Private Investment Fund, neither the Adviser nor any Sub-Adviser will be able to exercise control over investment decisions made by the Private Investment Fund. The Fund may invest in securities of other investment companies, including ETFs. The Fund will indirectly bear its proportionate share of any management fees and other expenses paid by investment companies in which it invests, in addition to the management fees (and other expenses) paid by the Fund.

You cannot invest directly in an index. Index performance does not represent actual Fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a fund or portfolio, or brokerage commissions on transactions in fund shares. Such fees, expenses, and commissions could reduce returns.

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