2024 **Mid-year Letter**

HUMPHREYS REAL ESTATE INCOME FUND

Dear valued investor,

If we have not yet met, I am Braden Merritt, one of the stewards of your investment with Humphreys Capital. At the beginning of the year, I assumed responsibilities as Head of Humphreys Real Estate Income Fund (HREIF).

For HREIF, we measure success as total return on your investment relative to a benchmark, accompanied by stable distributions, fair valuation, and exceptional investor experience. We are bold in these aspirations, and I am grateful for the opportunity to pursue them on your behalf.

Braden Merritt, Head of HREIF

A core principle for our team is regular, timely communication with you about the health and performance of your investment. In February, the Humphreys principals published an inaugural annual letter to discuss the cyclical nature of real estate and our outlook for the coming year. On a quarterly basis, we present valuation and financial reports to explain the period's changes in property values, fund capitalization, and portfolio income. These materials are supplemented with periodic announcements highlighting new investments, sales, and other points of interest for the fund.

The unique purpose of this mid-year letter is to provide an annual assessment of HREIF's performance, consider our current opportunities and risks, and share how we intend to navigate this dynamic environment.

Benchmarked Performance

Like students who finished the school year with a report card in hand, we are accountable for both performance and continuous learning. The enclosed benchmarking report represents an objective evaluation of our results and will become a regular addition to the quarterly materials. I will highlight some key takeaways in this letter.

A publicly available index for benchmarking funds like HREIF is the NFI-ODCE , a collection of open-end private real estate funds pursuing core investment strategies. The index is reliable due to its institutional sponsorship by the National Council of Real Estate Investment Fiduciaries (NCREIF) and its long history of index data since its inception in 1977. Our objective is to exceed the total return of the NFI-ODCE by at least 300 basis points (bps).

In addition to its substantial core holdings, HREIF's portfolio also includes active development through new construction and value-add projects. On a standard risk-reward spectrum, these development and renovation projects offer less certainty of future cash flow compared to core, stabilized, buy-and-hold real estate. Investors expect compensation for this uncertainty in the form of a risk premium, so they underwrite new construction projects with an expected development spread, meaning yield on cost compares favorably to the expected cap rate at stabilization. At Humphreys Capital, we seek to protect this spread by de-risking development and lease-up with project sponsors who exhibit extensive track records, localized expertise, and operational excellence. Our team's multi-decade experience in real estate and active management further complements our sponsors' ability to drive value.

As of Q1 2024, HREIF's 10-year time-weighted return of 9.90% has exceeded the benchmark's return of 5.82% by 408 bps, 108 bps above our target.[1] Over shorter periods, the fund has similarly outperformed its benchmark.

1. For comparison to a benchmark index, time-weighted returns are calculated on a net basis as prescribed for perpetual life funds by the Global Investment Performance Standards (GIPS) using the Modified-Dietz Method. See endnotes for a description of each index with an explanation of its relevance to HREIF.

While HREIF's performance against its target benchmark has been positive, I am mindful that our mandate is to generate a real return on your money. This has been difficult to achieve in real estate during the recent run of inflation and the corresponding rate environment. That reality is reflected in a negative total return over the last year.

Index Comparison (Time-Weighted Return)[1]

	1-Year	3-Year	5-Year	10-Year
HREIF	-1.7%	4.8%	6.0%	9.9%
NFI-ODCE (benchmark)	**-12.0%**	**2.5%**	**2.6%**	**5.8%**
MSCI REIT	10.4%	4.0%	4.1%	-
Stanger NAV REIT	-1.1%	8.5%	8.3%	-
Green Street CPPI	-7.5%	-1.7%	0.3%	-
S&P 500	29.3%	11.0%	14.5%	12.4%

Net returns as of 3/31/2024. Benchmark data becomes available 30 days after quarter-end.

While the U.S. economy continues to avoid a recession, the Fed's restrictive monetary policy has dominated the real estate sector, aggressively cooling the heated market that emerged in 2021. The Green Street Commercial Property Price Index—a pricing measure for institutional-quality commercial real estate—has declined by 21% since its peak in March 2022, when the Fed initiated rate hikes. While the Green Street index measures unlevered pricing, the impact of changing rates on equity is amplified for levered assets. Investors who added to their real estate holdings in the last two years have had a markedly bearish experience.

Competitive Set

Looking beyond these indexed benchmarks to the competitive set of Net Asset Value (NAV) REITs , the most prominent comparables are also feeling the headwind. For the most part, these REITs have maintained consistent distributions, fulfilled redemptions according to policy, and mitigated the declines seen in the broader real estate market, though mileage may vary depending on the sponsor. Blackstone's BREIT, the industry leader in market share, has been the subject of skeptical headlines over the last year, specifically questioning the valuation and criticizing redemption gates.[2] In our view, these particular criticisms appear unfounded, as their published investment rates are not overly aggressive, and their redemption policy provides semi-liquidity, as designed, in an otherwise illiquid market. However, many assumptions that inform BREIT's valuation are not publicly available, emphasizing the importance of aligned incentives when measuring performance.

There are several features that differentiate HREIF from the typical NAV REIT structure but none so important as our approach to alignment with investors. For example: NAV REIT advisory fees can be almost double that of HREIF; their performance incentives are typically subject to lower hurdles, notably calculated as return to the underlying partnership, rather than net to the investor; and non-institutional investors pay them up to 3.5% in upfront selling commissions and 0.85% in annual servicing fees.[3]

By contrast, HREIF is intentionally structured to foster closer ties between your success and ours. Our trailing 36-month hurdle ensures that management only participates in performance incentives when the total net return to investor units exceeds an annualized 6%. When returns are under the hurdle, our advisory fee is limited to 65 bps of NAV, nearly half of the typical NAV REIT. This limited fee enables us to retain talent and sustain operations, even in a down cycle, but no team member is complacent under the circumstances. As collective owners of Humphreys Capital, our Associates share in the experience. Furthermore, when performance clears the hurdle, our participation in distributions alongside investors is reduced by the advisory fee, which avoids double-dipping on fees.

2. Business Insider: "Inside the Growing Alarm Over Blackstone's BREIT Real-Estate Fund," as of May 7, 2024. Wall Street Journal: "Blackstone's Beleaguered Real-Estate Fund Stems Exodus," as of April 23, 2024.
3. While NAV REIT fee structures are publically available, Robert A. Stanger produces a consolidated quarterly report: The Stanger Report.

Based on the fund's peak share price in September of 2022, we anticipate that the trailing 36-month return will not achieve the hurdle in the coming year, limiting manager compensation to the minimum advisory fee. This will make more capital available for distributions to investors or reinvestment. This aligning feature is a benefit to the health of the fund during lean times, and it enables current investors to capture greater upside in the near-term.

Considering the current NAV REIT structure is relatively new to the market, most competitors have a shorter history than HREIF. We have identified four popular REITs that have at least a five-year history and comparable strategies focused on real estate equity in the U.S. In the last year, each of their institutional share classes has experienced low to negative returns, while their performance over longer time frames is more encouraging. However, their non-institutional investors are subject to the aforementioned fees, which have a degrading effect on the net return of other share classes.

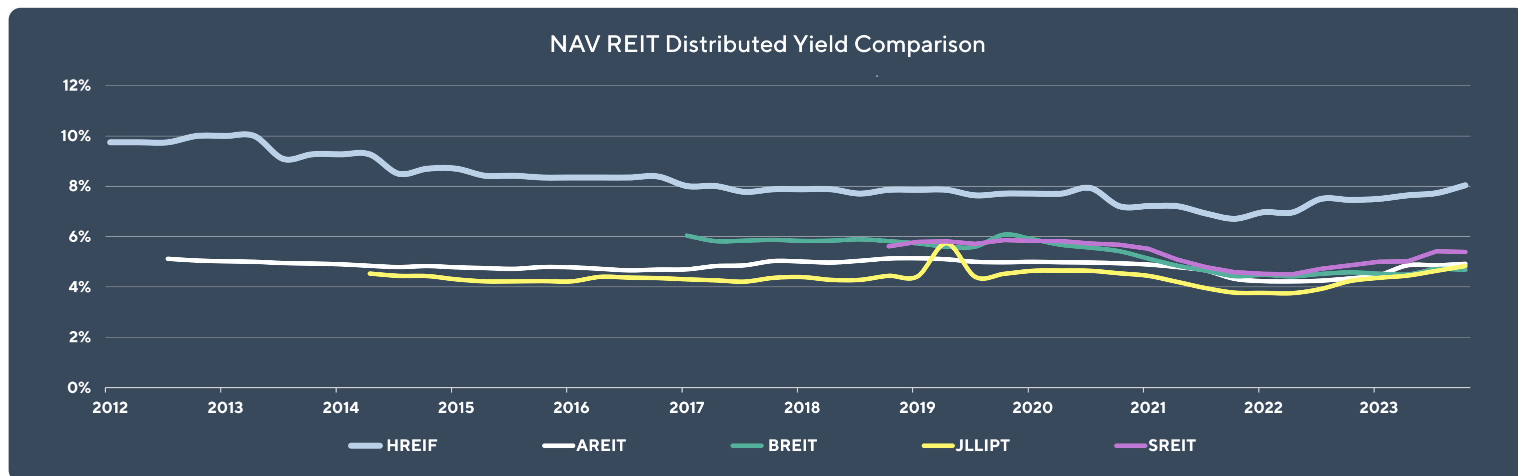
NAV REIT Comparison (Internal Rate of Return)[4]

	1-Year	3-Year	5-Year	10-Year
HREIF	**-1.6%**	**4.8%**	**6.1%**	**11.2%**
Ares REIT	-6.4%	5.2%	6.0%	6.0%
Blackstone REIT	1.8%	11.1%	10.8%	-
JLL Income Property Trust	-8.6%	4.8%	4.3%	-
Starwood REIT	-5.1%	6.9%	8.1%	-

Net returns as of 3/31/2024

Distribution and Valuation

Although we evaluate benchmarked performance by comparing total return, a vital component of this success is the fund's distribution. HREIF's objective is to maintain the highest sustainable yield to long-term investors—those with at least a 10-year investment horizon. In other words, we expect the fund to distribute most of the value it creates over the long run, with a modest surplus supporting appreciation of the price.



Naturally, if we prioritize the stability of the distribution, the fund will experience seasons when it creates more or less value than it distributes. By maintaining a conservative distribution in periods of outperformance, the fund retains value, resulting in a rising share price. In seasons of contraction, a decline in the share price implies that at least a portion of the distribution is a return of capital. This movement of the price is an indication of the fund's value generation relative to its distribution over the quarter.

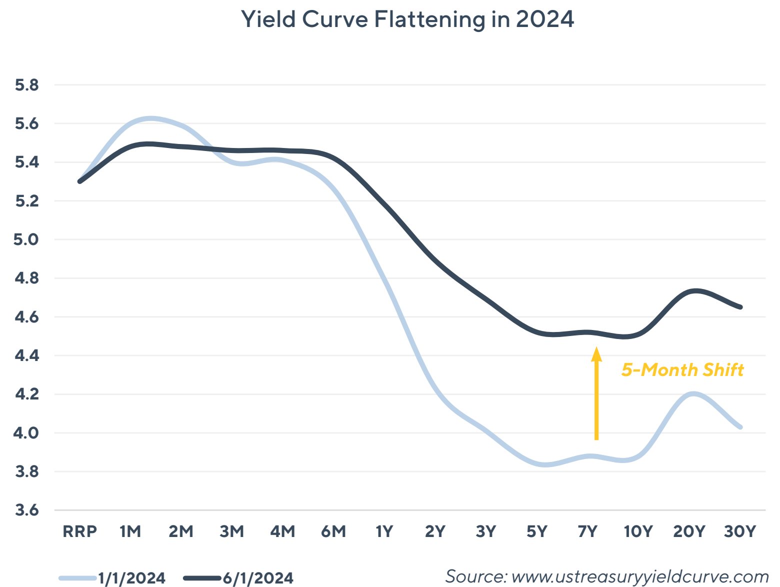
4. For comparison to comparable NAV REITs, internal rates of return (IRR) are calculated on a net basis as prescribed by the Institute for Portfolio Alternatives' (IPA) Practice Guideline 2010-01 issued April 16, 2018, relating to per share investment performance measurement. See endnotes for selection criteria of comparable NAV REITs.

While measuring NAV per share at any moment is an inexact science, the independence of our process supports a good faith effort to fairly assess the value each quarter. The fund's independent valuation advisor, Capright, is responsible for property appraisals and a review of all calculations used to determine the recommended price. After receipt and review of Capright's report, the price is established by the fund's board of directors, the majority of whom are independent.

For investors with a long view, these inter-period price movements are generally less consequential than the stable flow of mailbox money and the terminal value when they eventually redeem units. However, accurate quarterly pricing still matters—with each new subscription or redemption, the fund is selling or buying a piece of its portfolio. The only way to treat investors fairly on both sides of the transaction is to ground the price in a calculated intrinsic value.

Portfolio Resilience

In the past two years, we have observed a consistent decline in property valuations as the market adjusts to a new rate environment. While Fed policy has an immediate effect on short term rates, commercial real estate investors generally evaluate rate expectations over a longer hold period. A related illustration can be seen in the inverted treasury yield curve, where the market is now requiring higher yields from longer-duration notes than it did in January. Investors expect rates to decline, but conviction in the magnitude and timing of cuts has weakened through the first half of the year. As progress toward the Fed's inflation target appears to have stalled, we have observed more hawkish undertones from policymakers.[5]



When the Fed adjusts the short-term rates in either direction, the real estate market evaluates whether the adjustment is a temporary move or secular change. These sentiments are considered in the valuation process as they inform the discount rates applied to future cash flows, the cost of debt service, and the expected terminal cap rates upon exit. Differing perspectives between buyers and sellers can drive a bid-ask spread, stalling transactions, and further clouding price discovery.

While this low-transaction volume is sub-optimal for a healthy market and can affect the share price, the health of the portfolio at an operational level is not directly impacted. All else being equal, lower valuations simply mean real estate is selling at a discount compared to more recent trends due to greater uncertainty and cost of capital. However, when it comes to capitalization and debt, there are practical consequences for properties in their hold period.

Unlike residential mortgages, many commercial real estate loans are placed for terms of three to five years, particularly when properties are undergoing development or value-add repositioning. This form of bridge lending allows the sponsor to sell or refinance the property upon construction, stabilization, or execution of the capital improvement plan. These loans typically avoid prepayment penalties, affording more flexibility at the time of sale or refinancing at lower long-term interest with a ten-year agency loan.

5. Federal Reserve FOMC Statement, June 12, 2024

This approach works well when the property value holds or increases over the initial term. Even when a project faces delays, the loan typically has built-in extensions to see it through to completion. However, extensions require retesting of specific covenants, including debt yield, debt service coverage, and loan-to-value ratios. If the defined thresholds are not met, the borrower may be required to inject additional equity to right-size the loan. These same factors are at play when a loan reaches its full maturity and must be replaced by entirely new debt.

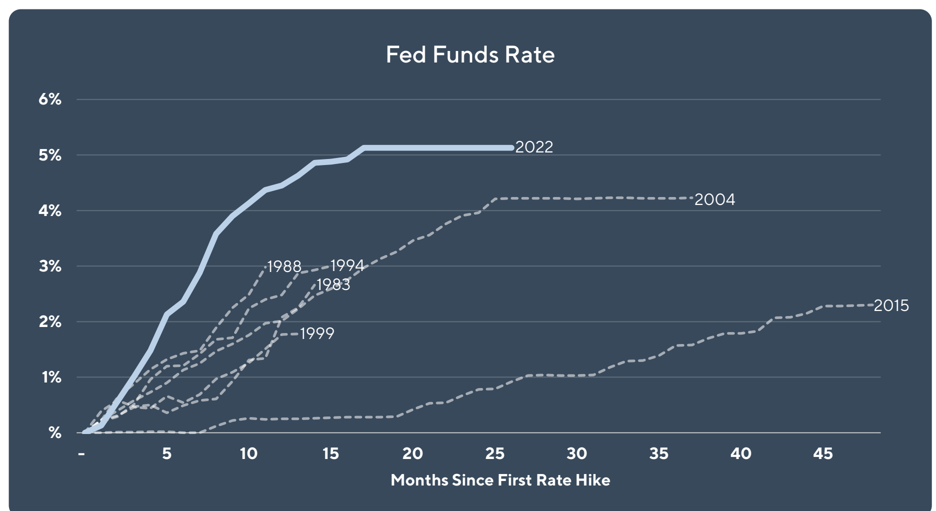
Our investments team has been closely monitoring these refinancing risks associated with the HREIF portfolio. Value-add projects are particularly susceptible, where efforts to drive operating income have not kept pace with inflationary costs and more demanding valuation multiples. Since September of 2022, we have been anticipating the future equity needs of these projects and reserving liquidity to meet all debt paydown requirements. For example, our Fort Worth multifamily investment in the Lofts at West 7th required additional funding equal to 10% of the initial investment to extend its current debt arrangement. While this was not part of the initial underwriting, the de-levering affords the property more time to execute renovation plans and recover value. To understand the potential for these projects moving forward, we will review one of the fund's most challenged assets.

Oversupply in High-Growth Markets

The Wesley in Raleigh holds an unenviable position as the final commitment HREIF made to value-add multifamily before the market began to turn. The investment was approved in early March of 2022 and closed two months later. Due to the rising cost of acquisition at the time and a wave of competing supply that has come online since, this is one decision we would like to have back.

In the inflationary run-up of 2021-2022, multifamily investors benefited from extraordinary rent increases that outpaced expenses.[6] Rising rents and cheap debt enabled more development projects to pencil, leading to a wave of new construction in high-growth markets like Raleigh to meet this demand. This was an evaluated risk at the time, but we underestimated its magnitude. Within a 5-mile radius of the Wesley, 3,238 units have been delivered in the last two years, and 1,935 of those came online in the past year alone.[7] Leasing managers offered more concessions to attract renters, stalling revenue growth, while operational expenses, cost of materials, taxes, insurance premiums, and debt service rose considerably. The resulting net operating income at Wesley peaked in the third quarter of 2023 and has declined in recent quarters.

When its post-realization returns are calculated for the fund's track record, we expect this investment will be a disappointment. We bought in an environment of high valuations and then experienced the most aggressive U.S. rate hikes in modern history and a wave of new supply in the submarket. However, the challenges faced by such projects are reflected in HREIF's share price adjustments. The Q2 valuation will attribute very little equity value to the Wesley.



Source: Federal Reserve Bank of St. Louis

6. CoStar
7. CoStar, as of June 13, 2024

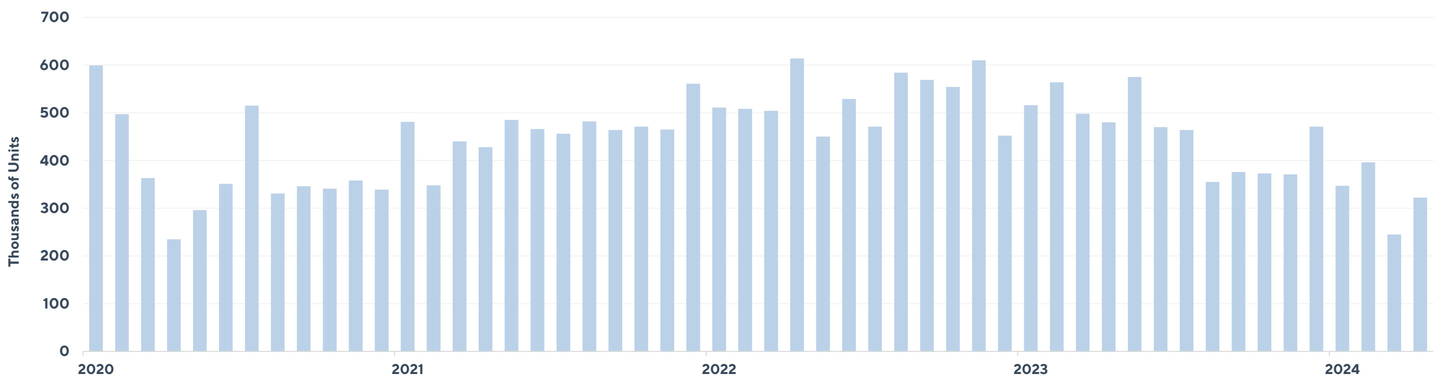
As we consider the path ahead, there are ample reasons to be optimistic about the opportunity to create value at the Wesley from this point forward. It appears the strongest effects of this delivery pipeline are behind us. There are now four projects, totaling 987 units, that remain under construction in the same 5-mile radius of the Wesley. The lease-up velocity in this area recently posted its strongest quarter on record, with absorption of 579 units.[8] At that pace, the units currently under construction represent six months of inventory that was capitalized during the previous low-rate environment. For a developer to initiate a new construction project in this submarket today, they would require projected rents 35% higher than current leases.[9]

The Wesley is now 96% occupied, and this low vacancy provides an encouraging backdrop to reduce move-in concessions and drive rent growth. The financial strength of the tenant base has also improved since acquisition, when resident household incomes averaged $68k per year. Today, the new residents being screened have an average income of $90k, and residents residing in premium units are averaging $108k. As the rent-to-income ratios decline, tenants are better positioned to afford rent increases as supply-demand dynamics reset.

Renewals and new move-ins are attaining a premium to current leases, steadily bringing in-place rents closer to today's market rate, thereby decreasing the ratio known as loss-to-lease. The onboarding of smart home technology and bulk WiFi services has additional potential to augment top line revenue.

On the expense side, Wesley experienced a 20% increase in insurance costs last year, but upcoming renewals are projected to reduce that increase by half. Ad valorem taxes are also expected to come down from last year's increase as the county reassesses the property value and adjusts millage rates.

Considering macro factors, institutional quality multifamily has proven to be a reliable asset class over a long hold, and forward trends suggest demand growth will soon outpace supply. New construction starts have stalled to levels not seen since the breakout of the pandemic as lenders pull back and costs of debt and materials put underwriting out of reach. The Case-Shiller U.S. National Home Price index has risen by almost 50% since the beginning of the pandemic, including the most aggressive period of growth in its history.[10] When it comes to shelter inflation, the Fed finds itself in a catch-22, as higher rates exacerbate the situation by discouraging the production of new housing stock. Each of these factors supports our positive sentiment on the outlook on multifamily real estate, even if that future keeps rates higher for longer.



Source: Federal Reserve Bank of St. Louis

8. CoStar, June 13, 2024
9. Internal estimate based on local sponsor underwriting
10. Federal Reserve Bank of St. Louis, S&P CoreLogic Case-Shiller U.S. National Home Price Index

Balanced Dynamics in Stable Markets

We can see elements of this dynamic playing out in Kansas City at another multifamily development, 44 Washington. We committed to its construction in April of 2018, and it was constructed over a two-year period before leasing up over another 15 months. Once the apartments achieved stabilized occupancy, the project was refinanced with more favorable debt, cashing out 80% of the original equity we put into the deal. Since October 2021, the project has been operating as a core asset, making monthly distributions to the fund. Typically, we have limited ability to create additional value once a newly built project is fully leased. A stabilized property becomes a source of cash flow to the fund until it is ultimately offered for sale and the capital is reallocated. However, when market demand outpaces supply, there is an ongoing opportunity to optimize rent and increase income.

44 Washington; Kansas City, MO

In contrast to Raleigh, Kansas City has been experiencing this more favorable supply-demand relationship. The metro experienced year-over-year rent growth of an impressive 7.9% in 2021 as a response to the pandemic. More impressive still, Raleigh doubled this amount with rent growth of 16.5%. These pricing signals resulted in corresponding increases as a natural response.

One way to measure oncoming supply is the percentage of new units being developed compared to a market's current inventory. This figure was approximately 3% in both metros during 2018 when we committed to 44 Washington. In the ensuing years, each market saw a peak of construction in 2022, but Kansas City's peak of 5.2% was significantly lower than Raleigh's peak of 13.7%. As a result, 44 Washington has been experiencing rent growth of 11.6% in the last year, while the current leasing trend reflects occupancy moving toward 97%, in stark contrast to the narrative for the Wesley.

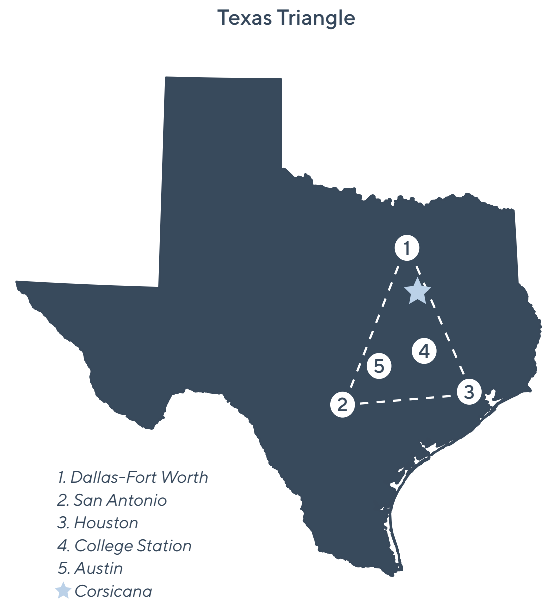
Among the units currently in development in Kansas City (which has pulled back to 3.8% of inventory), HREIF has two multifamily projects under construction, Via and Citizen. Both are scheduled for completion in spring of 2025 and have the potential to deliver into an undersupplied market.

As a whole, our multifamily portfolio has not kept pace with inflation and the Fed's aggressive response to curtail it. But those near-term decisions have long-term consequences for the future of housing supply. The fund's assets are maintaining occupancy and are seeing overall growth of in-place rents despite the current challenges. For managers who can hold their assets through this season, we believe stabilized multifamily will be positioned to capture rent growth as markets become constrained by supply. Any interest rate relief that flows through to cap rate compression would be an additional tailwind, improving the prospects for a more bullish outlook.

Opportunities for Reallocation

Multifamily is not the only place we see an opportunity for future value creation. In recent years new allocations to retail have been dormant while the portfolio has grown elsewhere, but the sector appears to be awakening for the right product.

The fund's most recent investment was a retail redevelopment in Corsicana, located within the Texas Triangle region to the south of Dallas. The property is positioned to generate an above-market cash-on-cash yield while pre-leased to credit tenants, including Hobby Lobby, Academy Sports and Outdoors, and T.J.Maxx. This is largely due to its eligibility for two forms of tax increment financing (TIF): an ad valorem tax rebate and participation in the sales tax revenue generated by tenants. As institutional capital moves beyond the gateway markets to the sunbelt, we see opportunities for more attractive yield in smaller locations with less dense competition.



Compared to our current retail portfolio, we view investments like Corsicana to be an attractive allocation with greater upside opportunities. While the fund's direct holdings provide a credit-worthy borrowing base for the fund's revolving loan, such debt is costly in this environment. The fixed cash flow streams of our triple-net leased properties are negatively levered at current rates, meaning the use of debt reduces returns rather than enhancing them. As we manage the portfolio, we will look for opportunities to strategically reduce leverage and reallocate into more attractive investments as we identify them.

Oklahoma City Metro

Oklahoma City is home to many HREIF investors, and we have made two multifamily investments in our local market since 2019. In the aftermath of the historic fire at the Canton, the development has been on hold to collect insurance settlements before determining next steps, and litigation with the local utility provider is ongoing. To date, we have recovered 65% of the initial investment through a claim on hard costs and lost rent, and we estimate 44% remains recoverable for soft costs plus residual land value, resulting in a positive return on investment. We hope to resolve this matter shortly and then work with our partner, Hines, to determine the site's future.

While we believe the location remains uniquely positioned at one of the city's most vibrant retail centers, the construction costs have increased materially since our initial underwriting. This will be carefully considered before committing any additional capital to future development, and one outcome could involve selling out of the position to allow future development by another party. Even if HREIF does not participate in the rebuilding, the fund has ongoing litigation with the local utility provider related to the cause of the fire, and we will continue to advocate on behalf of investors through this process.

Another local development, the Oxlley, is scheduled for completion this fall. When we committed to the investment in early 2022, multifamily supply as a percentage of inventory was 2.7%, which peaked at 4.4% later that year. Today, that figure is 2.1%, representing approximately 2,000 units under construction in the entire OKC metro, of which the Oxlley represents 276 units.[11] While these are positive signs, it is worth noting that home ownership is more accessible in Oklahoma City than larger metros, so these numbers trend lower in general. However, the Oxlley has a desirable location in Edmond's thriving downtown, supported by walkable grocery, dining, and a residential district that is transforming through new investment. We will be excited for this ribbon cutting and look forward to hosting a celebration with our investors. More to follow as we approach completion.

11. Costar, June 13, 2024

Staying Power

During my undergraduate studies at the U.S. Naval Academy, our instruction in seamanship and navigation stressed the importance of weather awareness and preparation. In the words of one philosopher, "Anyone can hold the helm when the sea is calm."[12] Navigating through this bear cycle will continue to require an industrious approach to capital management. As the Humphreys principals emphasized in our annual letter, we remain steadfast in the preparation and diligence that produces staying power.

> ***"Anyone can hold the helm when the sea is calm."***
>
> *–Publilius Syrus[12]*

We remain committed to paying your monthly distribution as a central tenet of HREIF's value proposition, and we are willing to return capital as necessary to maintain a stable experience. For investors who prefer to reinvest at the current price, the new distribution reinvestment plan (DRIP) automates the process. Other investors may use the fund's redemption mechanism to access liquidity, and we intend to meet those requests at a fair price according to the fund's redemption policy. At the same time, we are pursuing opportunities to strengthen the balance sheet and the real estate portfolio through divestiture and reallocation.

Among the multitude of options you have for deploying investments, we are confident that real estate can generate income and capital appreciation over the long term. Its cyclicality provides an opportunity for the prudent investor, and we expect there is value to be captured going forward as the asset class works through the most significant downturn since the Great Financial Crisis.

Comparatively, other investment options look increasingly expensive today. Over the last year the S&P 500 generated 30% returns, led by Nvidia's breakout performance. This has pushed price-to-earnings ratios share above long-term historical averages, heavily weighting the index toward a handful of technology companies.[13] In response to inflation, gold has seen an aggressive price surge of 20%.[14] Corporate bonds have experienced returns of 5%,[15] in the same range as the yield on shorter duration treasury bills.[16] While some of these opportunities have proven more or less attractive over the last year, we expect the market will continue to evolve in unpredictable ways. For those who have staying power, the fundamentals of supply and demand look promising for the world's oldest asset class.

Within the marketplace of NAV REITs and other income-generating real estate vehicles, we believe HREIF presents a compelling offering. We have skin in the game—first and foremost through the extended Humphreys family, who are substantial investors in the fund alongside you. Additionally, through our associate ownership structure, the Humphreys Capital team is aligned with investors as well. We are in it with you and for you, and we are grateful that you have entrusted our team to steward your investment.

Sincerely,

Braden Merritt
Head of HREIF

12. Publius Syrus (fl. 85-43 BV) was a Latin writer known for his collected sententia — a series of moral maxims.
13. The Wall Street Journal: P/Es & Yields on Major Indexes, June 12, 2024
14. S&P Global: S&P CSGI Gold, June 12, 2024
15. S&P Global: Corporate Bond Index, June 12, 2024
16. S&P Global: U.S. Treasury Bill Index, June 12, 2024

Endnotes and Disclosures

This information is provided for informational purposes only and should not be considered investment advice or a recommendation or solicitation of an offer to invest in any fund or security, including, but not limited to, Humphreys Real Estate Income Fund ("HREIF" or the "Fund"). The information contained herein has been obtained from reliable sources but is not guaranteed for accuracy or completeness and has not been independently verified. This letter may contain forward-looking statements that reflect our current views with respect to operations, taxes, financial performance, redemptions, and distributions. Such statements are subject to various risks and uncertainties and should be considered alongside the risk factors listed in the Funds offering memorandum.

HREIF returns are unaudited and calculated internally by the Fund's manager, Humphreys Capital, LLC ("Humphreys Capital"). Past performance does not predict future results. Performance results for HREIF, selected net asset value ("NAV") real estate investment trust ("REIT") comparisons, and selected indexes referred to herein reflect net total return. Net performance is computed by including the effects of fees and expenses. Returns are calculated using the value and timing of investors' capital contributions and distributions net of management fees, expenses, and manager's return using a terminal value as of the date specified.

The information related to NAV REITs and REIT indexes in this report is publicly available. The comparisons have been selected for their exposure to diversified domestic real estate investments that have varying levels of alignment with HREIF's strategy. Reference to a NAV REIT or index does not imply that the HREIF portfolio will achieve returns, volatility, or other results like the NAV REIT or index. Indexes may not be relevant for direct comparison given distinctions in HREIF's portfolio and investment strategy.

Humphreys Capital has chosen the NFI-ODCE Index (National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index—Open End Diversified Core Equity) as the benchmark for HREIF for reporting in compliance with the Global Investment Performance Standards (GIPS). The NFI-ODCE Index is an index of net returns of 38 large, perpetual-life private real estate funds pursuing a core investment strategy which is typically characterized by low risk, low leverage (less than 40%), and stable properties diversified across the U.S. This benchmark is limited in its direct application, as HREIF's strategy involves joint venture development or redevelopment of real estate that is not stabilized at the time of investment.

The Robert A. Stanger & Company, Inc. ("Stanger") NAV REIT Total Return Index is published quarterly in The Stanger Report (subscription required). Stanger defines NAV REITs as "publicly registered, non-listed REITs that conduct continuous offerings of shares to the public with transactions in shares occurring no less frequently than monthly, priced based on NAV per share, which is also updated no less frequently than monthly." While this index is a useful comparison to aggregated NAV REIT performance, its NAV weighting causes large funds sponsored by Blackstone and Starwood to heavily influence the index return. Further, the index includes several strategies that are not comparable to HREIF due to their global portfolio, debt investments, or single-sector focus.

To supplement the NAV REIT Index, this report includes the performance of selected NAV REITs, chosen from the Stanger Index based on their strategic similarity to HREIF. Each NAV REIT is available for purchase to accredited investors at various share classes and has aggregate NAV of at least $1B, target leverage in the range of 50-60%, and diversified property types geographically located in the U.S. While this report uses institutional share classes for comparability, some investors may not be eligible for these share classes. NAV REITs are typically purchased through distribution networks and purchases may be subject to upfront load fees that are not included in the total return of institutional shares. There are no upfront load fees associated with investing in HREIF. NAV REIT yield, returns, fee structure and valuation guidelines referenced herein were sourced directly from the specified NAV REIT's public document repositories, including websites, prospectuses, quarterly investor reports and fact cards.

For comparison with the broader U.S. public REIT market, this report includes the MSCI US REIT Index ("MSCI Index"). This is a free float-adjusted market capitalization index that consists of large, mid, and small-cap US equity REITs. With 118 constituents, it represents about 99% of the US REIT universe. While this index cannot be invested in directly, there are exchange traded funds (ETFs) that seek to closely correspond to its performance (such as the JPMorgan Beta Builders MSCI US REIT ETF).

To track the movement of unleveraged U.S. commercial property values, the Green Street Commercial Property Price Index ("Green Street CPPI") is a time series of prices at which commercial real estate transactions are currently being negotiated and contracted. The index is weighted by asset-value and is based on Green Street's estimates of price appreciation of the property portfolios owned by covered U.S. REITs holding institutional quality real estate. While this index is not directly comparable to HREIF performance, it is helpful for understanding the macroeconomic pricing environment in which the Fund is operating.

The S&P 500 index is a prominent gauge of large-cap U.S. equities and is tracked by many of the world's largest ETFs and mutual funds. This index is not comparable to HREIF's real estate strategy; however, it is included as a reference due to its long history as a measure of the U.S. equity market as it has evolved and reacted to a wide range of historical events.

Unless otherwise stated, data contained herein was sourced as of June 2024.