3Q 2022 COMMENTARY

# CROMWELL CENTERSQUARE REAL ESTATE FUND

In the commentary, Portfolio Manager Eric Rothman discusses real estate investment trusts (REITs) as it pertains to the third quarter performance, their rare discount to NAV, investors' misunderstandings, and their advantages in the current environment.

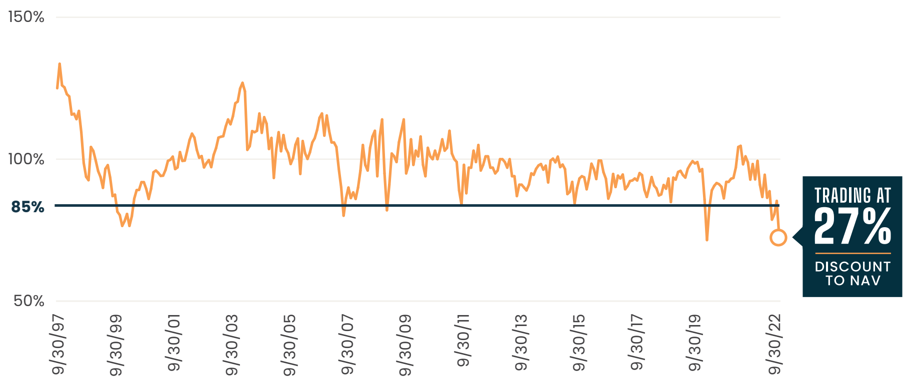
## Would you please discuss what affected REITs' performance compared to stocks and bonds over 3Q22?

In the third quarter of 2022, the FTSE NAREIT All Equity REITS Index declined nearly 11% compared to the S&P 500 Index, which fell 5%, and the Barclay Bloomberg Agg Index, which lost 5%.

Often when there is a change in interest rate expectations, REITs tend to underperform the overall market in the short term. In the third quarter, the Federal Reserve's aggressive rate hike stance created significant volatility in the overall market as investors had to reassess the direction and magnitude of rate increases. Income investments were much more negatively affected as rates at the short end of the curve rose faster than those at the long end.

Given the volatile quarter, the broader REIT universe trades at a substantial 27% discount to NAV as of September 30, 2022.[1] This discount rarely occurs and have presented a buying opportunity. Over the past 25 years, there have only been seven times that REITs traded at a 15% or greater discount. In the 1- and 3-year periods following this discount, REITs rose an average of 32% and 63% on a cumulative basis, respectively.

**REITs Price to NAV Discount**




*Source: Bank of America*

## What changes were made to the portfolio in 3Q22?

During the quarter, we sought to defend the portfolio from the risk of a possible recession. The Fund is primarily comprised of high-quality public REITs in Class A properties in what we consider to be the best urban and suburban markets in the U.S. In this environment, we are mindful of balance sheets, seeking better-quality assets and more secular growth stories while avoiding REITs that may be more sensitive to the interest rate cycle.

CROMWELL FUNDS

## Overall Morningstar Rating

Investor Class

★★★★

Among 234 Real Estate Funds based on risk-adjusted returns as of 9/30/22.

| CLASS | INCEPTION | TICKER |
|---|---|---|
| Investor | 12/31/97 | MRESX |
| Institutional | 2/24/17 | MRASX |
| Class Z | 2/24/17 | MREZX |

## Fund Facts

Specialty: **Real Estate**

Fund AUM: **$151.2 million**

Holdings: **57**

## Sub-Advisor

CenterSquare REAL ASSET INVESTMENT LEADERSHIP

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 9/30/22 and approximately 100 employees in 5 offices throughout the world. The Fund's portfolio managers have managed the Fund since 2006.

### PORTFOLIO MANAGERS

**Dean Frankel, CFA**
Managing Director
Head of Real Estate Securities

**Eric Rothman, CFA**
Portfolio Manager
Real Estate Securities

Most notably, we reduced the Fund's exposure to industrials, shopping centers, and office REITs and we added exposure to apartments and net lease properties, which have longer duration and low growth defensive.

## What do investors misunderstand about the REIT market?

Many investors mistakenly think office space and retail malls primarily comprise publicly traded properties. While historically these segments made up over one-third of the REIT market, they are currently only 7% of the FTSE Nareit All Equity REITS Index.

Today, REITs are a $1 trillion market that has become more diverse and includes single- and multi-family housing, hospitals and health care buildings, self storage units, hotels, data centers, industrial buildings, towers, and forest land.

## What advantages do REITs currently provide?

Many investors are adjusting their portfolios in an environment of prolonged inflation and a possible recession. We believe REITs have advantages in the event either or both scenarios are realized.

These advantages include the following:

1. **Durability of cash flows**. Revenue and cash flows for REITs continue to remain strong as many of them have fixed revenues with fixed interest rates and long-term leases that can bridge short-term volatility. As such, historically REITs' cash flow has had little variation from year-to-year compared to the earnings of other equities.
2. **Dividend income**. It is required that 90% of the taxable income is annually passed through to shareholders in the form of a dividend, thereby making income an important component of a REIT's total return.
3. **Greater liquidity than private real estate.** Private real estate restricts when investors can redeem their shares. A mutual fund that invests in publicly traded REITs strikes a daily NAV so investors can purchase or sell shares on a daily basis with no redemption restrictions.
4. **Lower correlation to the overall market.** Over longer periods of time, REITs tend to have a much lower correlation to the overall equity market. As of 9/30/22 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.[2]

## 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

» Marketfield Asset Management

» Tran Capital Management

## Contact Us

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1 Bank of America's coverage list which is representative of publicly traded REIT universe. 2 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 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 holdingswithin a particular sector, the risks associated with that sector increase.

Duration measures the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

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.

The Morningstar Rating™ for funds, or "star rating," is calculated for mutual funds with at least a 3-year history. Open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% 3-year rating for 36–59 months of total returns, 60% 5-year rating/40% 3-year rating for 60–119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period,the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effects of sales charges and loads. The Fund received 4, 3, and 4 stars for the 3-, 5-, and 10-year periods among 234, 206, and 150 Real Estate funds, respectively as of 9/30/22.



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