

## Thoughts From the Desk

February 22, 2024

Hello from the Desk,

One of the highlights of working on the Buyside is the plethora of research and ideas that make their way to the Desk from research groups, sell-side bankers, third-party funds, and various news sources. This stream of research allows us to look at an opportunity from numerous perspectives: long-short, fundamental-technical, long-duration-tactical, equity-credit, public-private, etc.

One theme that has been top of mind has been commercial real estate, specifically Brookfield. While our firm remains cautious broadly on the Brookfield complex, and the commercial real estate market in general, we believe it is important to take advantage when sentiment-driven dislocations present opportunities to accumulate yield at a (relatively) de-risked entry point.

We found one such opportunity in the preferred share space with BPO.PR.N, which we bought in early January (chart below). Here, we were attracted to three things. (1) Discount to par value (~30% of par); (2) Yield (>13%); and (3) Operator track record.



### Discount

In our opinion, a discounted purchase price for this security was warranted given the deterioration in office space utilization, recent suppressed sale prices, and its impending removal from the S&P/TSX Preferred Share Index (TXPR Index). However, the extent of the discount in the face of positive reporting from the parent co. (BN-CN) and overarching rate expectations presented a meaningful discrepancy.

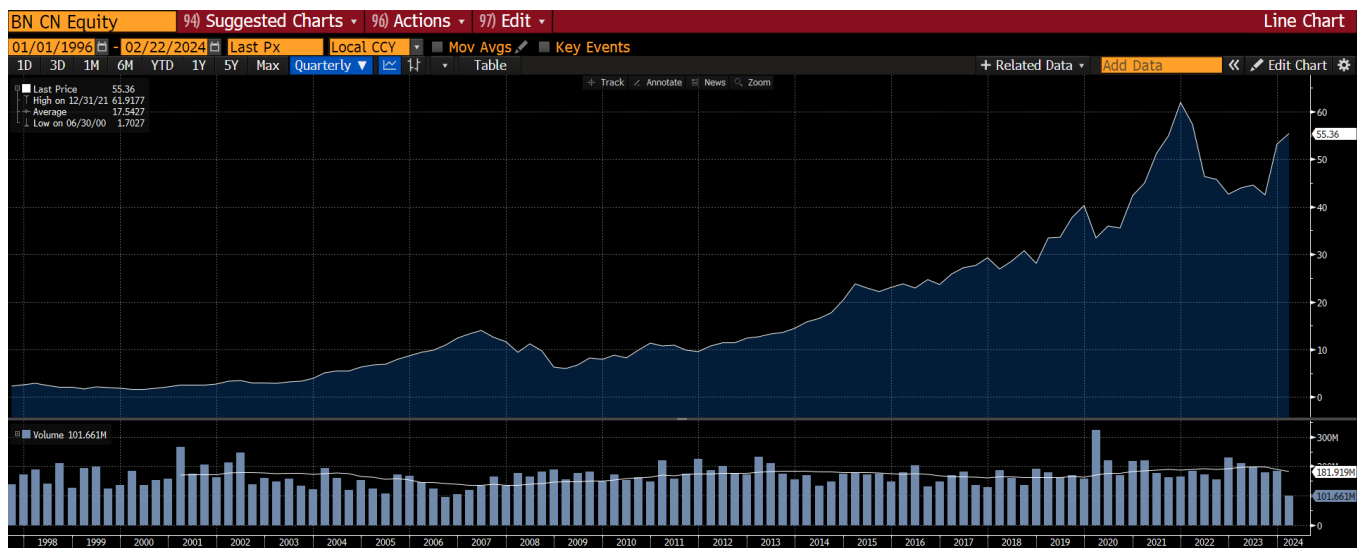
Here, our thesis was that upcoming rate cuts would alleviate sentiment pressure on underlying real estate assets while not declining to the point that it would have a material impact on the security's coupon rate. We expect interest rates to remain higher for longer, but not to increase. Given the extent of the yield, we noted that an outsized move in the fundamentals would exceed any offset from a future lower absolute coupon. At the same time, we noted the company had authorization to repurchase ~10% of the outstanding position, presenting a potential downside support lever if the price deteriorated further.

### Yield

Given the material discount in the underlying price, we believe this security offers an attractive yield. We believe that income generation remains a strong pillar for clients' total return generation and that fixed-rate reset preferred shares present an attractive medium to achieve such objectives.

### Operator Track Record

For many investors, Brookfield can often be as polarising as the debate on the future of commercial real estate itself. Ostensibly, investors either love them or they do not. Regardless, it's hard to argue with their track record.



In the context of BPO prefs, we believe these offerings include sufficient protection of cash flow generation from their respective subsidiary operations. We also trust in Brookfield's (self-)interest in supporting these assets from a reputational perspective to avoid any deterioration across the broader complex.

### Conclusion

On balance, we believe that continued stability in the performance of BPO's assets and BN, coupled with the normalization in real estate as rate cuts materialize, will result in a material improvement in investor sentiment and meaningful price appreciation in these significantly discounted assets. In the interim, investors generate an impressive yield.

Best from the Desk,  
James, Jim, David, Shannon, and Nicho