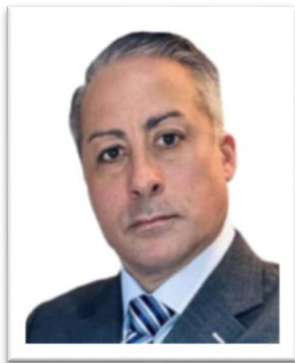




## Bluerock's Baffico Says HALO Trades Will Benefit From Private Credit Redemptions

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Chuck Jaffe in this episode of The NAVigator podcast interviewed Steve Baffico, Executive Vice President and head of listed products at Bluerock, which runs the Bluerock Private Real Estate fund. Steve expects the real estate market to benefit as money moves from private credit, business-development companies, and direct-lending strategies in pursuit of something with "hard assets and low obsolescence." That HALO trade should drive growth moving forward; Baffico discusses what the fund is focused on as it continues its transition from an interval fund to being a closed-end fund. That journey has included four hikes in distributions over the last four months, and Baffico explains what the firm is doing to quickly reach its target distribution rate of 8 to 8.5 percent.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

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**CHUCK JAFFE:** We're getting an update on the private real estate market with Steven Baffico, he's head of listed products at Bluerock, welcome to The NAVigator. This is The NAVigator,

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where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, an industry organization representing the entire closed-end business, from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're pointing towards private real estate with Steven Baffico, executive vice president and head of listed products at Bluerock, which runs the Bluerock Private Real Estate fund, ticker BPRE, which you can learn about at [Bluerock.com](https://bluerock.com). And you can learn more generally about closed-end funds, interval funds, and business-development companies by going to [AICAlliance.org](https://aicalliance.org), the website for the Active Investment Company Alliance. Steve Baffico, welcome to The NAVigator.

**STEVE BAFFICO:** Chuck, great to be with you. Thank you so much for having us back.

**CHUCK JAFFE:** I mentioned BPRE, and Ryan MacDonald, the fund's manager, well, he was with us on The NAVigator in early March right after the fund launched. At the time, he said that private real estate was approaching valuation levels not seen since the depths of the 2008 Financial Crisis. You guys had a big war chest that was building up as you launched the fund, if valuations were that good and entry point was critically important, which is another thing that Ryan was emphasizing, give us an update on how much of those assets you've put to work and how you've been putting it to work.

**STEVE BAFFICO:** So Chuck, as you referenced, when Ryan was on the show in March, BPRE had really just recently listed on the NYSE and the team was laying out our roadmap, and that plan had three pillars if you remember. Number one, rotate the legacy portfolio into what we described as next generation direct real estate. Two, grow the distribution yield toward 8-8.5% on NAV. And three, close the price to NAV gap over time. So here we are several months into active execution, the investment team's committed roughly \$400 million of capital to direct real estate investments, and if you combine that with the origination pipeline, you're talking about total activity reaching about \$700 million to date, so roughly 20% of the NAV in various stages of active deployment. That deployment to date has been across 13 individual investments and across the three target sectors that we talked about last time, our underwriting targets on top of that mid-teens aggregate IRR projection that we talked about, I think we're on the right track there. Now part of executing on that roadmap

has also been building out the team to support that strategy, we recently brought on Tyler Kimball, he's our new head of real estate credit here at Bluerock, great add, Tyler's got more than 15 years of experience in real estate credit, so lending, structured credit, special sits, most recently 10 years at Axonic Capital, where he was part of a team on the real estate credit side that sourced and executed over \$10 billion in real estate transactions. So we think we're really well positioned with Tyler, I've been working with PMs for 30 years, you can separate wheat from chaff pretty quickly, Chuck, this is one of the good ones. Tyler's really gotten off to a fast start, and I think he's been a positive force multiplier for the credit platform. Number one, building on strong heritage on the vertical at Bluerock, and I think two, his depth of market knowledge, sector, network, it really accelerates our ability to scale into the credit vertical at this moment, which is important. Distributions, we talked a little bit about four distribution increases since December '25, since the listing date, so our distribution rates moved from 5.25% on NAV at the time of listing to 7% as of June. If you remember, the team's stated target is to achieve an 8-8.5% distribution on NAV, so we're in flight there. On timeline, you asked about that, our original roadmap I think was very conservative on portfolio repositioning timeline, this is a large legacy portfolio, it's about \$3.5 billion, it has to be unwound and then reinvested basically as close to one to one relationship as possible. So it does take a little time to queue up that origination pipeline properly, and I think we've done that largely to date here. What I'm seeing now a few months into the process is that we're generally on pace with prior guidance, but what I'm most enthusiastic about is we seem to be accelerating on the execution and close rate piece of this, and that's really important. I think the current expectation is six to eight quarters to substantially complete this asset rotation, and look, frankly, I've always believed that it's under promise and overdeliver on these kind of items. So I think what it means for investors is we laid the strategy out in March, we're executing on pace, starting to accelerate, team's been augmented to support that effort, and we're highly engaged with the market around the investment thesis and the entry point you talked about and the opportunity here. Make no mistake, we've got a lot of work to do here to get to scale and ultimately where we need to be, but I think we've made a good start and we're seeing some tangible results from those efforts.

**CHUCK JAFFE:** The strategy, you mentioned three target sectors, and Ryan had talked about them when he was with me back in March, if I recall them correctly they are manufacturing

reshoring, ecommerce growth, and the change, or the retreat, if you will, from brick and mortar banking. I think I have those right. Why those three? And maybe why not data centers and the things that are sucking the oxygen out of the real estate conversation these days?

**STEVE BAFFICO:** Yeah, and you are largely right on. So from an investment perspective, it's probably best articulated as a barbell, right? And so contractual income at one end, growth at the other, and an all-weather yield component in the middle. I guess your question is why these sectors specifically? I think it's pretty straightforward, we look for durable, secular tailwinds, so long-term trends that support those investment theses. So each of these sectors, as you referenced, it's got a theme that we believe in. Manufacturing or reshoring of US manufacturing, which is really focused around the triple net lease sector, that's a multi-decade trend, it's supported by over a trillion dollars in announced US manufacturing investment, so we think that's a really good anchor for the triple net lease space. You mentioned ecommerce, when we talk about shallow bay industrial, it's really the Amazon boxes on your front porch, that's the story, ecommerce growth supporting the shallow bay as a secular shift. And to your point around real estate credit, a huge refinancing wall in the existing real estate debt market, a lot of product that has to be refinanced in the next two years, two trillion in fact, and that demand pull, which is quite unique, is coming up against a capacity constraint as far as credit goes, and in traditional bank credit for that matter. So think about those three as good examples of durable trends and places in the market where you can get outsized risk-adjusted returns, both from an income and a total return perspective, it's one of the reasons we're enthusiastic about our progress here to date.

**CHUCK JAFFE:** So I've got a good idea of how the sectors mix together and why you need them to achieve your goals. Credit itself is on a bit of a tear, what's happening in this market that's drawing private capital in?

**STEVE BAFFICO:** Yeah, I think there are a couple of unique elements to the real estate credit story. I mentioned them briefly in the last question, but I think three things are happening here that make an attractive entry point. One, valuation, right? So the commercial real estate market has turned significantly, values today have repriced down 20-30% from the 2022 peaks, so what that's done has really engendered the re-opening of capital markets, and transaction activity in the real estate market is accelerating. So I think it tells you that the market is much healthier and more active today, that's a very important precursor. Second,

we talked a little bit about demand pull, now there's roughly two trillion in commercial real estate debt maturing between now and 2028, so I think what it tells us is that there is a huge need/demand for fresh capital in this space from experienced lenders. So I think as it relates to the current BPRE portfolio rotation, it's quite compelling now given that unique demand pull characteristic in the space. And then the third thing I'd share is capital supply constraints, you mentioned it, banks have only come back selectively. Now they are lending and they are growing market share, but it's different this time around, they're doing so at materially lower leverage points than in the past cycle. So what it's done is actually created a pretty significant structural gap in the capital stack, and that is a gap or an opportunity that private capital can fill effectively. So we think it sets up really well for players like Bluerock who understand how to navigate these structures, attachment points, et cetera, and that is the way you achieve the better risk-adjusted return, so valuations, demand pull, capital constraints, and I think for BPRE shareholders, what it means is real estate credit is offering what we think is a very valuable yield premium that doesn't show up very often in that space. Obviously, bringing on Tyler as head of real estate credit further allows us to exploit that. Chuck, the one other thing I'd share about real estate credit, which is really an all-weather sector kind of wedge in this portfolio, and I think it's a major theme that you're going to be hearing about broadly over the next couple of years, we use the acronym HALO or hard asset, light obsolescence risk. So what does that mean? Real estate credit offers very unique risk-return characteristics, you have the benefit of high current income with the downside protection in the form of asset-based collateral, so brick and mortar real estate. And our belief, and you're starting to see this in fund flows, HALO strategies like real estate credit are going to be a real beneficiary of what is we believe a major asset rotation from investors coming out of direct lending private credit funds, okay? So think BDCs and similar private vehicles, you talk about them a lot on your show, this is happening now, we believe that private credit funds are going to be in a net redemption period for the next couple of years. Why is that important? Well, because simple asset-based lending strategies with compelling yield and total return, as well as stable collateral, so i.e. real estate credit, those become very critical replacement trades for those investor assets.

**CHUCK JAFFE:** We've got to talk about that distribution policy. As you pointed out, the distribution rate has changed four times in very short order, and it's still below where you

hoped you'd get it to. Now by pace, if you just keep it up then you'll be more than past 8% if you kept the pace going. So what's the likelihood of the distribution continuing to grow, and is there a target for hitting your target?

**STEVE BAFFICO:** Obviously a vital signal and benchmark in the listed funds market is distribution yield, we've had four distribution increases in about six months. Prior to the listing, the distribution rate on the interval fund structure was 5.25% on NAV, we've been very vocal and focused on communicating to the market that we need to get to 8-8.5% over a period of time, over this journey. As of today, June, it's 7% on NAV, that's been accomplished through incremental increases on a monthly basis, as you'll see from our press releases. What's underpinning that earnings growth? Important for your audience to know three things. First, the portfolio rotation is a major rotation, and it's replacing legacy assets with higher yielding direct real estate investments, so the new investments are being underwritten to project mid-teen type of IRRs, now that's meaningfully higher from what the legacy portfolio was generating, so that's an important starting point. Second, cost savings, we haven't talked about this but I think it's worthy of mention. We're starting to see realization of cost savings in a couple of areas, so savings in the conversation from interval to closed-end fund structure, savings on underlying submanager fees going from a fund of funds to a direct strategy, and savings from lower interest expense. So all in you're talking roughly \$50 million a year in total realized annual savings, so those cost reductions flow directly to distributable income and will continue to evolve over time. So I think cost savings, good start, a starting point, not an end point in that respect, but another important contributor. And then the third piece of this, again I go back to real estate credit, the credit allocation targets about a 12% income return, as credit becomes a larger share proportionally of the portfolio mix it really pulls the blended distribution capacity up. So having said that, Chuck, keep in mind this is a marathon, it's not a sprint, it's a large legacy portfolio at about \$3.5 billion that we're moving. It's going to take time to deploy the assets, we want to do that expediently, but we want to do that with the right assets at the right price and in the right [inaudible 0:14:39]. I believe we have the right sector approach here, and the timing of entry is excellent, you mentioned that, and I think generally the markets endorse that strategy approach with this fund, so now it really becomes a surety of execution story on the investment side.

**CHUCK JAFFE:** And as you mentioned, we're at a starting point in terms of what we're seeing with the change in distribution and the rest, unfortunately for us we're at an ending point when it comes this interview. Steve, I really appreciate you taking the time, thanks so much for joining me. I'm sure we'll check in with you again down the line as we continue to see this conversion from interval fund to listed closed-end fund.

**STEVE BAFFICO:** Thanks Chuck, great to be here.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm Chuck Jaffe, you can check out my show on your favorite podcast app or at [MoneyLifeShow.com](http://MoneyLifeShow.com). You can get more information on closed-end funds, interval funds, and business-development companies at [AICAlliance.org](http://AICAlliance.org), the website for the Active Investment Company Alliance. Thanks to my guest Steven Baffico, he's executive vice president and head of listed products at Bluerock, which runs the Bluerock Private Real Estate fund, it's ticker BPRE, you can learn about it at [Bluerock.com](http://Bluerock.com). The NAVigator podcast has something new for you every Friday, so make plans to join us again next week for some more closed-end fund fun. And until then, happy investing, everybody.

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