

Real Estate and REITs in Pension Portfolios

November 27, 2018

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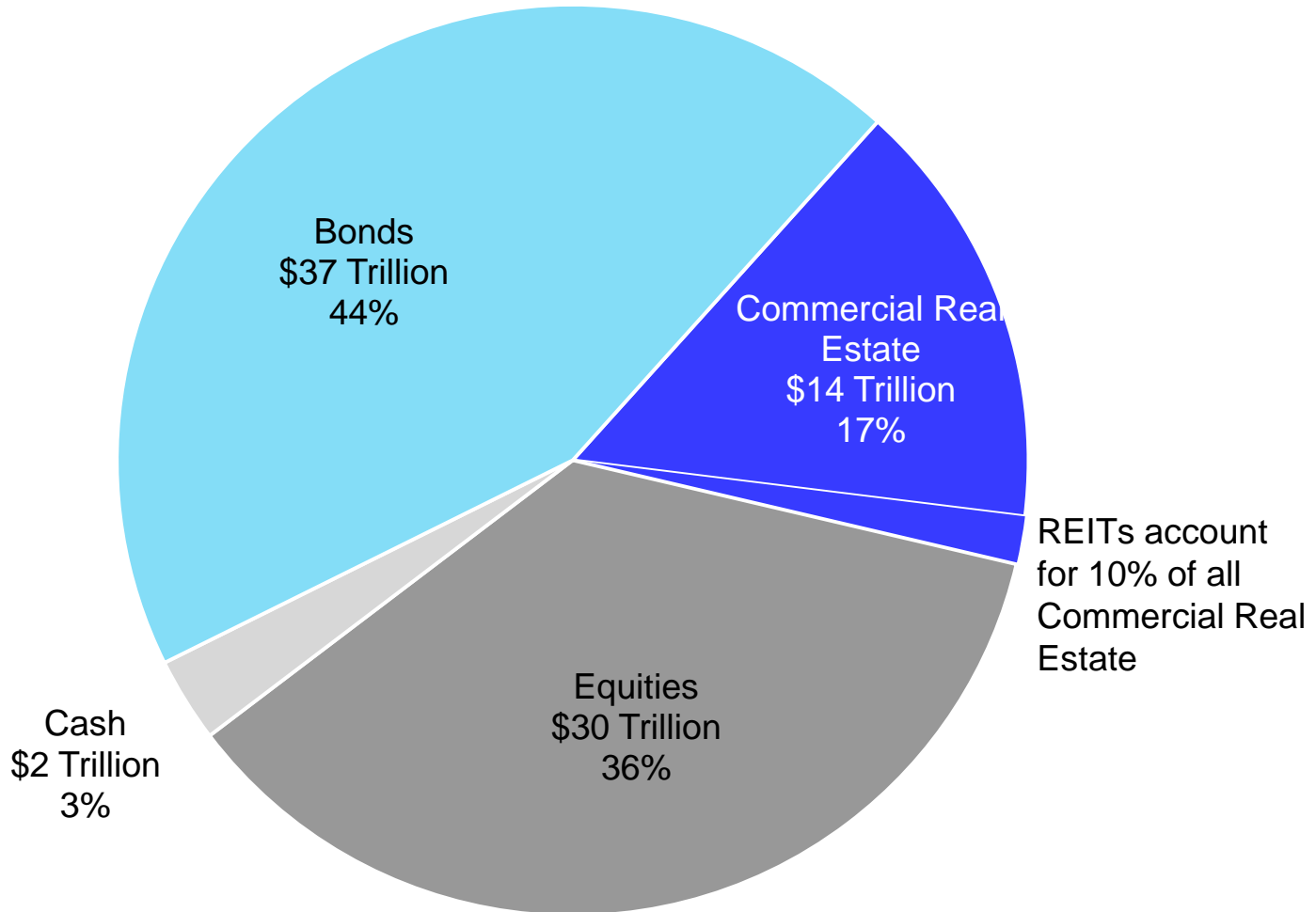
Agenda

1. Real Estate: A Fundamental Asset Class
2. Fireside Chat: Why You Have Real Estate & REITs in Your Investment Portfolio



Commercial Real Estate

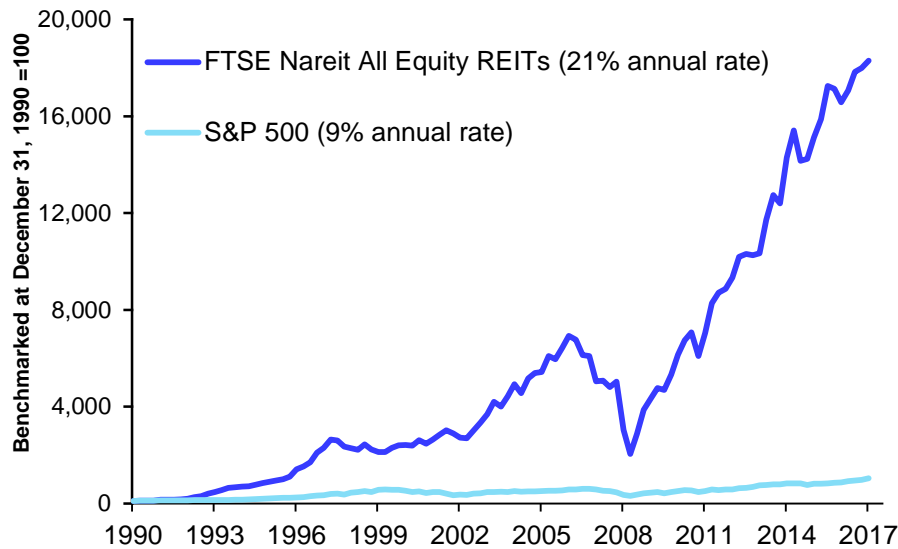
Third largest asset in U.S. investment market basket



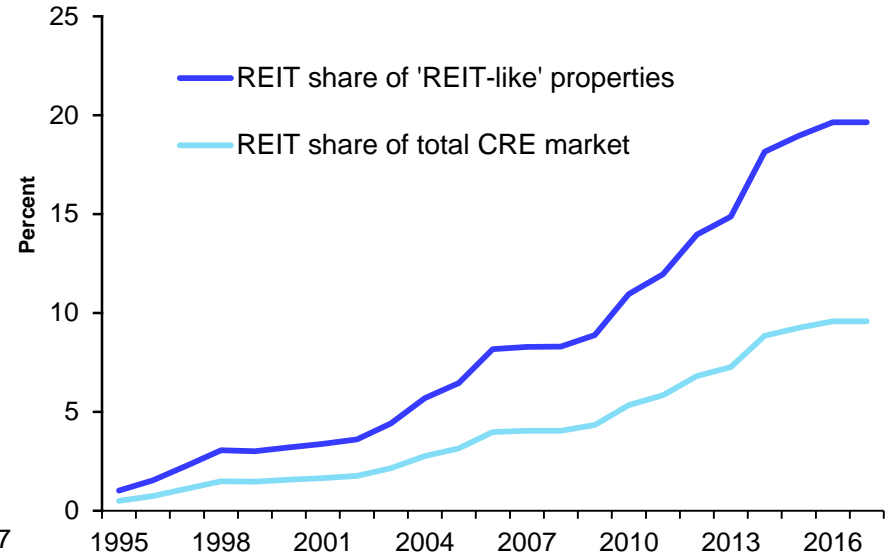
REIT Industry Growth

REITs have grown in market capitalization and share of commercial real estate

Growth of REIT Market Capitalization



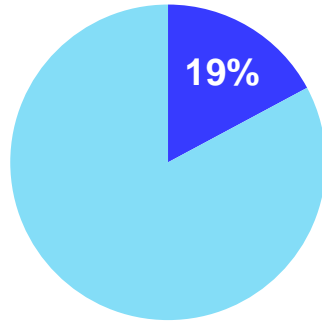
REIT Share of Commercial Real Estate Market



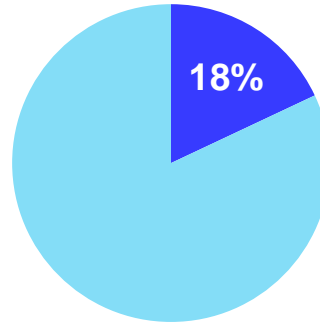
Portfolio Allocations to Real Estate

Different researchers, methodologies and time periods

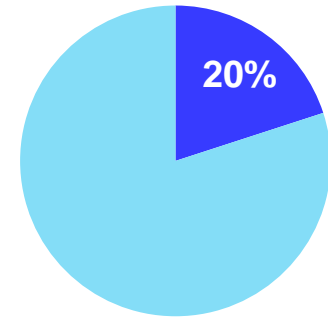
Wilshire Analysis
Surplus Optimization
1990-2016



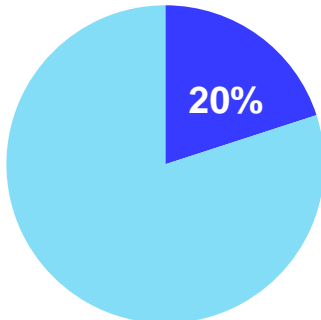
Wilshire Analysis
Surplus Optimization
1990-2012



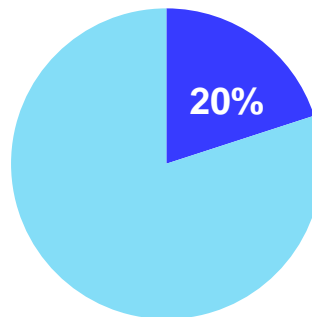
Morningstar Analysis
Liability Relative Investing
1990-2009



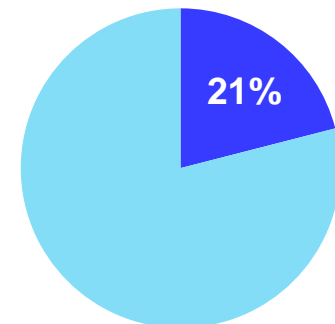
Morningstar Analysis
Fat Tail Optimization
1990-2009



Morningstar Analysis
Mean Variance Optimization
1990-2010



Morningstar Analysis
Mean Variance Optimization
1990-2007



Real Estate in Institutional Portfolios

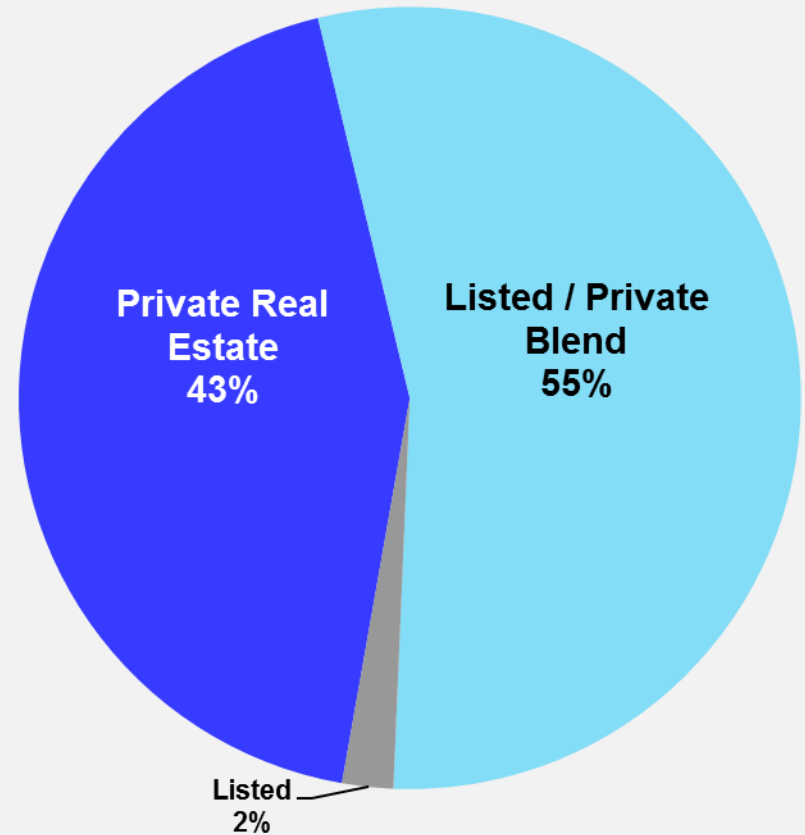
- Real estate has been recognized as a core asset class by institutional investors, including pension and retirement funds, for decades
- Real estate investment provides:
 - Stable, consistent income and opportunity for capital appreciation.
 - Investment grade real property assets provide a measure of inflation hedging.
 - Diversification
 - Real estate cycle does not coincide with the overall economic cycle.
 - Moderate correlation with other assets over time provides potential diversification.



Pension, Endowment, & Foundation

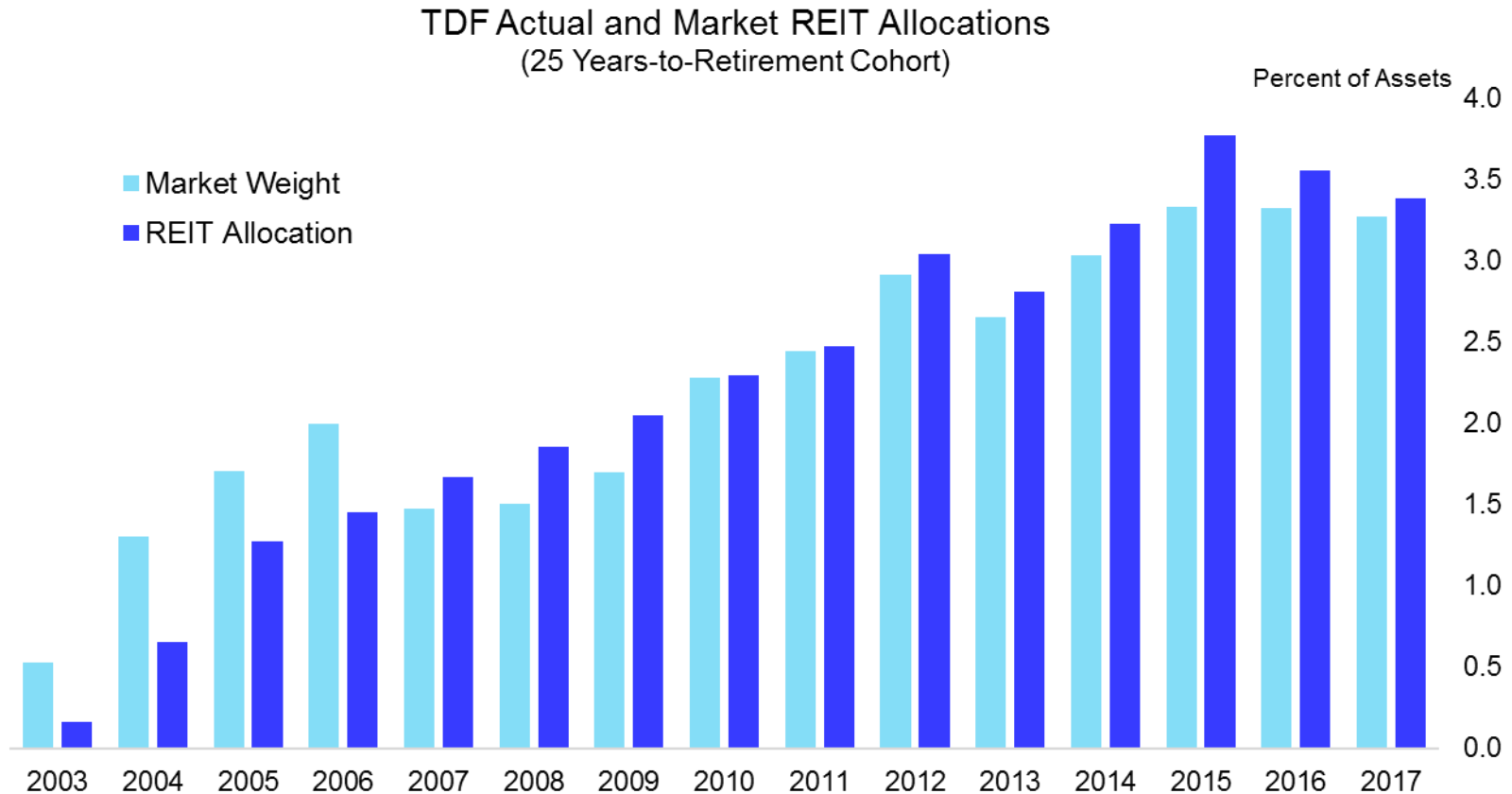
Investment in real estate

- The majority of real estate portfolios are invested through both REITs and private real estate.
- The average allocation to REITs within blended real estate portfolios is 32%.



Defined Contribution Plans

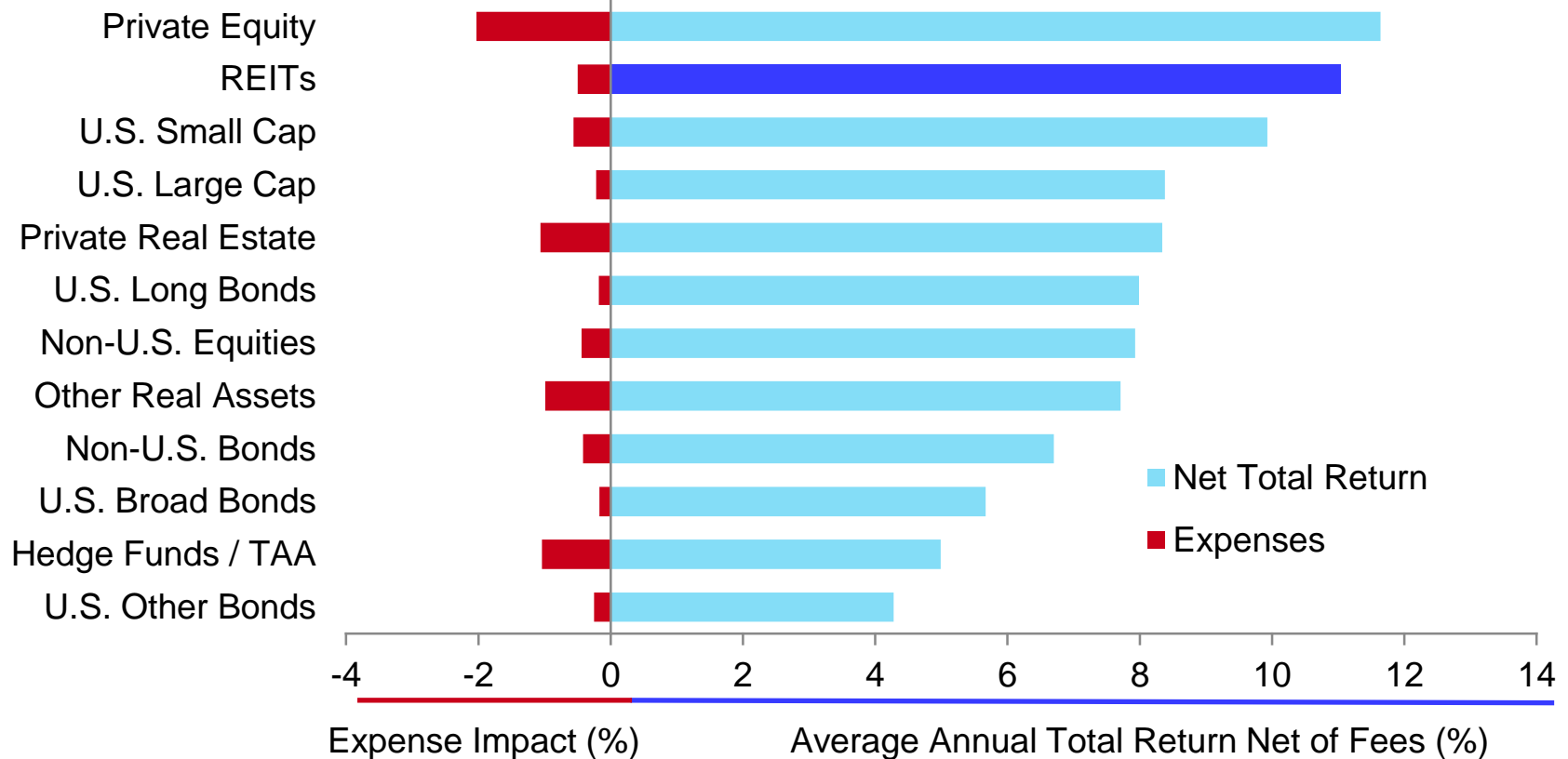
Target-date funds have steadily increased REIT allocations



- REITs are included in 97 percent of TDFs and as a dedicated sleeve in 60 percent of TDFs.
- Approximately 200,000 defined contribution (DC) plans offer a standalone REIT option.

CEM Benchmarking: REITs Outperformed Most Major Asset Classes: 1998 to 2016

Annual Net Total Return and Expense by Asset Class
 U.S. Defined Benefit Pension Funds
 1998 - 2016



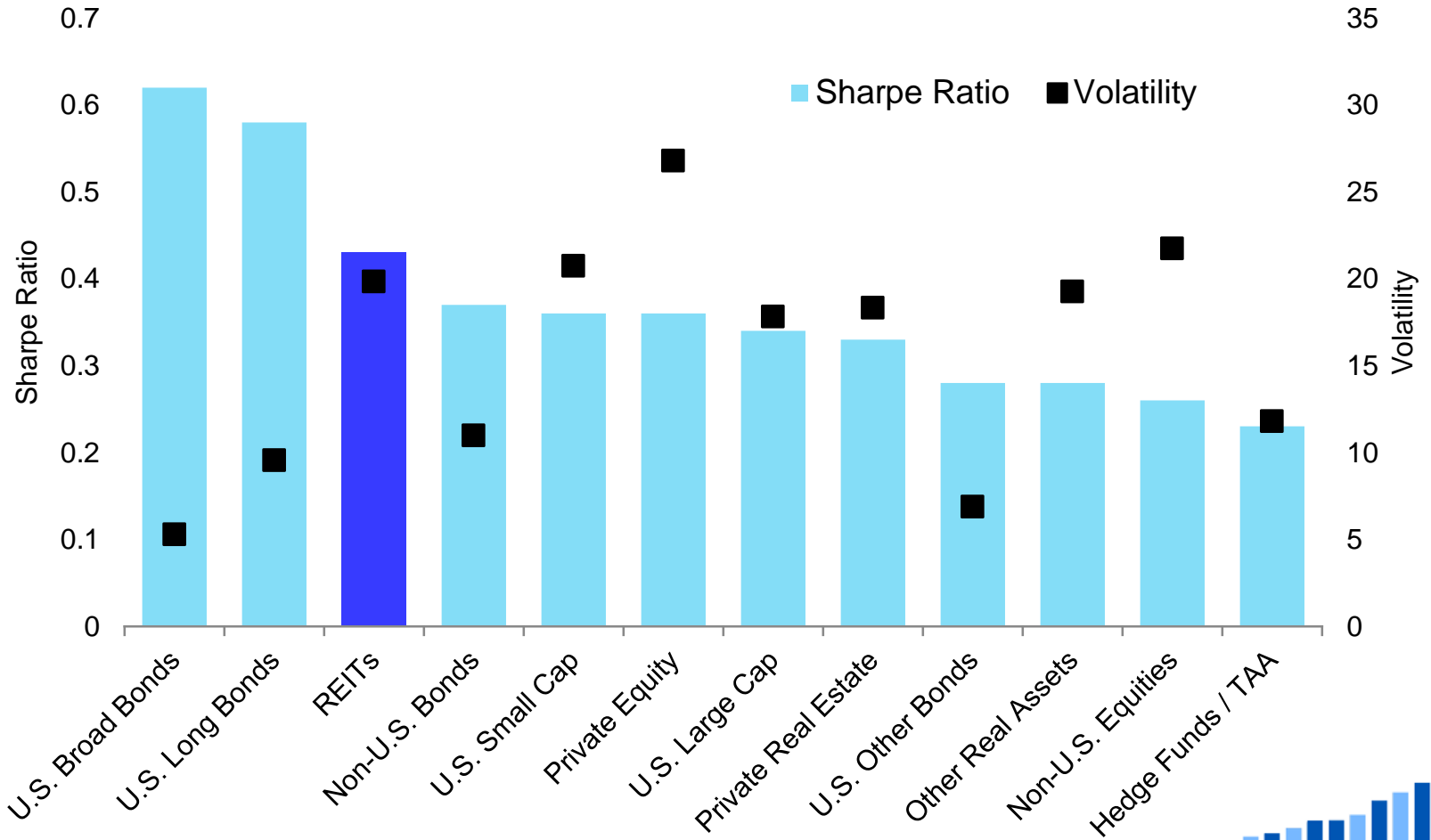
CEM Benchmarking: REIT Correlations with Equities, Fixed Income, Alternatives and Private Real Estate

Key Correlations (1998 - 2016)

	Private Real Estate	REITs	U.S. Long Bonds	U.S. Large Cap	U.S. Small Cap	Non-U.S. Equities	Private Equity	Hedge Funds / TAA
Private Real Estate	1.00	0.92	-0.05	0.49	0.58	0.54	0.53	0.43
REITs		1.00	-0.02	0.54	0.63	0.58	0.49	0.50
U.S. Long Bonds			1.00	-0.43	-0.51	-0.53	-0.59	-0.30
U.S. Large Cap				1.00	0.92	0.88	0.86	0.93
U.S. Small Cap					1.00	0.88	0.88	0.79
Non-U.S. Equities						1.00	0.91	0.86
Private Equity							1.00	0.81
Hedge Funds								1.00

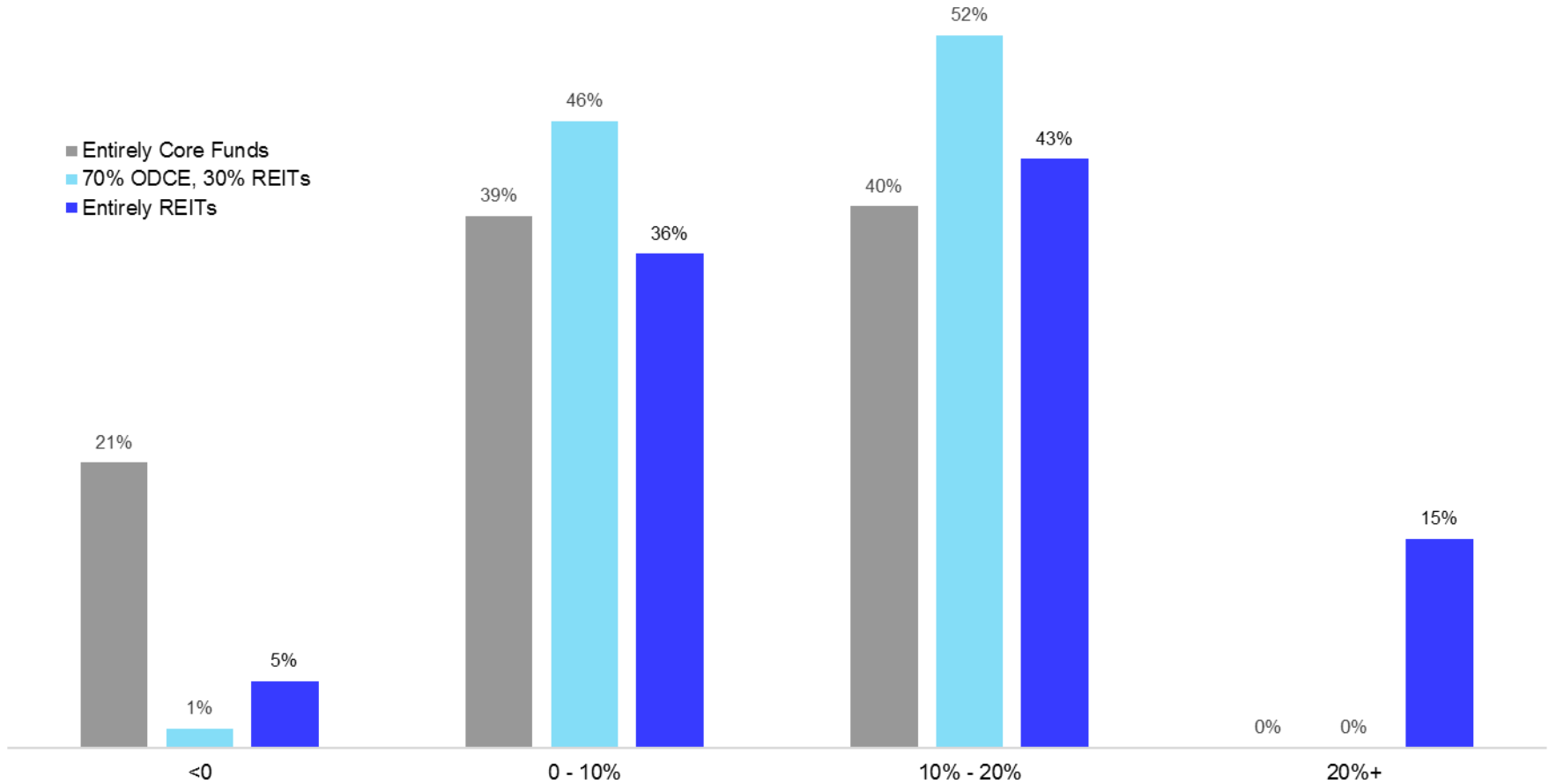
CEM Benchmarking: REITs Delivered Superior Risk Adjusted Returns

Volatility and Risk Adjusted Returns by Asset Class
for U.S. Defined Benefit Pension Funds
1998 - 2016



REITs and Private Real Estate are Complements in a Real Estate Allocation

Distribution of Five-Year Average Annual Net Total Returns



Contact

If you have any questions, please contact us

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