

A Portfolio Manager's Guide

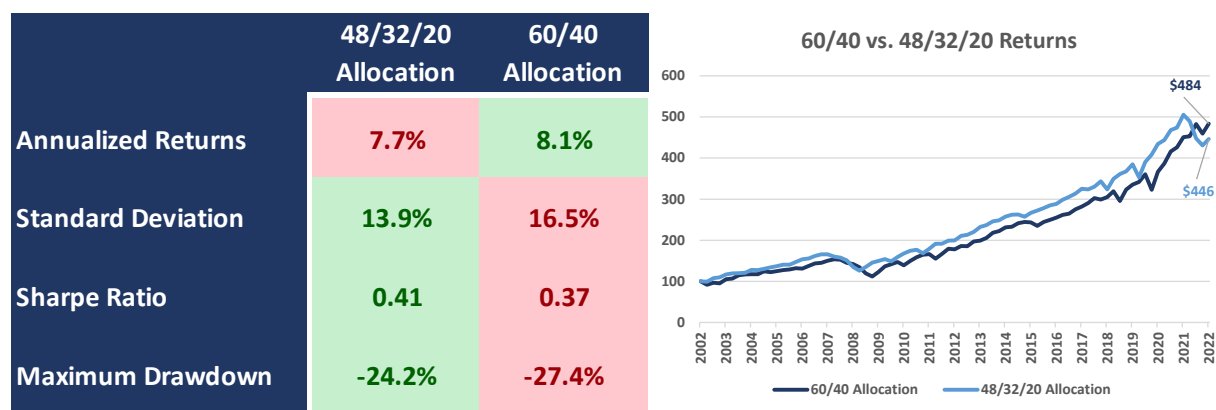
Private Real Estate

Once an investor understands an asset class, the next important step before making an investment is to identify how to best integrate it into your overall portfolio. Here, we'll briefly explore Private Real Estate from a portfolio manager's perspective.

Consider the most common investment portfolio you can. It's probably a combination of public equity (stocks) and public fixed income (bonds). Traditionally, investment managers might recommend a 60/40 portfolio of stocks/bonds for a moderate investor. This is often referred to as the 60/40 portfolio.

When thinking about placing money into private real estate, a portfolio manager would evaluate how this new asset class would correlate and perform relative to the rest of the portfolio. As we learned in the Private Real Estate Basics paper, private real estate's correlation with stocks and bonds is extremely low, so it's a successful diversifier of returns in a portfolio. Real estate offers potential capital appreciation and growth like equities, while also maintaining rent/income cash flows like bonds. As such, an investor may want to add private real estate as its own asset class, taking a proportionate amount from both equity and fixed income.

Let's take a look at the common 60/40 Stocks/Bonds portfolio and compare it to a 48/32/20 Stocks/Bonds/RE portfolio over the last twenty years. We're only replacing 20% of the model with private real estate, and we're doing it proportionately out of the original 60/40 mix.



Source: Bloomberg, Data from 12/31/2002 to 12/31/2022

For just a 20% allocation, we were able to make meaningful improvements to the portfolio. While the annual growth rate decreased slightly, the maximum drawdown and volatility were cut. Most importantly from a portfolio manager's standpoint, the risk adjusted return improved, thus demonstrating Private Real Estate can be beneficial to a fully diversified portfolio.

To take action on this data and consider making an allocation to private real estate, please evaluate our current lineup of real estate strategies or reach out to our team for more customized assistance. For more information around private real estate, please see the Privates School: Private Real Estate educational piece.

Disclosure

This information is for sophisticated investors only who are accredited investors and qualified purchasers.

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Index Data used in examples:

- Private RE: NCREIF Property Index
- Public RE: FTSE Nareit Equity REITs Total Return Index
- Public Equity: S&P 500 TR Index
- Fixed Income: Bloomberg US Aggregate Bond TR Index