Real Estate as an Asset Class

Contents

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Executive Summary

This paper provides an overview of real estate as an asset class, focusing on the characteristics of institutional commercial real estate in the US. It summarizes real estate investment strategies and addresses diversification within the asset class. Finally, the paper outlines how to construct and implement a real estate allocation within a portfolio, highlighting best practices for investment manager selection, benchmarks and average fees.

2

Real Estate Overview

Real estate is tangible property consisting of land, buildings and other improvements. Real estate assets are used for either residential (single-family homes) or commercial (business) purposes. Both segments of the market are vast and offer a variety of investment opportunities across the risk spectrum. This paper will center on commercial real estate.

Around the world, and in the United States in particular, it is common for large users of commercial real estate to opt to rent property as a tenant rather than purchase property and become an owner. The reasons for this decision generally concern cost, maintenance and/or flexibility. Tenants compensate owners of real estate, typically in the form of a lease (rent) payment, for the use of the property. Lease agreements can range from daily, in the case of a hotel property, to decades, a common lease term for office properties. As such, commercial real estate typically refers to income-producing properties that include office buildings, retail centers, industrial properties, apartment complexes and hotels as well as other, smaller property types, such as senior housing, self-storage and medical office buildings.

Investors in commercial real estate may choose to invest in debt or equity through public or private markets. Equity investments represent an ownership interest in a property, whereas debt investments refer to a loan on a property. Investing in real estate debt or equity can be done through a variety of investment vehicles; therefore, public and private markets simply refer to whether or not the vehicle is traded on a public exchange. The asset class is commonly divided into four quadrants: private equity, public equity, private debt and public debt. Figure 1 below illustrates examples of the four quadrants of real estate investing.

Figure 1. The Four Quadrants of Real Estate Investing

PRIVATE EQUITY
Separate account
Direct investment
Joint venture
Commingled fund
Private REIT

PUBLIC EQUITY
Property REITs (public markets)

PRIVATE DEBT
Separate account
Commingled fund

PUBLIC DEBT
CMBS (public markets)
Mortgage REITs (public markets)

Source: Mercer

2

Private Equity Real Estate

Private equity real estate refers to an investor taking an equity interest in a commercial real estate property or collection of properties. For institutional investors, private equity vehicles such as commingled funds are a common means to investing in the real estate asset class. A commingled fund is a pool of capital raised and managed by an investment management firm, also known as the general partner, for the purpose of acquiring, managing and disposing of commercial real estate on behalf of the fund's investors — most commonly known as limited partners. The fund owns the properties, but investors, which provide the bulk of the capital used to acquire the assets, benefit from the performance of the underlying assets. These investment vehicles are not publicly traded, hence the term "private equity."

Institutional investors use other private market vehicles to acquire ownership in commercial real estate, such as a separate account (comprising one limited partner), joint venture, direct investment (limited partner owns the investment directly on its balance sheet) or private real estate investment trust, also known as a REIT. Each of these investment vehicles serves a unique purpose to an investor, but the underlying theme remains; these vehicles are all designed to use private capital to obtain an equity interest in commercial real estate assets.

Public Equity Real Estate

Like private equity, public equity real estate allows investors to take an interest in commercial real estate property; however, financing the acquisition of these assets is completed via publicly traded markets. Property REITs traded on a stock exchange are perpetual vehicles, and, because of the structure, investors are simply shareholders in the company. By law, property REITs are required to distribute at least 90% of their taxable income annually as dividends. Because these investments trade on a stock exchange, shareholders have ready access to liquidity, whereas limited partners within a private commingled fund structure generally do not.

2

Private Real Estate Debt

Private real estate debt typically uses a privately held commingled fund structure to invest in debt instruments on commercial real estate property. In other words, these vehicles extend debt financing, typically through a loan structure, to borrowers using the funds to acquire and/or improve commercial real estate. These debt instruments are senior in the capital structure to equity investments and can range from senior secured debt (most senior position in capital structure) to mezzanine debt or preferred equity (positions just above equity investments in capital structure).

Unlike equity investments in commercial real estate property, whose performance depends on the income generated by and market value of the underlying assets, debt investments operate like a bond, typically only receiving fees and interest payments during the life of the loan, with principal returned at maturity. Although institutional investors most commonly invest in this category as a limited partner within a commingled fund raised, managed and operated by a general partner, some investors use a separate account to customize debt exposures to the preference of a sole investor. Regardless of structure, this category is not traded on a public market and, thus, generally lacks liquidity for investors.

Public Real Estate Debt

Like private real estate debt, public real estate debt allows investors to provide debt financing on commercial real estate property; however, the vehicle in which investors pool their capital is publicly traded, usually in a commercial mortgage-backed security (CMBS) structure. CMBS is a pool of mortgages on commercial properties. A CMBS structure is typically divided into various tranches, allowing investors several options in which to invest at varying levels of risk. Tranches represent the division of a capital structure and the priority of payment. For example, the senior tranche receives principal and interest payments from the underlying pool of commercial mortgages before other tranches are entitled to the receipt of these payments. As a result, the senior tranche is generally considered low risk.

As an investor moves down the capital structure of CMBS, it is exposed to a higher potential for loss and, thus, higher risk. Accordingly, these investors are compensated with a higher potential return than senior tranches in the capital structure. Residential mortgage-backed securities (RMBS) function the same way as CMBS, except the pool of mortgages is typically backed by single-family residential properties.

Another option for investors to access debt investments in a publicly traded investment vehicle is a mortgage REIT. Like a property REIT, these vehicles trade on a stock exchange and pass the vast majority of taxable income on to shareholders as a dividend. Mortgage REITs originate and/or purchase loans on their balance sheets with the intention of either holding the debt or selling it to a CMBS pool.

3

Real Estate Investment Strategies

Real estate debt and equity investments are actively managed and classified across the risk spectrum by strategy type: core, core-plus, value-add and opportunistic.

Each strategy type encompasses different characteristics, generally centered on return target, leverage, liquidity and holding period. The composition of total return is composed of income and appreciation and varies with each strategy type, with the lowest-risk strategy (core) depending on income as the primary driver of total return and the highest-risk (opportunistic) depending on appreciation. Figure 2 below summarizes each strategy type based on its focus and fund characteristics.

Figure 2. Risk Spectrum Equity

CORE	CORE+	VALUE-ADD	OPPORTUNISTIC
High-quality assets located in the strongest locations	High-quality assets with minor upgrade requirements; leverage utilized as a tool to enhance returns	Assets requiring repositioning or redevelopment to maximize the use of the asset	Distressed properties and loans, ground-up development and entity-level investing
6%–9%	9%–11%	11%–14%	14%+
• 60% inc/40% appreciation • Leverage: 0% to 35% • Hold: 7+ years • Development: minimal • Diversification: high • Liquidity: moderate	• 50% inc/50% appreciation • Leverage: 30% to 50% • Hold: 5+ years • Development: minimal • Diversification: moderate • Liquidity: moderate	• 40% inc/60% appreciation • Leverage: 40% to 70% • Hold: 3 to 5 years • Development: moderate • Diversification: minimal • Liquidity: none	• 30% inc/70% appreciation • Leverage: 50% to 75% • Hold: 3 to 5 years • Development: moderate/high • Diversification: minimal • Liquidity: none

Source: Mercer

Investors use a variety of vehicles and strategies to construct a real estate portfolio based on their individual tolerance for risk and investment objectives. Real estate assets acquired as part of a larger investment portfolio are considered a long-term hold for investors. However, the length of each fund varies based on the investment strategy and structure: open-end versus closed-end.

3

Open-End

Open-end funds are evergreen funds that have a perpetual life. This fund type is most commonly used by core and core-plus strategies. Investors (limited partners) may enter or exit within the rules of the fund, defined in a limited partnership agreement. Once committed to an investment in an open-end fund, investors wait for their capital to be called by the investment manager (general partner), which is traditionally done on a calendar-quarter basis, based on transaction activity. Upon exit, an investor submits a redemption request to the general partner to receive cash in exchange for the current market value of its interest in the fund. Redemptions are typically paid quarterly, based on the cash flow generated by the fund. Since real estate is an illiquid asset (that is, it does not trade on an exchange), the redemption request typically takes between one and four quarters.

Closed-End

Closed-end funds are fixed-life funds that have predefined terms. As with open-end funds, investors commit a fixed amount of capital. However, these funds have a cap set on their fund size and a fixed period in which to call investor capital. Closed-end funds typically have three phases: fundraising, investing and harvesting.

Fundraising may last anywhere from three to 18 months. It is during this period that the investment manager (general partner) solicits investors to commit capital to the fund. The investment period initially overlaps with the fundraising period but typically lasts an additional two to five years. During the investment period, the fund acquires or builds real estate assets. In the interval between the conclusion of the investment period and conclusion of the fund, the fund executes its strategy of repositioning, redeveloping or leasing the properties. The conclusion of the fund's life occurs when all business plans of the assets have been executed and the fund is fully liquidated. Fund lives typically range from seven to 10 years, with provisions to extend the fund life an additional one or two years at the approval of limited partners. Investor capital may be returned during the investment and harvest periods as income is generated or as properties are sold. Value-add and opportunistic strategies typically use closed-end fund structures because of the longer-term nature of their projects and greater execution risk. These funds are illiquid and do not allow for limited-partner redemptions.

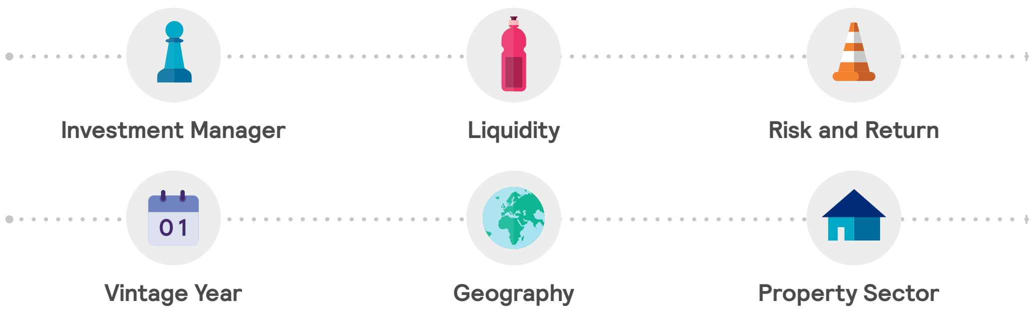
Investors should also be cognizant of an initial "j-curve" when investing in closed-end funds. The j-curve refers to the initial decline or negative returns of the fund. This happens during the fundraising/investment period, when initial fund expenses and fees are charged to limited partners and return on investments and realizations have not yet begun.

4

Diversification in Real Estate

Diversification is a key component of any real estate portfolio, aimed at creating the maximum risk-adjusted value for the investor through the selection of investments and strategic assets. Within a real estate portfolio, diversification has multiple levels: investment manager, liquidity, strategy type, geography, property sector, vintage year, and risk and return. To maximize diversification benefits, it is crucial that investors aim to incorporate most of these components.

Figure 3. Importance of Diversification



Source: Mercer

Investment Manager

The investment manager utilizes a large team of resources for acquisitions, asset management, property management, research and financing. A manager's proficiency in each of these functions within the investment process should be taken into consideration when evaluating its ability to execute a proposed strategy. Each manager has a unique perspective on investing and specializes in different geographies, property types and risk tolerances. It is important to diversify a real estate portfolio with several investment managers to help mitigate execution risk while also gaining a unique investing perspective.

Liquidity

Although real estate is an illiquid asset, certain fund structures allow for liquidity to be accessed on a periodic basis. Public fund structures (CMBS, property REITs, mortgage REITs) may provide daily access to liquidity, whereas private fund structures do not. Open-end funds generally allow for quarterly redemptions from limited partners or the regular distribution of dividends. Conversely, closed-end funds have minimal liquidity provisions. A secondary market exists for limited partners to transact in closed-end fund investments. However, the secondary market is generally thinly traded, opaque and may require a discount to net asset value in order to sell. Further, transferring a fund interest from one limited partner to another typically requires the approval of the general partner.

Although closed-end funds have limited liquidity, they do provide cash flow to investors during the life of the fund through distributions of income and/or asset sales. These distributions are generally irregular and unpredictable. Within a fund, an investment manager may focus on reducing illiquidity by using prudent leverage and creating sound exit strategies for assets.

4

Geography

Geographic diversification of the assets held by a fund helps eliminate exposure risk to a particular market, region or country. Global real estate funds seek to diversify by country so that risk is allocated across several economies, mitigating the cyclicality of the portfolio. Within the US, geographies are divided by metropolitan statistical areas (MSAs) and grouped into three categories: primary, secondary and tertiary. Also known as gateway, primary markets have high population density, diversified local economies, barriers to entry and the largest, most-liquid real estate markets. Secondary markets are the next tier, generally lagging behind primary markets in one or more of the aforementioned metrics. Tertiary markets follow and lag secondary markets in these metrics. As such, risk generally increases as an investor moves beyond primary markets. Figure 4 below lists examples of the markets broken out by primary, secondary and tertiary.

Figure 4. Real Estate Investment Markets

PRIMARY MARKETS		SECONDARY MARKETS		TERTIARY MARKETS	
1	San Francisco	7	Atlanta	13	Kansas City
2	Los Angeles	8	Dallas	14	Phoenix
3	Chicago	9	Austin	15	Cleveland
4	Boston	10	Seattle	16	Memphis
5	New York	11	Portland	17	Baton Rouge
6	Washington, DC	12	Miami/South Florida	18	Greenville

Source: Mercer

4

Property Sector

As illustrated in Figure 5 on the following page, property sectors are a key diversifier within a real estate portfolio. Commercial real estate investment managers broadly focus on four primary property types: industrial, retail, multifamily and office.

- **Industrial:** These assets are large warehouses that support e-commerce, logistics and production activities. Industrial assets have been a growing property type over the past several years due to the rise of e-commerce.

- **Retail:** These properties include any commercial building in which a consumer can buy or experience a good or service. The retail asset class has experienced a major transformation as a result of the e-commerce boom. Consumers are increasingly shopping online, which is taking foot traffic away from traditional brick-and-mortar retail locations. As a result, many brick-and-mortar stores are either reducing their footprints or going out of business. "Experiential retail," including restaurants, theaters and other services that cannot be purchased online, has become an important driver of this sector.

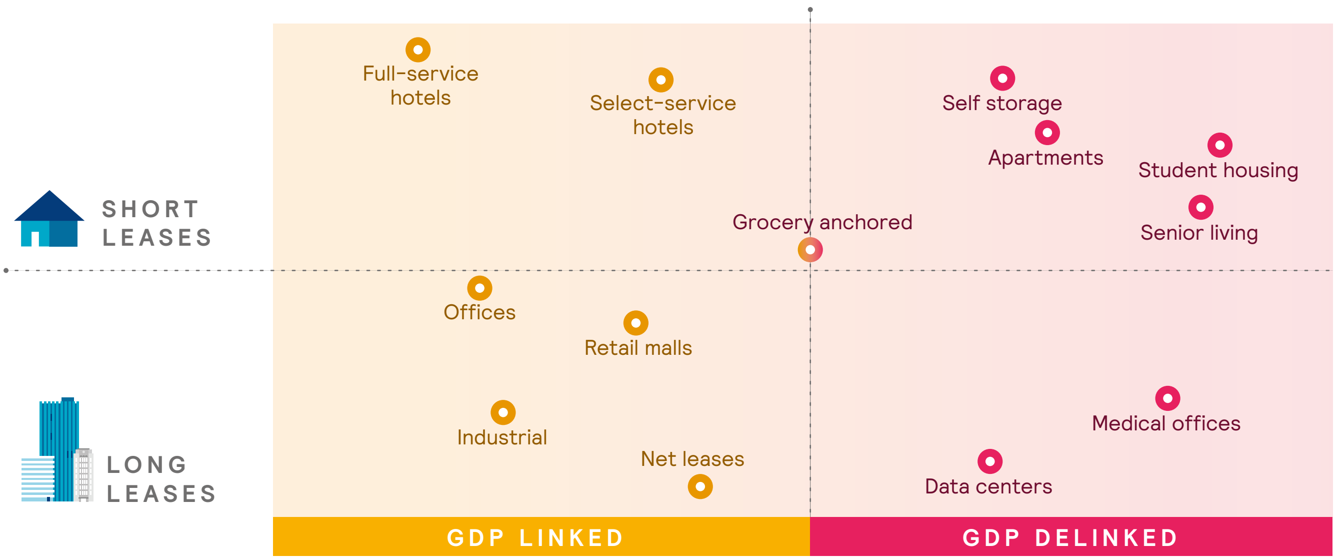
- **Multifamily:** The multifamily asset class is synonymous with apartment buildings, which have seen strong momentum since the global financial crisis. Millennials and Generation Zs are increasingly moving to cities and delaying the initial purchase of a single-family home, a dynamic that has created a strong demand for multifamily real estate.

- **Office:** An office building is space used to conduct commercial and professional work. This asset class has longer lease durations, since companies will typically sign a lease for 10 or more years. The performance of the office sector has faced headwinds over the last several years due to a shift to telecommuting and a reconfiguration of office space.

The commercial real estate industry has also seen a rise in niche property sectors over the past decade. Niche property sectors include senior living facilities, student housing, self-storage units, medical office centers, life science buildings, data centers and much more. Investors have shown an increased interest in niche property sectors due to their noncyclical nature, which can provide enhanced diversification to a real estate portfolio. These longer-leased, GDP-delinked properties should generate lower volatility across a market cycle than the four traditional property types listed above. A portfolio that is well-diversified will include both traditional and niche property types in order to provide a balanced portfolio that is more stable across economic cycles.

4

Figure 5. Property Diversification



Source: Mercer

Vintage Year

A vintage year refers to the year in which an initial capital call occurs for a fund. A vintage year may occur at the peak, trough or any other point of a market cycle, the timing of which will have a substantial effect on the fund's long-term performance. A real estate portfolio that invests across vintage years helps mitigate risk and portfolio cyclicality.

Risk and Return

Risk tolerance and investment objective will differ by investor, impacting the diversification, return and liquidity needs of the portfolio. Some investors may use the asset class tactically, choosing a single fund to access a select market opportunity, whereas other investors have a strategic allocation to real estate, generally dictating a more-diverse portfolio across investment manager, strategy type, geography, property sector and vintage year.

5

Real Estate Portfolio Construction

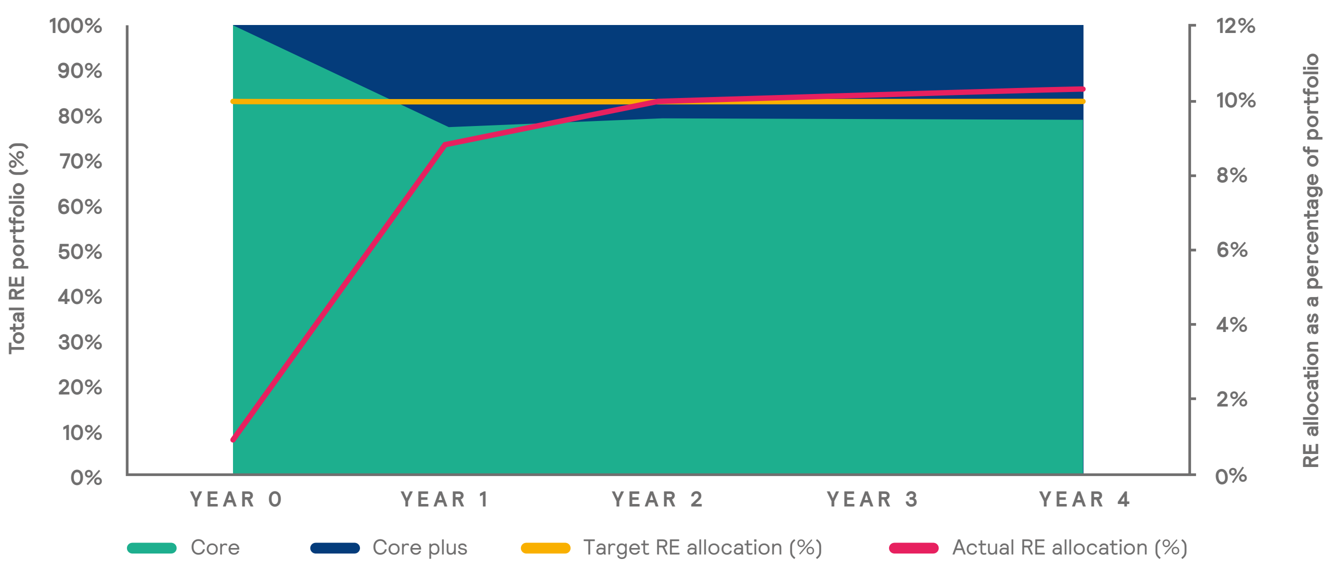
Constructing a real estate portfolio incorporates a number of factors: return objectives, risk tolerance, liquidity needs, timeline and strategy. It is important for a real estate portfolio to provide a diversified strategy that will not only respond to the investor's objective but will mitigate risk and volatility within a portfolio. Portfolios should balance tolerance for complexity with focusing on the need for an investor's liquidity. Investors should be mindful that as a portfolio moves up the risk spectrum, so does the cost and complexity of implementing and maintaining the strategy.

Core Portfolio

An investor with a low risk tolerance and in need of liquidity should start with a private core portfolio. Core real estate provides the greatest amount of liquidity because of its higher-quality assets, primary and secondary market locations, and open-end fund structure. Typically, once an investor makes a commitment to a core fund, the capital is called in to the fund within the next several quarters and will be perpetually invested in the fund until a redemption is made.

As Figure 6 below illustrates, to create a core portfolio, the ramp-up period to reach an investor's target weighting will be relatively short, typically taking less than a year. The core fund will provide a steady real return over the long term, with most of the fund's performance deriving from income. The fund will also provide lower volatility and protect against an initial j-curve, since capital is invested relatively quickly. Figure 6 suggests that a core-only real estate portfolio keeps a steady allocation due to the perpetual life of the fund, allowing for less-complex portfolio monitoring.

Figure 6. Initial Diversification of Core Portfolio



Source: Mercer
These numbers are used for illustrative purposes.

5

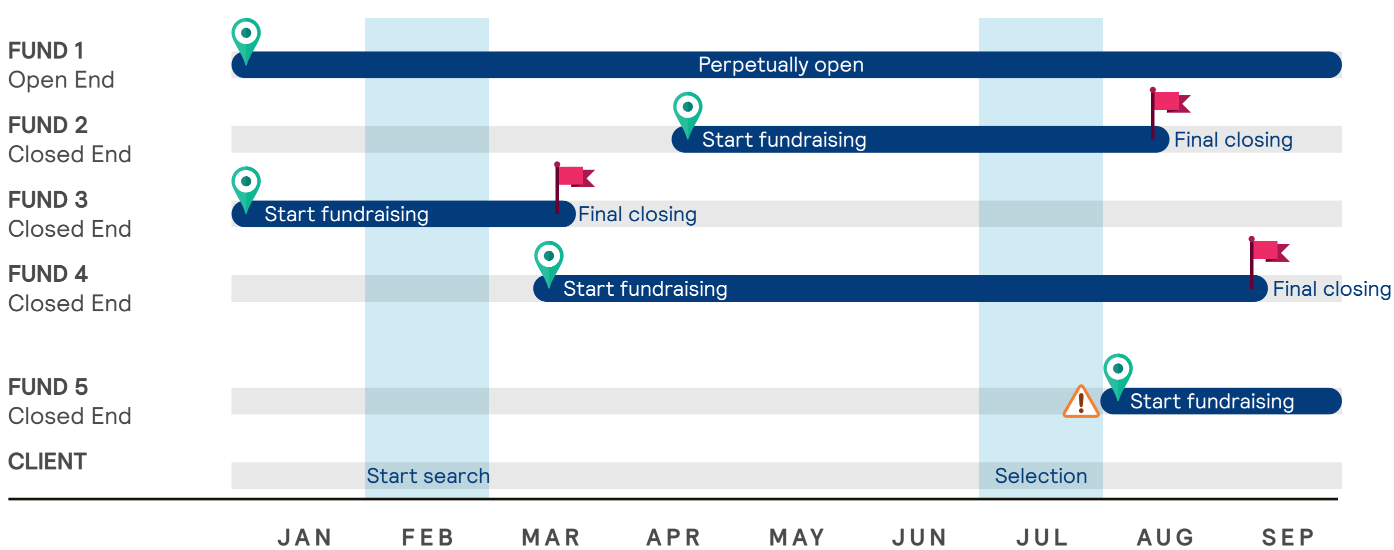
Noncore Portfolio

In order to achieve a higher return, an investor with a higher tolerance for risk and in need of less liquidity can invest in private noncore real estate. Noncore real estate generally refers to value-add and opportunistic funds that have a closed-end vehicle structure. These funds have a more-complex investment process and require a greater degree of execution for the investment manager. These types of closed-end investment vehicles generally resemble other private market investments and therefore require the same complex portfolio implementation and monitoring.

The implementation of private noncore has a cash-flow-like pattern. Described above in section 3, the closed-end fund structure has three phases: fundraising, investing and harvesting. Given the periodic nature of closed-end funds, the ideal approach is to create a steady commitment pace within the portfolio, layering in private noncore funds with some core fund exposure to help reduce risk and mitigate the j-curve. Once a portfolio becomes established, an investor can layer in noncore funds with different vintage years that help to provide a steady NAV pattern and diversify the portfolio over time and cycles. To create a ground-up portfolio, our team recommends dedicating 40%–60% to a core allocation, with the balance of the portfolio invested in value-add and opportunistic funds. However, some investors do not require the diversification benefits provided by core real estate and are comfortable investing solely in closed-end value-add and opportunistic funds that provide the potential for higher returns.

An investor must also be patient when initially implementing closed-end noncore funds in its real estate portfolio. As illustrated in Figure 7 below, there is no set timeframe for when a closed-end fund will be accepting capital. Therefore, at any given point in time, there may not be a best-in-class manager raising a fund or accepting new capital commitments. For example, while Funds 1 through 4 below may be accepting capital during the investor's desired timeframe, the investor may have to wait a moderate amount of time if Fund 5 has the most desired characteristics for the investor's portfolio.

Figure 7. The Periodic Nature of Fundraising

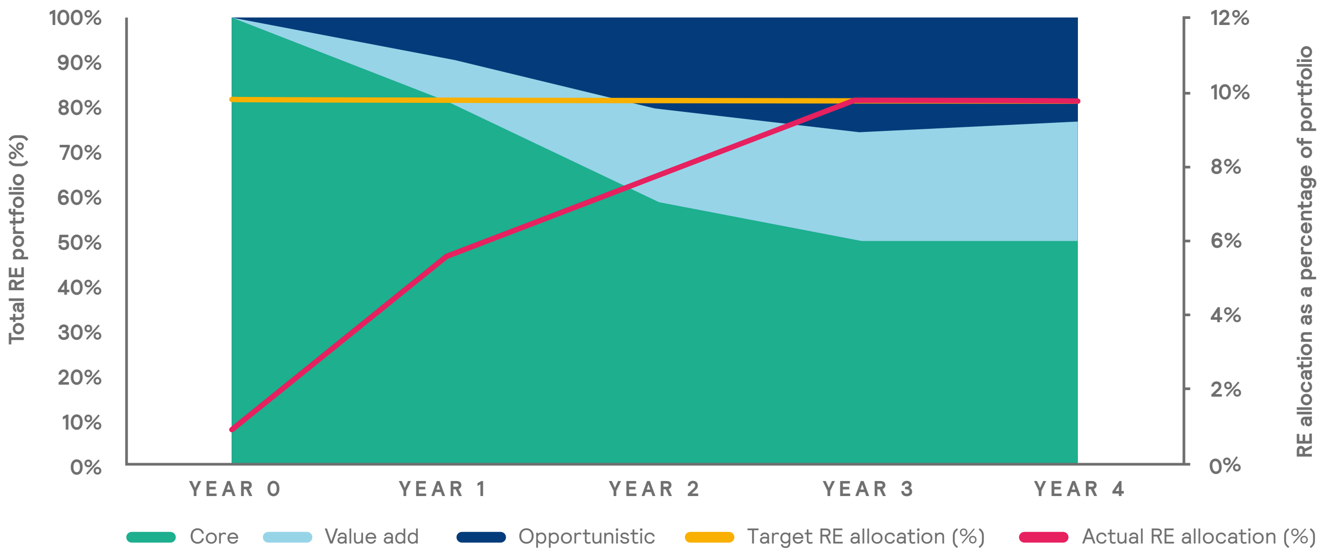


Source: Mercer

5

A real estate portfolio that includes a moderate or higher amount of noncore real estate can take several years before reaching its desired diversification targets. Figure 7 suggests an investor would reach its target in approximately three to five years. As illustrated, the core funds provide a solid initial foundation for the portfolio as the closed-end funds call capital slowly over a two- to four-year investment period. The type of portfolio illustrated in Figure 8 below will provide higher returns and higher volatility than the pure core portfolio in Figure 6 as the noncore funds begin to grow and take on more execution risk.

Figure 8. Initial Diversification of Noncore Portfolio



Source: Mercer
These numbers are used for illustrative purposes.

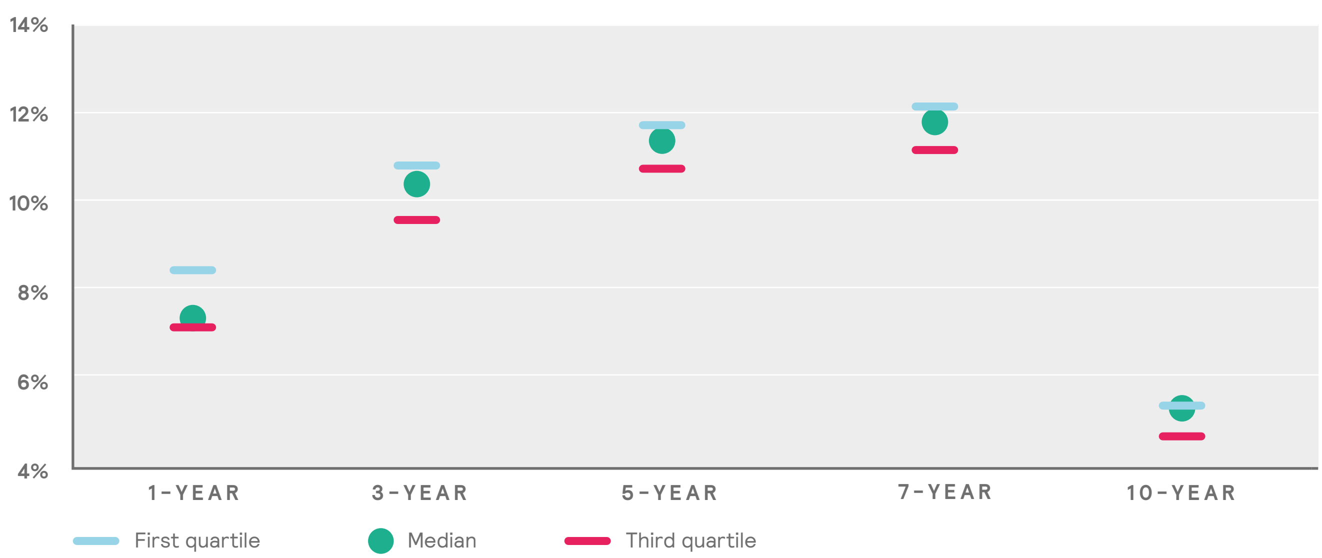
6

Effective Manager Selection

Manager selection is crucial in developing and successfully implementing a real estate portfolio, as return deviation among underlying funds can be significant. A manager's proficiency in all functions of the investment process should be taken into consideration when evaluating its ability to execute a strategy. To select a manager most effectively, an investor will need to consider the following: active asset management, underwriting approach, sourcing, team and platform, and the track record of the investment manager's existing investments.

Using the benchmarks discussed in section 6, Figure 9 below illustrates the deviation in returns of the underlying private core funds in the NCREIF ODCE index. The ODCE benchmark incudes 25 US institutional core funds. The diagram displays the first, median and third quartile of the underlying funds in the NCREIF ODCE benchmark over the prior one-, three-, five-, seven- and 10-year periods since March 31, 2018.

Figure 9. Benchmarking Returns
Open-End Real Estate Funds — NCREIF ODCE

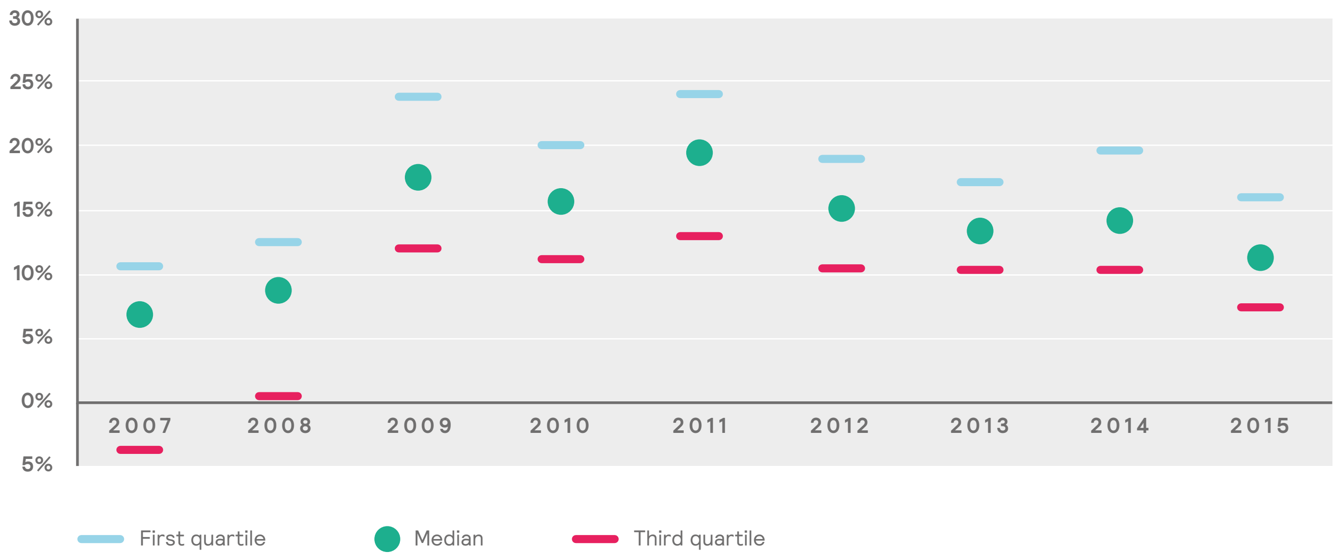


Source: NCREIF
Gross total returns as of March 31, 2018

6

Figure 10 below illustrates the net IRRs of individual underlying closed-end real estate funds tracked by Preqin for each vintage year since 2007, including the first-, median- and third-quartile IRRs.

Figure 10. Benchmarking Net IRR
Closed-End Real Estate Funds — Global



Source: Preqin, NCREIF

Both Figures 9 and 10 illustrate the deviation in underlying fund performance. The dispersion between top-quartile and lower-quartile closed-end funds can often be as great as 1,000 basis points (bps), further magnifying the need for careful manager and fund selection. Mercer's Real Estate Research team monitors and evaluates more than 2,000 investment strategies per year, speaking to the breadth of investment options in the space. It is through careful manager selection, due diligence and monitoring that a strong real estate portfolio is created and maintained.

7

Benchmarking

A benchmark is a standard against which the performance of a fund or portfolio can be measured. For private equity real estate in the US, the most common benchmarks are the NCREIF Property Index (NPI) and the NCREIF Fund Index — Open End Diversified Core Equity (NFI-ODCE).

Both indices are issued by the National Council of Real Estate Investment Fiduciaries (NCREIF) and are quarterly time-series-composite, total-rate-of-return measures of investment performance. Although similar, these indices have key differences, highlighted in Figure 11 below.

Figure 11. Key Differences Between the NPI and NFI-ODCE

	NPI	NFI-ODCE
Composition	A very large pool of individual commercial real estate properties acquired in the private market for investment purposes only; all properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors — the majority being pension funds	Open-end commingled funds pursuing a diversified investment strategy primarily investing in private equity real estate
Sectors included	Office, industrial, retail, multifamily and hotels only	Office, industrial, retail, multifamily and specialty sectors, such as senior housing, self-storage and medical office, etc.
Leverage	Not included	Included in fund level calculations
Joint-venture properties	Joint-venture properties in NFI-ODCE may be managed by non-NCREIF members — data therefore are not reported in the NPI but do appear in the NFI-ODCE	

Source: Mercer's *Perspectives on Real Estate Investments*

A London-based global real estate research firm, Investment Property Databank (IPD), also constructs a quarterly index, the IPD US Quarterly Property Index, which encompasses both tax-exempt and taxable domestic and foreign investors invested in the US. The index is a compilation of investment results for investors in commercial institutional real estate.

Core and core-plus investors typically use the NFI-ODCE as the standard benchmark. Due to the lack of real estate benchmarks, many noncore investors also use the NFI-ODCE, often incorporating a 100-basis-point to 500-basis-point return premium in excess of the index to account for the additional risk of noncore strategies. Alternatively, noncore investors may use Preqin or Burgiss, which are vintage-year benchmarks comprising closed-end funds. Both Preqin and Burgiss are universe analytics and benchmarking tools that provide data on private capital markets. Both tools provide historical performance data, fund-level cash flow data, PME benchmarks, horizon IRRs and much more. Preqin and Burgiss are good options for noncore funds that need a more-comparable benchmark.

8

Fees

Fees for institutional real estate products vary based on the structure of the vehicle. Private core products with an open-end fund structure typically have much lower fees than the noncore products with a closed-end structure. Private core funds typically charge a base management fee with no additional charges. Private core funds are cheaper due to their size as well as less extensive work requirements on the underlying assets themselves. On average, a private core vehicle charges around 90–120 bps in a base management fee, depending on the investor's commitment amount.

Noncore closed-end funds often have a performance fee on top of the base management fee. These types of performance fees are known as incentive fees. Incentive fees are given to the investment manager once it reaches a return hurdle for the fund. An incentive fee is used to motivate and compensate an investment manager for producing favorable returns for an investor (typically above a hurdle of 6%–10%), creating alignment between the investment management team and the investor. On average, a private noncore vehicle charges 125–150 bps in a base management fee, with an incentive fee on top of that; fees can vary based on the size of the commitment amount.

Figure 12 below illustrates average private real estate fund terms for varying investment options.

Figure 12. Real Estate Fund Terms

FUND STRATEGY	CORE/ENHANCED CORE	VALUE ADD	OPPORTUNISTIC
Minimum investment required	US$1 million–US$5 million	US$1 million–US$5 million	US$5 million–US$10 million
Annual returns before fees (historical average)	6%–10% primarily income	10%–15% income and appreciation	15%–20% primarily appreciation
Average asset management fees	90–120 bps	125–150 bps plus incentive fee	150+ bps plus incentive fee
Risk level	Moderate	Medium to high	High
Fund structure	Open-end: trust, private REIT, limited partnership, LLC, separate account	Open-end or closed-end (5- to 10-year term): limited partnership or LLC	Closed-end (5- to 10-year term): limited partnership or LLC

Source: Mercer

9

Conclusion

Real estate has repeatedly proved itself as a valuable component of an institutional investor portfolio. Over the long term, US core real estate has generated higher returns than fixed income and lower volatility than equities while consistently providing diversification benefits to both asset classes. A real estate allocation can help investors achieve a variety of objectives: high returns, stable income, inflation protection and diversification.

Through careful investment manager selection and implementation, a solid real estate portfolio can be built and maintained. Mercer's Real Estate Research team tracks hundreds of investment managers and thousands of investment strategies to locate the best opportunities within the current market environment. We encourage investors to consider and evaluate the risks and benefits of real estate as an allocation within their portfolios.

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