

# Research Insights

Original Research

## Real Estate by Implementation Style

Alexander D. Beath, Chris Flynn, December 2018  
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The realized allocation to and performance and risk characteristics of twelve major asset classes over a long 19-year period (1998-2016) has been reported on by us for a set of up to 200 large U.S. defined benefit (DB) pension plans representing nearly \$3.5 trillion USD in assets<sup>2</sup>. A defining characteristic of our referenced study is that we placed listed assets on the same footing<sup>3</sup> as unlisted assets, allowing direct comparison between small cap U.S. stock and private equity for one example, and listed equity real estate investment trusts (REITs) and unlisted real estate for another.

One conclusion of our study is that unlisted assets, often assumed to provide an unrealistic source of diversifying power to portfolios, are not that different from their listed counterparts. Indeed, the great diversifying power of unlisted assets over their listed counterparts is shown to occur because of accounting differences in the reported performance data between them. In an extreme case, as-reported unlisted real estate returns exhibit low volatility in comparison to other asset classes and low correlations to other major asset classes. However, the low as-reported volatility and correlations of unlisted real estate are caused, quite simply, by funds reporting returns a year or more delayed from when they actually occurred, almost guaranteeing the (wrong) conclusions about the asset class.

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