News Release

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CEM BENCHMARKING RELEASES DIRECT COMPARATIVE STUDY ON DEFINED BENEFIT PENSION FUND PERFORMANCE AND COSTS

Data from over 300 pension funds found listed equity REITs to be the top-performing asset class overall, with significantly lower fees than other real and alternative assets

WASHINGTON, D.C., AND TORONTO, ON, October 14—CEM Benchmarking Inc., an independent provider of cost and performance analysis for pension funds, endowments, foundations and sovereign wealth funds, and NAREIT, the National Association of Real Estate Investment Trusts®, announced a new study by CEM on U.S. pension fund performance and investment costs. CEM's findings provide direct comparative insights for defined benefit (DB) pension funds that seek to better understand realized investment returns and management fees for 12 different asset classes, including traditional stock and bond funds and alternative assets, including real estate.

"Concern about the adequacy of pension funding has focused attention on investment performance and fees," said Alexander D. Beath, PhD, author of the CEM study. "The data underscore that when it comes to long-term net returns, costs matter and allocations matter."

The study is based on actual return and fee data provided by more than 300 U.S. DB plans from the CEM database with $2.8 trillion of assets under management. It analyzes the period 1998 through 2011, during which a fundamental change occurred in the DB market, as represented by the pension plans included in the study, which increased their investments in alternative assets – private equity and hedge funds, real estate and other real assets such as commodities and infrastructure – by nearly 400 percent on average. CEM used its extensive databases to examine how this reallocation to alternatives paid off in terms of gross returns and realized returns net of fees charged by investment managers.

"Many pension plans could have improved performance by choosing different allocation strategies and optimizing their management fees," Beath continued. "Listed equity REITs delivered higher net total returns than any other alternative asset class for the fourteen-year period we analyzed, driven by high and stable dividend payouts, long-term capital appreciation and a significantly lower fee structure compared to private equity and private real estate funds."

Highlights of the study, "Asset Allocation and Fund Performance of Defined Benefit Pension Funds in the United States Between 1998-2011," include:

Listed equity REITs were the top-performing asset class overall in terms of net total returns over this period. .Private equity had a higher gross return on average than listed REITs (13.31 percent vs 11.82 percent) but charged fees nearly five times higher on average than REITs (238.3 basis points or 2.38 percent of gross returns for private equity versus 51.6 basis points or 0.52 percent for REITs). As a result, listed equity REITs realized a net return of 11.31 percent vs. 11.10 percent for private equity. Net returns for other real assets, including commodities and infrastructure, were 9.85 percent on average. Net returns for private real estate were 7.61 percent, and hedge funds returned 4.77 percent. On a net basis, REITs also outperformed large cap stocks (6.06 percent) on average and U.S. long duration bonds (8.97 percent).

Many plans could have improved performance by choosing different portfolio allocations. CEM used the information on realized net returns to estimate the marginal benefit that would have resulted from a one percentage point increase in allocation to the various asset classes. Increasing the allocations to long-duration fixed income, listed equity REITs and other real assets would have had the largest positive impacts on plan performance. For example, for a typical plan with $15 billion in assets under management, each one percentage point increase in allocations to listed equity REITs would have boosted total net returns by $180 million over the time period studied.

Allocations changed considerably on average from 1998 through 2011. Of the DB plans analyzed by CEM, public pension plans reduced allocations to stocks by 8.5 percentage points and to bonds by 6.6 percentage points while increasing the allocation to alternative assets, including real estate, by 15.1 percentage points. Corporate plans reduced stock allocations by 19.1 percentage points while increasing allocations to fixed income by 10.5 percentage points (consistent with a shift to liability driven investment strategies), and to alternative assets by 8.6 percentage points. For the DB market as a whole, allocations to stocks decreased 15.1 percentage points; fixed income allocations increased by 4.3 percentage points; and allocations to alternatives increased by 10.8 percentage points. In dollar terms, total investment in alternatives for the 300 funds in the study increased from approximately $125 billion to nearly $600 billion over the study period.

Download the CEM study

To learn more about the CEM Benchmarking study, download a pdf of the study itself and watch a video of study author Alexander Beath discussing the research, **click here.**

About CEM Benchmarking and its pension fund research

Of the $19.8 trillion of retirement assets in the United States at the end of 2013, $7.2 trillion was held and managed in traditional defined benefit pension plans, including endowments and foundations. Millions of Americans rely on returns from these investments for current or future retirement incomes. The investment allocation decisions of DB pension plan managers are thus of the utmost importance.

The results of the study are derived from CEM's unique database which contains detailed information regarding asset allocation, investment performance and investment expenses for more than 900 large, global institutional investors. The study used realized investment performance information, rather than performance data as measured by broad asset class benchmarks. CEM analyzed the performance of a broad set of asset classes, both gross and net of fees; portfolio allocations and how they changed over time; and how these portfolio allocation decisions and asset class returns affected actual pension fund performance.

Editors' Note: *NAREIT provides media resources on REIT Basics, a Glossary of REIT Terms, as well as other industry data and information on the value that REITs provide to investors, the economy and our communities on REIT.com. NAREIT also makes economists and other industry experts available for commentary on industry trends and research.*

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