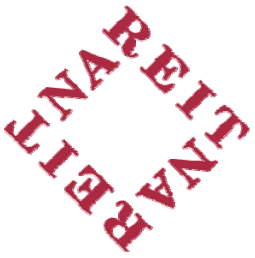
OFFICERS
Chair
Martin E. Stein, Jr.
Regency Centers Corporation
President and CEO
Steven A. Wechsler
First Vice Chair
Jeffrey H. Schwartz
ProLogis
Second Vice Chair
Constance B. Moore
BRE Properties, Inc.
Treasurer
Debra A. Cafaro
Ventas, Inc.

2008 NAREIT Board of Governors
Andrew M. Alexander
Weingarten Realty Investors
Kenneth Bernstein
Acadia Realty Trust
Bryce Blair
AvalonBay Communities, Inc.
Jon E. Bortz
LaSalle Hotel Properties
David M. Brain
Entertainment Properties Trust
John Bucksbaum
General Growth Properties, Inc.
Richard J. Campo
Camden Property Trust
Richard B. Clark
Brookfield Properties Corporation
Arthur M. Coppola
Macerich
Michael A. J. Farrell
Annaly Capital Management, Inc.
James F. Flaherty, III
HCP, Inc.
Edward J. Fritsch
Highwoods Properties, Inc.
Laurence S. Geller
Strategic Hotels & Resorts, Inc.
Jonathan D. Gray
Blackstone Real Estate Advisors
Randall M. Griffin
Corporate Office Properties Trust
Keith R. Guericke
Essex Property Trust, Inc.
William P. Hankowsky
Liberty Property Trust
Ronald L. Havner, Jr.
Public Storage, Inc.
Philip L. Hawkins
DCT Industrial Trust, Inc.
Mitchell E. Hersh
Mack-Cali Realty Corporation
Rick R. Holley
Plum Creek Timber Company, Inc.
David H. Hoster II
EastGroup Properties, Inc.
John B. Kilroy, Jr.
Kilroy Realty Corporation
Charles B. Lebovitz
CBL & Associates Properties, Inc.
Alan M. Leventhal
Beacon Capital Partners, LLC
Edward H. Linde
Boston Properties, Inc.
Peter S. Lowy
The Westfield Group
David J. Neithercut
Equity Residential
Dennis D. Oklak
Duke Realty Corporation
Jeffrey S. Olson
Equity One, Inc.
Ronald R. Pressman
GE Real Estate
Charles A. Ratner
Forest City Enterprises, Inc.
Steven G. Rogers
Parkway Properties, Inc.
R. Scot Sellers
Archstone-Smith
David E. Simon
Simon Property Group
David P. Stockert
Post Properties, Inc.
Jay Sugarman
iStar Financial Inc.
Gerard H. Sweeney
Brandywine Realty Trust
Robert S. Taubman
Taubman Centers, Inc.
C. Reynolds Thompson, III
Colonial Properties Trust
Garrett Thornburg
Thornburg Mortgage, Inc.
Thomas W. Toomey
UDR, Inc.
Scott A. Wolstein
Developers Diversified Realty Corporation
Donald C. Wood
Federal Realty Investment Trust



NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

May 2, 2008

Russell G. Golden
Director of Technical Application and Implementation Activities
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 132(R)-a

Dear Mr. Golden:

The National Association of Real Estate Investment Trusts® ("NAREIT") appreciates the opportunity to comment with respect to the proposed FASB Staff Position (FSP) to amend FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. NAREIT is the worldwide representative voice for REITs and publicly traded real estate companies with an interest in U.S. real estate and capital markets. Members include businesses that own, operate and finance income-producing real estate, as well as investors and individuals who advise, study and service the real estate investment community.

Our comments pertain specifically to the second question appearing on page two (*Request for Comment*) of the *Notice for Recipients of This Proposed FASB Staff Position*:

2. Are the asset categories that must be disclosed, if significant, representative of the types of assets held in postretirement benefit plans? Should any other categories be added?

Summary

In general, we support the recommendation to moderately increase the level of transparency with respect to the assets held in postretirement benefit plans, including additional granularity with respect to different categories of assets as well as reporting at fair value the investments held in each category of asset. Although there is no universally accepted definition of what, precisely, constitutes

♦ ♦ ♦

1875 I Street, NW, Suite 600, Washington, D.C. 20006-5413
Phone 202-739-9400 Fax 202-739-9401 www.nareit.com

a distinct asset class, most of the available literature with respect to investment research and practice as outlined in the discussion below recognizes four primary classes of assets: equities, fixed income, real estate and cash. Within each of those four asset classes, additional granularity may be appropriate, such as domestic and international equities, large-cap and small-cap equities or government and corporate fixed income. Nevertheless, the proposal to recognize eight distinct asset categories should not create an unacceptable burden on employers.

However, we believe the eight currently proposed asset categories have two notable shortcomings. First, with respect to real estate equity investments, the FSP does not provide sufficient clarity regarding the classification of real estate equity investments in REITs and publicly traded real estate companies. The example given in Appendix B (paragraph B1.e) clearly suggests, if it does not require, that investments in REITs and publicly traded real estate equities should be classified in "Diversified U.S. equity securities." However, real estate investment takes place in a continuum that includes direct investments, managed separate accounts, commingled funds, value-added funds, opportunity funds, REITs and joint ventures. Thus, we believe that limiting the classification of REIT equities only to the "equity securities" category is incompatible with long-established investment research as well as with current investment practice and economic analysis.

As outlined extensively in the discussion below, investments in REITs and publicly traded real estate companies <u>are</u> investments in commercial real estate equity, having attributes of both real estate and listed equities, and could be classified with equal justification in either the "U.S. real estate" category or the "Diversified U.S. equity securities" category. **Thus, we recommend clarifying the FSP to provide employers with flexibility to classify their investments in REITs and publicly traded real estate equities in the real estate category, the equity securities category or both, depending on whether employers hold REITs and publicly traded real estate equities, respectively, in their real estate allocations, their equity securities allocations or both.**

Second, the eight distinct asset categories recognized in the proposal are ambiguous with respect to the classification of investments outside of domestic markets. None of the eight asset categories recognized in the example shown in Appendix B specifically accommodates investments outside the U.S., and two of the asset categories – Diversified U.S. equity securities and U.S. real estate – specifically exclude such non-U.S. investments. Yet, most large retirement plans hold substantial investments in corporate equities and real estate equities, with growing proportions of both representing investments outside the U.S. **Thus, we also recommend modifying the FSP to include additional asset categories or to provide clarification with respect to the proposed asset categories that clearly accommodates investments outside the U.S.**

Background about REITs

The United States Congress enacted the first REIT law in 1960, and while it has been modernized over the last forty-eight years, the basic rules remain the same. A real estate

company must elect to be treated as a REIT under the Internal Revenue Code and satisfy specific rules intended to make certain that the company is largely devoted to the commercial real estate business.

These "REIT rules" mandate that: (1) at least 75 percent of the company's annual gross income must come from real estate rents, mortgage interest or other specified commercial real estate sources of income; (2) at least 95 percent of the company's annual gross income must come from real estate-related sources plus other passive sources such as interest and dividends; (3) at least 75 percent of the company's annual assets must consist of rental real estate, real estate mortgages or other commercial real estate assets; and (4) the company must distribute at least 90 percent of its taxable income each year to its shareholders. A company that qualifies as a REIT under this tax election then is allowed to deduct from its taxable income all dividends paid to its shareholders; this deduction generally results in a single level of tax borne at the shareholder level.

Since the first REIT legislation was enacted in 1960, Congress in subsequent years has modified and perfected the original REIT provisions. For example, REITs originally were limited in their activities to the passive ownership of property subject to external management. However, Congress used the Tax Reform Act of 1986 to change the REIT rules by allowing most REITs to become internally managed, vertically integrated companies as well as to provide "customary" tenant services associated with real estate ownership. Today, nearly all listed REITs are internally managed.

More recently, Congress enacted the REIT Modernization Act of 1999 that, effective in 2001, permitted REITs to own as much as 100 percent of a taxable REIT subsidiary that can provide a much wider array of services to the REIT's tenants and others without disqualifying the rents that the REIT receives from its tenants. Although income to the subsidiary is taxable at the corporate level, the new arrangement recognized that the real estate industry, like other major businesses in the U.S., had evolved into a broad-based, customer-oriented service business. Specifically, the Internal Revenue Service concluded in Revenue Ruling 2001-29 that REITs may conduct an "active trade or business" for taxable spin-off purposes.

Most REITs today are publicly traded and vertically-integrated, full-service companies, usually chartered under state law like most companies as corporations. Listed REITs operate in the commercial real estate industry in the same manner as Verizon in the telecommunications industry, Intel in the semiconductor industry or Caterpillar in the heavy equipment industry. Most publicly traded REITs are listed on the New York Stock Exchange (NYSE), and all publicly traded REITs follow the same regulatory and financial reporting requirements established by the Securities and Exchange Commission and the NYSE for all publicly traded companies.

Most REITs are classified as equity REITs, *i.e.*, companies that own, manage, develop and lease commercial property. Today, equity REITs comprise more than 90 percent of the total equity market capitalization of all publicly traded REITs. Mortgage REITs, which provide financing for residential or commercial real estate through investments in residential or commercial

mortgages or mortgage-backed securities, account for most of the remaining market capitalization.

In October 2001, Standard & Poor's announced that it would include REITs as constituents in its broad equity market indexes. At the time of the announcement, S&P stated, "Standard & Poor's believes that REITs have become operating companies subject to the same economic and financial factors as other publicly traded U.S. companies listed on major American stock exchanges." As of March 31, 2008, the S&P 400, S&P 500 and S&P 600 equity indexes combined included 58 equity REITs with a combined equity market capitalization of $237 billion representing approximately 77 percent of the publicly traded REIT industry.

U.S. equity REITs own and manage approximately $600 billion of commercial real estate by market value, accounting for approximately 10-15 percent of all investment-grade, income-producing real estate in the United States. These real property assets account for approximately 92 percent of the total assets of all U.S. equity REITs. Thus, investment in equity REITs represents investment in commercial real estate equity.

Discussion

2. *Are the asset categories that must be disclosed, if significant, representative of the types of assets held in postretirement benefit plans? Should any other categories be added?*

We believe that nearly all market participants and nearly all academic investment research today view commercial real estate equity investment as a distinct asset class, providing investment attributes that are fundamentally different from those of other equity and fixed income investments.

We believe further that nearly all market participants today view equity REITs and other publicly traded real estate companies engaged in the acquisition, development, ownership, leasing and management of commercial property as one of several investment platforms, having attributes of both real estate and listed equities, for obtaining portfolio exposure to commercial real estate equity investment.

Real Estate Equity as a Distinct Asset Class

According to any generally accepted investment theory, a separate asset class is determined by its pattern of investment returns. A form of investment is considered a distinct asset class if its expected level of return and volatility of returns are sufficiently different from those of other investments, and its sequence of returns has a sufficiently low covariance with the returns of other asset classes in the portfolio to yield higher overall portfolio returns from diversification.[1]

[1] As one author explains, "Modern portfolio theory…shifted the focus of attention away from individual securities and toward a consideration of the portfolio as a whole. The notion of diversification had to be simultaneously reconsidered. Optimal diversification goes beyond the idea of simply using a number of baskets in which to carry one's eggs. *Major emphasis must also be placed on finding baskets that are distinctly different from one another*.

A portfolio with appropriate allocations to each of the generally accepted investment classes is *efficient* in the sense that risk-averse investors can expect to maximize their portfolio returns at the low level of portfolio risk they prefer, while risk-tolerant investors can expect to minimize the volatility of returns in their investment portfolio at the high level of returns they seek.

The four asset classes generally accepted as the fundamental building blocks of a well-diversified investment portfolio are: 1) *equities*, 2) *fixed income*, 3) *real estate*, and 4) *cash*. The importance of real estate as one of the four fundamental asset classes stems from its long-run average return and volatility as well as the low correlation of its investment returns with those of other asset classes:[2]

- Over 30 years ended December 31, 2007, the compound annual return from real estate equities was 14.2 percent compared with 13.0 percent from other equities, 8.5 percent from bonds and 6.2 percent from cash.
- Over the same 30-year period, the annualized standard deviation of monthly returns on real estate equities was 13.5 percent compared with 14.7 percent for stocks, 5.9 percent for bonds and 0.9 percent for cash.
- Over the same 30-year period, the coefficient of correlation between monthly returns from real estate equities and the returns from other asset classes was 0.49 with other equities, 0.18 with bonds and -0.03 with cash.

The strong risk-adjusted returns from real estate equity investment plus the low correlation between returns from real estate equities and the returns from other asset classes mean that portfolios with appropriate allocations to real estate equities can be expected to produce higher risk-adjusted returns when compared with portfolios having no real estate exposure. According to Ibbotson Associates and Morningstar, adding global real estate equities to portfolios of stocks, bonds and cash increased returns on average by 20 percent (from 10.1 percent per year without real estate to 12.1 percent per year with real estate) without increasing portfolio risk.[3]

Princeton University Chemical Bank Chairman's Professor of Economics Burton G. Malkiel sums up the importance of real estate equity as one of the four fundamental asset classes and as a critical part of any well-diversified investment portfolio: "**Basically, there are only four types**

That is important because each basket's unique pattern of returns partially offsets the others, with the effect of smoothing overall portfolio volatility. … (M)odern portfolio theory stresses that it is wise to invest in a broad array of diverse instruments. These concepts were later given legislative endorsement in the Employee Retirement Income Security Act of 1974, which stressed the importance of diversification within a broad portfolio context." Roger C. Gibson, *Asset Allocation: Balancing Financial Risk*, (emphasis added).

[2] These figures reflect the following indexes over the maximum time period for which all four indexes are available: 1) real estate equities are represented by the FTSE NAREIT Equity REIT Index; 2) other equities are represented by the Standard & Poor's 500® Index; 3) bonds are represented by the Lehman Brothers U.S. Aggregate Bond Index; and 4) cash is represented by 3-month U.S. Treasury bills.

[3] "Commercial Real Estate: The Role of Global Listed Real Estate Equities in a Strategic Asset Allocation," prepared by Tom Idzorek (Ibbotson Associates) and Michael Barad and Steve Meier (Morningstar Financial Communications) (2006). Data are updated results based on historical returns for the period 1990-2006.

of investment categories that you need to consider: Cash, Bonds, Common stocks, and Real estate."[4]

Large institutional investors, including major public and corporate plan sponsors, also have long viewed real estate equity investment as a distinct asset class. According to David F. Swensen, chief investment officer of the Yale University endowment, "**Core asset classes encompass stocks, bonds and real estate.**"[5] Swensen continues, "**Finally, asset-class exposure to equity real estate produces a hybrid of equity-like and bond-like attributes, generating inflation protection at a lower opportunity cost than other alternatives.**"

Malkiel and Swensen are not alone in their points of view. Their position is supported by countless other academic economists and investment industry professionals.

- "Real estate is not an alternative to stocks and bonds; it is a fundamental asset class that should be included within every diversified portfolio." – Mark J.P. Anson, *Handbook of Alternative Assets*

- "A major part of any investment plan is portfolio asset allocation. That is the amount of money you invest in each of various asset classes, such as stocks, bonds, real estate and cash." – Richard A. Ferri, *All About Asset Allocation* (2006)

- "Other asset classes that are often used consist of money market securities ("cash"), foreign stocks, foreign bonds, venture capital and real estate." – William F. Sharpe, Nobel Laureate and author of *Investments* (6th edition)

- Markowitz characterized "stocks, bonds, cash items and real estate [other than the family's home(s)]" as a "sufficient" list of assets. – Harry M. Markowitz, "Individual versus Institutional Investing," *Financial Services Review*, 1:1-8 (1991)

- "First, … real estate constantly had positive allocations over time periods ranging from 5 to 25 years, and for most levels of portfolio return, irrespective of whether real estate is used to enhance returns or reduce risk. Secondly, the benefits from including real estate in the mixed-asset portfolio tend to increase as the investment horizon is extended." – Stephen Lee and Simon Stevenson, "Real Estate in the Mixed-Asset Portfolio: The Question of Consistency," *Journal of Property Investment and Finance*, 24:123-135 (2006)

- "Real estate's role extends from the lowest-risk end of the efficient frontier to just past the midpoint of the mixed-asset efficient frontier. This makes sense, as real estate is both a low-risk asset itself and an excellent risk reducer (when added to) a stock and bond portfolio." – Susan Hudson-Wilson, Frank J. Fabozzi, and Jacques N. Gordon, "Why Real Estate?" *Journal of Portfolio Management* special real estate issue, 12-27 (2003)

[4] *The Random Walk Guide to Investing*, Burton G. Malkiel, 2005.
[5] Swensen, David F., *Unconventional Success: A Fundamental Approach to Personal Investment*, 2005.

♦ ♦ ♦

- "If the characteristics of real estate…are expected to continue in the future, this study shows they can make a major risk adjusted return contribution to a mixed-asset portfolio." – Andrew G. Mueller and Glenn R. Mueller, "Public and Private Real Estate in a Mixed-Asset Portfolio," *Journal of Real Estate Portfolio Management*, 9:193-203 (2003)

- "We find that the correlations between property share returns and common stock returns show a similar declining trend in both (the U.S. and the United Kingdom), indicating increased mixed-asset diversification potential for property shares." – Dirk Brounen and Piet Eichholtz, "Property, Common Stock, and Property Shares," *Journal of Portfolio Management* special real estate issue, 129-137 (2003)

- "Overall, including real estate in the mixed-asset portfolio appears to offer an improvement in terminal wealth and a reduction in terminal wealth standard deviation (*i.e.*, risk) compared with the base portfolio [without real estate]." – Peter Byrne and Stephen Lee, "The Impact of Real Estate on the Terminal Wealth of the UK Mixed-Asset Portfolio," *Journal of Real Estate Portfolio Management*, 11:133-146 (2005)

These findings of investment industry professionals and academic economists with respect to the investment characteristics of real estate emphasize the importance of real estate as a distinct economic sector and a distinct asset class, one whose inclusion in the investment portfolio may dramatically improve risk-adjusted returns. In short, the weight of the accumulated evidence supports the treatment of the real estate economy and real estate equity investment as a separate and fundamental activity. Further evidence supporting the treatment of real estate as a distinct economic sector and asset class is provided in Exhibit 1 with an "Annotated Bibliography: *Real Estate as a Core Asset.*"

Investment consultants Allianz Global Investors, Russell Investment Group and Callan Associates also treat real estate investment, as measured by the performance of equity REITs and publicly traded real estate companies, as a distinct asset class. As illustrated in Exhibit 2, each of these major investment consultants publishes "periodic" tables of the strongest and weakest performing investments in the investment opportunity set regularly available to most investors. As noted at the top of the table prepared by Allianz, the table "… ranks the best to worst performing *asset classes* from top to bottom …" (Emphasis added.)

Diversification and REITs

Historical investment returns demonstrate the diversification benefits available from commercial real estate equity investment through REITs. As revealed by investment returns for the 15-year period shown in Exhibit 3, no part of the broad equity market can match the overall performance, stability and portfolio diversification potential available from REITs.

Investors combine data on investment returns and the volatility of those returns into a measure of risk-adjusted returns known as the Sharpe ratio. The ratio divides the average excess return for each asset by the standard deviation of excess returns to estimate the reward that the investor

received for each unit of risk in the portfolio.[6] Diversification potential is even more important than investment returns. A high correlation coefficient of returns between two assets means that the second asset provides essentially no diversification to a portfolio already invested in the first asset, while a low correlation coefficient indicates that the second asset is likely to provide meaningful diversification when added to the portfolio.

Exhibit 3 compares the Sharpe ratios (vertical axis) and correlation coefficients (horizontal axis) of different types of investments – as represented by their appropriate performance benchmarks – with the Dow Jones Wilshire 5000 Index, a broadly diversified performance benchmark of domestic stocks. The exhibit includes every performance benchmark (or index) with a history beginning 1993 representing a particular U.S. stock market sector or style of investment. Assets near the top of the exhibit demonstrate high risk-adjusted returns, while assets near the left-hand side reveal low correlation with the Dow Jones Wilshire 5000 and appreciable diversification potential for a portfolio already invested in large-cap or broad market equities. Specifically, an investor already invested in large-cap stocks should look to add to their portfolio assets that are positioned near the upper-left corner of the exhibit.

The data in Exhibit 3 demonstrate that equity REIT returns, as measured by five separate REIT indexes, are unique in the investment portfolio.[7] For risk-adjusted performance and diversification potential, no other sector of the stock market or style of stock investing comes close to what REITs offer.

REIT total returns have averaged approximately 14.4 percent per year over the 15 years since the beginning of the modern REIT era in 1993. That's approximately 22 percent higher than the 11.8 percent per year in total returns realized by the S&P 500. Over the same period, the volatility of REIT returns was somewhat less than that of broader equity returns, indicating that REITs had higher risk-adjusted performance. The Sharpe ratio for REITs was approximately 3.0, appreciably higher than the 2.6 for the S&P 500. Over the same period, the correlation of REIT returns with returns from the S&P 500 has been only about 32 percent. When returns from the S&P 500 decline, REIT returns are unlikely to decline at the same time. Thus, portfolio returns as a whole will demonstrate less volatility.

As revealed in Exhibit 3, hardly any sector of the stock market had a correlation less than 50 percent compared with just 32 percent for REITs. The only exceptions, utility stocks and commodities, had Sharpe ratios of around 2.0 and 1.5, respectively, appreciably less than that of REITs. Conversely, hardly any sector of the stock market had a Sharpe ratio higher than those of REITs. The exceptions, value stocks, provide little, if any, diversification benefits, having correlation coefficients most often exceeding 80 percent, approximately twice that of REITs.

[6] The Sharpe ratio was first proposed by William F. Sharpe, STANCO 25 Professor of Finance at Stanford University, Chairman of the Board of Financial Engines, Inc. and the 1990 recipient of the Nobel Prize in Economic Sciences.

[7] The five REIT total return indexes include the FTSE NAREIT All REITs Index, the FTSE NAREIT Equity REIT Index, the Dow Jones U.S. Real Estate Index, the Dow Jones Wilshire REIT Index and the Dow Jones Wilshire Real Estate Securities Index.

North American Industry Classification System

The North American Industry Classification System (NAICS) is a unique system for classifying business establishments, including publicly traded companies, and is used by all statistical agencies of the United States when measuring and classifying economic activity. NAICS is the first-ever North American industry classification system, and was originally developed by the Economic Classification Policy Committee of the United States, acting on behalf of the Office of Management and Budget and in cooperation with Statistics Canada and Mexico's Instituto Nacional de Estadistica, Geografia e Informatica to provide a consistent framework for the collection, analysis and dissemination of industrial statistics used by government policy analysts, academic researchers, the business community and the public across all three countries. NAICS replaced the existing classification systems of each country, including the Standard Industrial Classification (1980) of Canada, the Mexican Classification of Activities and Products (1994) and the Standard Industrial Classification (SIC, 1987) of the United States.

NAICS is the first industry classification system that was developed in accordance with a single principle of aggregation, the principle that economic units that use similar production processes to produce goods or services should be grouped together. Thus, establishments are classified into various sectors, subsectors and industry groups based on the similarity of their operating activities.

Numerous classification systems, including NAICS, traditionally have classified REITs and publicly traded real estate companies as financial stocks in equity markets even though it is far from clear that investors, analysts or economists have ever widely viewed real estate companies as anything other than real estate companies when it comes to substantive investment analysis and economic research.

However, changes in the treatment of REITs and publicly traded real estate companies within certain classification schemes, again including NAICS, are well underway. The Office of Management and Budget (OMB) recently adopted changes to the classification of REITs with respect to NAICS. These changes, published in the March 16, 2006 issue of the *Federal Register*, conform the classification of REITs to an earlier reclassification of non-REIT real estate companies in which such companies were reclassified as "real estate" companies apart from "finance and insurance" companies. (A copy of the March 16, 2006 issue of the *Federal Register* is included in Exhibit 4.)

Background

NAICS previously recognized the unique operating attributes of real estate companies and therefore separated the *Finance, Insurance and Real Estate* division of the former SIC system into two new NAICS sectors: Sector 52 (*Finance and Insurance*) and Sector 53 (*Real Estate and Rental and Leasing*). Within Sector 53, "real estate" companies, *i.e.*, companies primarily engaged in the ownership, management and leasing of real estate to others, were classified in Subsector 531 (*Real Estate*). However, REITs (including Equity, Mortgage and Hybrid REITs) remained classified in Subsector 525 (*Funds, Trusts, and Other Financial Vehicles*) of Sector 52

because they were mistakenly considered passive "investment vehicles." This mistaken classification of REITs continued until last year.

NAICS Revision for 2007

As part of its 2007 review, OMB adopted several changes with respect to the classification of REITs in NAICS. With respect to these changes, equity REITs were moved from Subsector 525 (*Funds, Trusts, and Other Financial Vehicles*) to Subsector 531 (*Real Estate*) and classified under Industry Group 5311 (*Lessors of Real Estate*) and, in turn, under Industry 531110 (*Lessors of Residential Buildings and Dwellings*) or Industry 531120 (*Lessors of Nonresidential Buildings*) according to the content of their respective real estate portfolios. Mortgage REITs remained classified in Subsector 525, but were moved from Industry 525930 (*REITs*) to Industry 525990 (*Other Financial Vehicles*). Industry 525930 (*REITs*) within Subsector 525 (*Funds, Trusts, and Other Financial Vehicles*) was deleted.

The decision by OMB to properly classify REITs according to the economic substance of their business activities was a positive step in the ongoing growth and development of the REIT and publicly traded real estate industry. This policy decision reinforced the conclusion that **investments in REITs and publicly traded real estate companies are investments in commercial real estate equity, having attributes of both real estate and listed equities, and could be classified with equal justification in either the "U.S. real estate" category or the "Diversified U.S. equity securities" category**.

CalPERS Classification of REITs

Consistent with both investment research and practice pertaining to real estate investment through REITs as discussed above, it is noteworthy that the nation's largest public defined benefit plan – the California Public Employees Retirement System – regularly reports its investment portfolio allocated across the four fundamental core assets (plus inflation linked assets) cited by Malkiel. As shown in Exhibit 5, CalPERS reports at its Web site (www.calpers.ca.gov/index.jsp?bc=/investments/assets/assetallocation.xml) how its $241.7 billion investment portfolio (as of February 29, 2008) is allocated across Cash Equivalents, Total Global Fixed Income, Total Global Equities, Real Estate and Inflation Linked.

As described in Exhibit 6, the CalPERS real estate equity investment program (*i.e.*, the real estate allocation) is composed of two separate portfolios, the Core Portfolio and the Non-Core Portfolio. Both portfolios include REITs and publicly traded real estate equity securities among their various investment platforms. Investment policies governing the CalPERS real estate equity investment program are provided in the *CalPERS Statement of Investment Policy for Equity Real Estate* (February 14, 2006), which is available at www.calpers.ca.gov/eip-docs/investments/policies/inv-asset-classes/real-estate/r-e-equity.pdf. Specifically, both the Core Portfolio and the Non-Core Portfolio are authorized to invest in both direct and indirect real estate equity investments, including REITs and publicly traded real estate equities, partnerships, commingled funds, separate accounts, joint ventures and hedge funds.

♦ ♦ ♦

Additional CalPERS real estate equity investment policies with respect to investments in REITs and publicly traded real estate equities are provided in the *CalPERS Statement of Investment Policy for Enhanced Core Index Public Real Estate Equity Securities* (April 19, 2004), which is available at www.calpers.ca.gov/eip-docs/investments/policies/inv-asset-classes/real-estate/en-cre-inx-pub-rel-est-ety.pdf, and in the *CalPERS Statement of Investment Policy for Global Public Real Estate Equity Securities* (September 11, 2006), which is available at www.calpers.ca.gov/eip-docs/investments/policies/inv-asset-classes/real-estate/ext-mkt-pb-rel-est-eqty-sc.pdf.

Both policy documents clarify that investments in REITs and publicly traded real estate securities are eligible investments for the real estate equity investment program. As noted in paragraph V.B of the *Statement of Investment Policy for Enhanced Core Index Real Estate Equity Securities*, "The allocation to the Portfolio will be established as part of the Annual Investment Plan process for CalPERS Real Estate Portfolio." Likewise, as noted in paragraph II.B of the *Statement of Investment Policy for Global Public Real Estate Equity Securities*, "The Portfolio shall be included as a component of the Non-Core Equity Real Estate Portfolio and, as such, shall be required to achieve an appropriate risk-adjusted return in excess of the Enhanced Core PREES Portfolio held in the core component."

Conclusion

Again, we appreciate the opportunity to comment with respect to the proposed FASB Staff Position to amend FASB Statement No. 132. Specifically, we recommend:

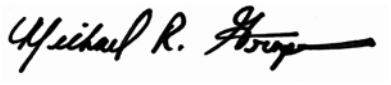
- That the FSP is clarified to provide employers with flexibility to classify their investments in REITs and publicly traded real estate equities in the real estate category, the equity securities category or both, depending on whether employers hold REITs and publicly traded real estate equities, respectively, in their real estate allocations, their equity securities allocations or both.

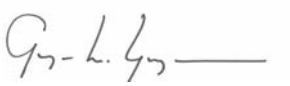
- That the FSP is modified to include additional asset categories or to provide clarification with respect to the proposed asset categories that clearly accommodates investments outside the U.S.

We would welcome the opportunity to review and discuss our comments and recommendations with you and your staff should that be helpful. Should you have any questions or require further

information pertaining to our comments and recommendations, please contact me at mgrupe@nareit.com or directly at 202-739-9409.

Respectfully submitted,





Michael R. Grupe
Executive Vice President
Research & Investor Outreach

George Yungmann
Senior Vice President
Financial Standards

EXHIBIT 1

Annotated Bibliography
Real Estate as a Core Asset

ANNOTATED BIBLIOGRAPHY: *REAL ESTATE AS A CORE ASSET*

Lee & Stevenson [2006]. Stephen Lee and Simon Stevenson, "Real Estate in the Mixed-Asset Portfolio: The Question of Consistency," *Journal of Property Investment and Finance* 24(2):123-135, 2006.

"First, the results suggest strongly that real estate has possessed the attribute of consistency in optimized portfolios. Real estate constantly had positive allocations over time periods ranging from 5 to 25 years, and for most levels of portfolio return, irrespective of whether real estate is used to enhance returns or reduce risk. Secondly, the benefits from including real estate in the mixed-asset portfolio tend to increase as the investment horizon is extended."

Sa-Aadu, Shilling & Tiwari [2006]. Jarjisu Sa-Aadu, James D. Shilling, and Ashish Tiwari, "Portfolio Performance and Strategic Asset Allocation Across Different Economic Conditions," working paper, 2006.

"Our key result is that commodities and precious metals, and equity REITs are the two asset classes that deliver portfolio gains when consumption growth is low and/or volatile, *i.e.*, when investors really care for such benefits. … This analysis suggests that the optimal mean-variance tangency portfolio is heavily weighted in equity REITs, and precious metals in the bad state of the economy, while also including government bonds."

Anderson *et al*. [2005]. Randy Anderson, Jim Clayton, Greg MacKinnon, and Rajneesh Sharma, "REIT Returns and Pricing: The Small Cap Value Stock Factor," *Journal of Property Research* 22(4):267-286, December 2005.

"Our main result is that equity REIT and small capital value stock returns share common drivers. Of all the asset classes examined, small capital value equities are the most highly linked to REIT return volatility. However, there is a significant component of REIT returns unrelated to stock and bond factors. As a result, like Lee & Stevenson [2005b] we conclude that there is a unique element to REITs, which implies it offers significant diversification benefits beyond those of small capital value stocks."

Byrne & Lee [2005]. Peter Byrne and Stephen Lee, "The Impact of Real Estate on the Terminal Wealth of the UK Mixed-Asset Portfolio," *Journal of Real Estate Portfolio Management* 11(2): 133-146, 2005.

"Overall, including real estate in the mixed-asset portfolio appears to offer an improvement in terminal wealth and a reduction in terminal wealth standard deviation compared with the base portfolio (without real estate)."

Frost, Schioldager & Hammond [2005]. Corin Frost, Amy Schioldager, and Scott Hammond, "Real Estate Investing the REIT Way: A Guide to REIT Benchmarks and Investing," *Investment Insights* 8(7), September 2005.

"REITs offer two major advantages to the institutional investor constructing a portfolio: the diversification that real estate offers as an asset class, along with sufficient liquidity to gain access to that asset class easily."

"Investors who rely on broad-cap equity benchmarks for real estate exposure are not achieving meaningful allocations to the asset class. … There is little evidence that the diversification benefit of REITs has declined as a result of being added to the S&P 500. … Perhaps more importantly, results of work by Ibbotson Associates suggest that REITs do, in fact, effectively push out the efficient frontier."

"Institutional investors tend to underweight real estate versus their long-run strategic real estate allocation due to the inherent time lag from first identifying direct property opportunities to ultimately funding that opportunity. One of the reasons that real estate investors are drawn to REITs is the immediacy of market exposure that can be achieved via public markets. The maturity and depth of the REIT market is such that significant investment is possible without incurring undue price impact on the underlying securities. For example, a $100 million investment in REITs may be accomplished in a few days via the stock market versus a similar investment in a specific building project, which may take three to nine months or more to complete."

Lee & Stevenson [2005a]. Stephen Lee and Simon Stevenson, "The Case for REITs in the Mixed-Asset Portfolio in the Short and Long Run," *Journal of Real Estate Portfolio Management* 11(1): 55-80, 2005.

"REITs are increasingly seen as an attractive addition to the mixed-asset portfolio. … The results highlight that REITs do play a significant role over both different time horizons and holding periods. The findings show that REITs' attractiveness as a diversification asset increases as the holding period increases. In addition, their diversification qualities span the entire efficient frontier, providing return enhancement properties at the lower end, switching to risk reduction qualities at the top end of the frontier."

Chen *et al*. [2005]. Hsuan-Chi Chen, Keng-Yu Ho, Chiuling Lu, and Cheng-Huan Wu, "An Asset Allocation Perspective of Real Estate: The Case of Real Estate Investment Trusts," working paper, June 21, 2005.

"REITs from 1986-2002 do augment the mean-variance frontier and enlarge the investment opportunity set. … Equity REITs, such as diversified REITs, health care REITs, hotel REITs, industrial REITs, office REITs, residential REITs, retail REITs, and self-storage REITs, are suitable for diversification. Overall,

consistent with Hudson-Wilson, Fabozzi & Gordon [2003], we verify the economic significance of REIT investment from the perspective of asset allocation."

Fugazza, Guidolin & Nicodano [2005]. Carolina Fugazza, Massimo Guidolin, and Giovanna Nicodano, "Investing for the Long-Run in European Real Estate," working paper, January 2005.

"This paper finds that real estate has a considerable importance for both the size of optimal portfolio weights and welfare: the compensatory variation required by an investor to do without real estate is easily in excess of 100 basis points per year. Our robustness checks suggest that these estimates are probably only a lower bound."

Lee & Stevenson [2005b]. Stephen Lee and Simon Stevenson, "The Substitutability of REITs and Value Stocks," working paper, 2005.

"This paper has examined the extent to which the frequently observed linkages between REITs and the value sector of the equity market lead to the two assets being substitutable. The findings illustrate that while strong linkages are evident, there remain sufficient differences in both their return behaviour and their driving forces for the two sectors to retain a level of distinctiveness. The variance decomposition results would imply that diversification opportunities are maintained and REITs would provide additional benefits to a portfolio already containing value stocks and that the two can not be viewed as substitutable."

Brounen & Eichholtz [2003]. Dirk Brounen and Piet Eichholtz, "Property, Common Stock, and Property Shares," *Journal of Portfolio Management* special real estate issue: 129-137, September 2003.

"We have examined the relationships among private property, the securitized property share market, and the common stock market in the United States and the United Kingdom. We find that the correlations between property share returns and common stock returns show a similar declining trend in both countries, indicating increased mixed-asset diversification potential for property shares. … The results of that analysis are surprisingly similar for the United States and the United Kingdom. For both countries, we find optimal portfolio allocations of around 10%, if we use the maximum Sharpe ratio portfolio. Even under pessimistic assumptions, real estate allocations are substantial."

Feldman [2003]. Barry E. Feldman, "Investment Policy for Securitized and Direct Real Estate," *Journal of Portfolio Management* special real estate issue: 112-121, September 2003.

"This retrospective analysis implies that real estate allocations have been well below optimal levels."

Hudson-Wilson, Fabozzi & Gordon [2003]. Susan Hudson-Wilson, Frank J. Fabozzi, and Jacques N. Gordon, "Why Real Estate?" *Journal of Portfolio Management* special real estate issue: 12-27, September 2003.

"Real estate's role extends from the lowest-risk end of the efficient frontier to just past the midpoint of the mixed-asset efficient frontier. This makes sense, as real estate is both a low-risk asset itself and an excellent risk reducer in a stock and bond portfolio."

Mueller & Mueller [2003]. Andrew G. Mueller and Glenn R. Mueller, "Public and Private Real Estate in a Mixed-Asset Portfolio," *Journal of Real Estate Portfolio Management* 9(3): 193-203, 2003.

"The findings indicate that public and private real estate returns have very low quarterly correlations, and the inclusion of both public and private real estate together in a mixed-asset portfolio produces a more efficient frontier than inclusion of just one or the other or neither. … The unconstrained model here argues for theoretical allocations (to real estate) over 50%.... If the characteristics of real estate in either public or private form are expected to continue in the future, this study shows that they can make a major risk adjusted return contribution to a mixed-asset portfolio."

Bley & Olson [2003]. Jorg Bley and Dennis Olson, "An Analysis of Relative Return Behavior: REITs vs. Stocks," working paper, 2003.

"REITs compare favorably with stocks. Our findings suggest that equity REITs can enhance the risk-return relationship of an investment portfolio and should be considered as a major asset class just like stocks or bonds."

Conover, Friday & Sirmans [2002]. C. Mitchell Conover, H. Swint Friday, and G. Stacy Sirmans, "Diversification Benefits from Foreign Real Estate Investments," *Journal of Real Estate Portfolio Management* 8(1):17-25, 2002.

"For five of the six countries examined, foreign real estate had a lower correlation with U.S. stocks than foreign stocks did. This lower correlation was also shown to be stable through time as foreign real estate had a lower correlation than foreign stocks in 98 of the 102 months examined. These lower correlations provided lower risk and higher return when foreign real estate is added to a portfolio of U.S. assets and foreign stock. Additionally, foreign real estate had a significant, sometimes majority, weight in the efficient international portfolios. Though current investment advice may routinely fail to mention foreign real estate as a portfolio component, the results suggest that the absence of foreign real estate reduces return and increases risk for a U.S. investor."

Ling & Naranjo [2002]. David C. Ling and Andy Naranjo, "Commercial Real Estate Return Performance: Cross-Country Analysis," *Journal of Real Estate Finance and Economics* 24(1/2):119-142, 2002.

> "The diversification potential associated with investing internationally has received increased attention in recent years from both academics and practitioners. However, the risks and uncertainties of direct real estate investments in foreign countries have generally outweighed the possible reductions in portfolio risk from international diversification. Over the last two decades, a global real estate securities market has slowly developed. Compared to private markets, this growing public market provides a vehicle for investors to construct international commercial real estate portfolios without the significant burden of acquiring, managing, and disposing of direct property investments in far-away countries with unfamiliar legal, political, and market structures. … Our results can be summarized as follows. … [E]ven after controlling for the effects of worldwide systematic risk, an orthogonalized country-specific risk factor is highly significant in the vast majority of the ex post return regressions. This suggests that real estate securities may provide international diversification opportunities. This conclusion is further supported by our analysis of firm level return data."

Maurer & Reiner [2002]. Raimond Maurer and Frank Reiner, "International Asset Allocation with Real Estate Securities in a Shortfall Risk Framework: The Viewpoint of German and U.S. Investors," *Journal of Real Estate Portfolio Management* 8(1):27-43, 2002.

> "In the *ex post* perspective, significant diversification benefits appeared for both investors through the consideration of real estate companies, especially for low- to medium-risk portfolios. The source of these diversification gains was mainly to be seen in a risk-reduction. … For the German investor, these gains occurred in low- to medium-risk portfolios. However, for the U.S. investor, the gains occurred for all portfolios. In the *ex ante* study, the integration of real estate companies in some portfolio strategies both for the German and the U.S. investor led, in the total out-of-sample period, to a risk-reduction relative to the corresponding stock/bond strategies."

Lee [2002]. Stephen L. Lee, "Is There a 'Case for Property' All the Time?" working paper, June 2002.

> "The inclusion of property within the mixed-asset portfolio *always* leads to reductions in risk…. This large reduction in portfolio risk, at the cost of only a minor loss in average returns, meant that property also offered increases in risk-adjusted (Sharpe) performance a good deal of the time. Indeed, the results here show that adding property into an existing equity/bond portfolio often led to *significant* increases in risk-adjusted performance. This is especially so for an allocation to property of at least 15% but especially at 20%. … In conclusion, if the decision to include property in the mixed-asset portfolio is based upon its

diversification benefits the answer is yes, there is a 'case for property' all the time!"

Chandrashekaran [1999]. Vinod Chandrashekaran, "Time-Series Properties and Diversification Benefits of REIT Returns," *Journal of Real Estate Research* 17(1/2): 91-112, 1999.

"The results suggest that dynamic asset allocation strategies…have a role to play in helping investors achieve portfolios that are on the unconditional mean variance frontier. Furthermore, the evidence suggests that…dynamic asset allocation strategies will likely have to make significant investments in REITs in order to be able to attain portfolios that lie on the unconditional frontier. In other words, REITs do appear to offer significant diversification benefits at least during certain time periods (*e.g.*, following up-moves in the REIT Index) so dynamic asset allocation strategies that invest in REITs are likely to achieve superior risk and return profiles."

Cheng et al. [1999]. Ping Cheng, Alan J. Ziobrowski, Royce W. Caines, and Brigitte J. Ziobrowski, "Uncertainty and Foreign Real Estate Investment," *Journal of Real Estate Research* 18(3): 463-479, 1999.

"When examining optimum portfolio composition, the results indicate that, under certain circumstances, large amounts of foreign real estate in the portfolio (20% or more) can be optimal. … Our analysis shows there is a reasonable probability that under some economic conditions foreign real estate can be a major component of the optimum portfolio."

Gordon & Canter [1999]. Jacques N. Gordon and Todd A. Canter, "International Real Estate Securities: A Test of Capital Markets Integration," *Journal of Real Estate Portfolio Management* 5(2):161-170, 1999.

"Do special vehicles, like investment trusts, reduce the correlation of property stocks with the overall equity markets? … With a two standard deviation confirmation, it appears that in those markets where a REIT structure is introduced, the integration with the general equity market is lower than in other markets."

Ziering, Liang & McIntosh [1999]. Barry Ziering, Youguo Liang, and Willard McIntosh, "REIT Correlations with Capital Market Indexes: Separating Signal from Noise," *Real Estate Finance* 15(4): 61-67, Winter 1999.

"Over time, we continue to believe that REIT investment performance will be influenced by both the overall stock market sentiment—after all, REITs are traded in the stock market—and by real estate market fundamentals. However, we also believe that the market dynamics at work will serve to gradually lessen the covariance between REITs and the broader market…."

Liu & Mei [1998]. Crocker H. Liu and Jianping Mei, "The Predictability of International Real Estate Markets, Exchange Rate Risks and Diversification Consequences," *Real Estate Economics* 26(1): 3-39, Spring 1998.

"The most distinguishing result is the finding that investing in international real estate related securities provides additional (incremental) diversification benefits over and above that associated with international stocks. These benefits are relatively more pronounced at lower risk-return levels of the optimal portfolio and are present regardless of whether currency risks are hedged. Thus, U.S. investors should consider including international real estate securities in their portfolios."

Mull & Soenen [1997]. Stephen R. Mull and Luc A. Soenen, "U.S. REITs as an Asset Class in International Investment Portfolios," *Financial Analysts Journal* 53(2):55-61, March/April 1997.

"Compelling evidence supports giving real estate a significant role in mixed-asset investment portfolios."

Ziobrowski & Ziobrowski [1997]. Brigitte J. Ziobrowski & Alan J. Ziobrowski, "Higher Real Estate Risk and Mixed-Asset Portfolio Performance," *Journal of Real Estate Portfolio Management* 3(2):107-115, 1997.

"Consistent with prior research, this study found that nearly all investors, regardless of risk preference, benefit from including real estate in their respective portfolios."

Brown & Schuck [1996]. Gerald R. Brown and Edward J. Schuck, "Optimal Portfolio Allocations to Real Estate," *Journal of Real Estate Portfolio Management* 21(1): 63-73, 1996.

"The foregoing discussion has…shown that over a wide range of portfolio sizes it is easy to justify optimal allocations anywhere in the range of 5% to 75%, given that the inputs to a mean-variance analysis cannot be forecasted with complete accuracy. … This result should not, however, discourage investors from holding real estate as an asset class."

LITERATURE REVIEWS

Worzala & Sirmans [2003]. Elaine Worzala and C.F. Sirmans, "Investing in International Real Estate Stocks: A Review of the Literature," *Urban Studies* 40(5-6):1115-1149, 2003.

Zietz, Sirmans & Friday [2003]. Emily N. Zietz, G. Stacy Sirmans, and H. Swint Friday, "The Environment and Performance of Real Estate Investment Trusts," *Journal of Real Estate Portfolio Management* 9(2): 127-165, 2003.

Benjamin, Sirmans & Zietz [2001]. John D. Benjamin, G. Stacy Sirmans, and Emily N. Zietz, "Returns and Risk on Real Estate and Other Investments: More Evidence," *Journal of Real Estate Portfolio Management* 7(3): 183-214, 2001.

PROMINENT RESEARCHERS

Randy Anderson: President, CNL Real Estate Advisors, Orlando, Florida.

Dirk Brounen: Associate Professor of Finance and Real Estate, Department of Financial Management, RSM Erasmus University, Netherlands.

Peter Byrne: Professor of Real Estate Dynamics and Director, Centre for Real Estate Research, Department of Real Estate & Planning, University of Reading Business School, England.

Hsuan-Chi Chen: Professor, Department of Finance, Yuan-Ze University, Taiwan.

Jim Clayton: Associate Professor of Finance and Real Estate, College of Business, University of Cincinnati.

Piet Eichholtz: Professor of Real Estate Finance, Maastricht University and University of Amsterdam, Netherlands.

Frank J. Fabozzi: Frederick Frank Adjunct Professor of Finance, Yale School of Management, New Haven.

Barry E. Feldman: Senior Research Analyst, Russell Investment Management and Prism Analytics.

Corin Frost: Senior Portfolio Manager and Strategist, Principal, Barclays Global Investors.

Jacques N. Gordon: International Director, Investment Strategy, LaSalle Investment Management, Chicago.

Massimo Guidolin: Assistant Vice President, Economic Research, Federal Reserve Bank of St. Louis.

Susan Hudson-Wilson: Founder, Property & Portfolio Research, Boston.

Stephen L. Lee: Lecturer in Real Estate Investment, Centre for Real Estate Research, Department of Real Estate & Planning, University of Reading Business School, England.

David C. Ling: William D. Hussey Professor of Finance, Insurance, and Real Estate, Warrington College of Business, University of Florida.

Greg MacKinnon: Associate Professor of Finance and Management Science, Sobey School of Business, Saint Mary's University, Halifax, Nova Scotia, Canada.

Raimond Maurer: Professor of Investment, Portfolio Management and Pension Finance, School of Business Administration and Economics, Goethe University, Frankfurt, Germany.

Glenn R. Mueller: Professor of Real Estate and Construction Management, Daniels College of Business, University of Denver.

Andy Naranjo: Emerson-Merrill Lynch Associated Professor of Finance, Insurance, and Real Estate, Warrington College of Business, University of Florida.

Giovanna Nicodano: Professor of Economics, University of Turin and Founding Member, Centre for Research on Pensions and Welfare Policies, Turin, Italy.

Dennis Olson: Professor of Accounting and Finance, School of Business and Management, American University of Sharjah, United Arab Emirates.

Jay Sa-Aadu: Chester A. Phillips Professor of Business Finance and Real Estate, Henry B. Tippie College of Business, University of Iowa.

James D. Shilling: James A. Graaskamp Professor of Real Estate and Urban Land Economics, University of Wisconsin-Madison School of Business.

G. Stacy Sirmans: Kenneth G. Bacheller Professor of Real Estate, College of Business, Florida State University.

Simon Stevenson: Professor of Finance and Co-Director, Centre for Real Estate Finance, Cass Business School, City University, London, England.

Alan J. Ziobrowski: Associate Professor, Department of Real Estate, Robinson College of Business Administration, Georgia State University.

EXHIBIT 2

Periodic Tables of Asset Class Performance
Allianz Global Investors
Russell Investment Group
Callan Associates

The Importance of Diversification

From year to year, there's no telling which asset classes will be the best performers—a strong argument for portfolio diversification. The chart below ranks the best to worst performing asset classes from top to bottom for the years 1997 to 2006.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Large-Cap Value 35.19%	Large-Cap Growth 38.70%	Small-Cap Growth 43.10%	Commodities 31.84%	Small-Cap Value 14.02%	Commodities 25.91%	Small-Cap Growth 48.54%	Real Estate 33.17%	Commodities 21.36%	Real Estate 36.14%
Small-Cap Value 31.80%	International Stocks 20.34%	Large-Cap Growth 33.16%	Real Estate 31.04%	Real Estate 12.36%	Unhedged Foreign Bonds 22.99%	Small-Cap Value 46.03%	Small-Cap Value 22.25%	International Stocks 14.01%	International Stocks 26.88%
Large-Cap Growth 30.48%	Unhedged Foreign Bonds 18.31%	International Stocks 27.31%	Small-Cap Value 22.80%	Interm-Term Bonds 8.44%	Long-Term Bonds 16.79%	International Stocks 39.17%	International Stocks 20.70%	Real Estate 13.99%	Small-Cap Value 23.48%
Real Estate 19.66%	Large-Cap Value 15.65%	Commodities 24.35%	Long-Term Bonds 20.27%	Short-Term Bonds 8.30%	Interm-Term Bonds 10.26%	Large-Cap Value 30.03%	Large-Cap Value 16.49%	Large-Cap Value 7.05%	Large-Cap Value 22.21%
Long-Term Bonds 15.08%	Long-Term Bonds 13.52%	Large-Cap Value 7.34%	Interm-Term Bonds 11.63%	High Yield Bonds 4.48%	Short-Term Bonds 5.76%	Large-Cap Growth 29.75%	Small-Cap Growth 14.31%	Long-Term Bonds 6.50%	Small-Cap Growth 13.35%
High Yield Bonds 13.27%	Interm-Term Bonds 8.69%	Cash 4.74%	Short-Term Bonds 8.00%	Long-Term Bonds 4.21%	Real Estate 3.60%	High Yield Bonds 28.15%	Unhedged Foreign Bonds 12.04%	Large-Cap Growth 5.27%	High Yield Bonds 11.77%
Small-Cap Growth 12.95%	Short-Term Bonds 7.00%	Short-Term Bonds 3.06%	Large-Cap Value 7.02%	Cash 4.09%	Cash 1.70%	Real Estate 27.75%	High Yield Bonds 10.87%	Small-Cap Value 4.70%	Large-Cap Growth 9.09%
Interm-Term Bonds 9.65%	Cash 5.06%	High Yield Bonds 2.51%	Cash 5.95%	Unhedged Foreign Bonds -3.58%	High Yield Bonds –1.89%	Commodities 23.93%	Commodities 9.15%	Small-Cap Growth 4.15%	Unhedged Foreign Bonds 5.94%
Short-Term Bonds 6.66%	High Yield Bonds 2.95%	Interm-Term Bonds –0.82%	Unhedged Foreign Bonds -2.48%	Large-Cap Value –5.59%	Small-Cap Value –11.42%	Unhedged Foreign Bonds 18.63%	Long-Term Bonds 7.70%	Cash 3.00%	Cash 4.76%
Cash 5.25%	Small-Cap Growth 1.24%	Small-Cap Value –1.49%	High Yield Bonds –5.12%	Small-Cap Growth –9.23%	Large-Cap Value –15.52%	Interm-Term Bonds 4.10%	Large-Cap Growth 6.30%	High Yield Bonds 2.74%	Interm-Term Bonds 4.33%
International Stocks 2.06%	Small-Cap Value –6.43%	Real Estate –2.57%	International Stocks –13.95%	Commodities –19.51%	International Stocks –15.64%	Long-Term Bonds 2.48%	Interm-Term Bonds 4.34%	Interm-Term Bonds 2.43%	Short-Term Bonds 3.96%
Commodities –3.39%	Real Estate –17.00%	Unhedged Foreign Bonds -6.19%	Large-Cap Growth –22.43%	Large-Cap Growth –20.42%	Large-Cap Growth –27.89%	Short-Term Bonds 1.90%	Cash 1.24%	Short-Term Bonds 1.67%	Commodities 2.07%
Unhedged Foreign Bonds -3.77%	Commodities –27.03%	Long-Term Bonds –8.74%	Small-Cap Growth –22.44%	International Stocks –21.21%	Small-Cap Growth –30.27%	Cash 1.07%	Short-Term Bonds 0.91%	Unhedged Foreign Bonds -9.24%	Long-Term Bonds 1.85%

Cash represented by the Citigroup 3-month T-Bill Index, an index of three-month Treasury bills. Commodities represented by the Dow Jones-AIG Commodity Total Return Index, which is composed of futures contracts on 19 physical commodities. Unhedged Foreign Bonds represented by the JPMorgan Non-U.S. Global Government Bond (Unhedged) Index, which is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets. High Yield Bonds represented by the Merrill Lynch US High Yield Master II Index, which tracks the performance of below investment grade (BBB), but not in default, US dollar-denominated corporate bonds publicly issued in the domestic market. Intermediate-Term Bonds represented by the Lehman Brothers Aggregate Index, which is composed of securities from the Lehman Brothers Government/Credit Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index. It is representative of the domestic, investment-grade, fixed-rate, taxable bond market. Long-Term Bonds represented by the Lehman Long Treasury Index, an index of US Treasury obligations with maturities greater than 10 years. Short-Term Bonds represented by the Merrill Lynch 1–3 Year Treasury Index, an index of US Treasury obligations with maturities from 1 to 2.99 years. International Stocks represented by the MSCI EAFE Index. The Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East Index (EAFE) is an index of over 900 companies, and is a generally accepted benchmark for major overseas markets. Large-Cap Growth Stocks represented by the Russell 1000 Growth Index, which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Large-Cap Value Stocks represented by the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Small-Cap Growth Stocks represented by the Russell 2000 Growth Index, which measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Small-Cap Value Stocks represented by the Russell 2000 Value Index, which measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Real Estate represented by the Wilshire REIT Index, which tracks publicly-traded Real Estate Investment Trusts in the US. **Past performance is no guarantee of future results.** Each Index reflects a group of unmanaged securities. It is not possible to invest directly in an unmanaged index. Diversification does not ensure against loss. This chart is not indicative of the past or future performance of any Allianz Global Investors product.

Allianz Global Investors

Building Your Portfolio with PIMCO Funds & Allianz Funds

At Allianz Global Investors, we offer a comprehensive range of stock and bond funds to meet a variety of investment objectives. Investors can also access the expertise of Allianz Global Investors' world-class investment firms through other investment vehicles, including closed-end funds and managed accounts. Talk to your financial advisor about which investment products can help you implement your personal asset allocation strategy.

PIMCO Funds

Core Bond
PIMCO Total Return Fund

Short-Duration Bond
PIMCO Short-Term Fund
PIMCO Low Duration Fund
PIMCO Floating Income Fund

Government/Mortgage
PIMCO GNMA Fund
PIMCO Total Return Mortgage Fund
PIMCO Long-Term U.S. Government Fund

Credit Strategy
PIMCO Investment Grade Corporate Bond Fund
PIMCO Diversified Income Fund
PIMCO High Yield Fund

International Bond
PIMCO Global Bond Fund (U.S. Dollar-Hedged)
PIMCO Foreign Bond Fund (U.S. Dollar-Hedged)
PIMCO Foreign Bond Fund (Unhedged)
PIMCO Emerging Markets Bond Fund
PIMCO Developing Local Markets Fund

Tax-Exempt Bond
PIMCO Short Duration Municipal Income Fund
PIMCO Municipal Bond Fund
PIMCO High Yield Municipal Bond Fund
PIMCO California Short Duration Municipal Income Fund
PIMCO California Intermediate Municipal Bond Fund
PIMCO New York Municipal Bond Fund

Real Return Strategy
PIMCO Real Return Fund
PIMCO CommodityRealReturn Strategy Fund®
PIMCO RealEstateRealReturn Strategy Fund

Equity-Related
PIMCO StocksPLUS® Fund
PIMCO StocksPLUS® Total Return Fund
PIMCO Fundamental IndexPLUS™ TR Fund
PIMCO Small Cap StocksPLUS® TR Fund
PIMCO International StocksPLUS® TR Strategy Fund (U.S. Dollar-Hedged)
PIMCO International StocksPLUS® TR Strategy Fund (Unhedged)
PIMCO StocksPLUS® TR Short Strategy Fund

Asset Allocation
PIMCO All Asset Fund
PIMCO All Asset All Authority Fund

Allianz Funds

Value
Allianz NFJ Large-Cap Value Fund
Allianz OCC Value Fund
Allianz NFJ Dividend Value Fund
Allianz OCC Renaissance Fund
Allianz NFJ Mid-Cap Value Fund
Allianz NACM Flex-Cap Value Fund
Allianz NFJ Small-Cap Value Fund
(closed to new investors)

Blend
Allianz OCC Core Equity Fund
Allianz OCC Equity Premium Strategy Fund*

Growth
Allianz CCM Focused Growth Fund
Allianz RCM Large-Cap Growth Fund
Allianz RCM Strategic Growth Fund
Allianz OCC Growth Fund*
Allianz NACM Growth Fund
Allianz CCM Capital Appreciation Fund
Allianz CCM Mid-Cap Fund
Allianz RCM Mid-Cap Fund
Allianz OCC Target Fund*
Allianz OCC Opportunity Fund*

International
Allianz NACM Global Fund
Allianz NACM International Fund
Allianz NFJ International Value Fund
Allianz RCM International Growth Equity Fund
Allianz RCM Global Small-Cap Fund
Allianz NACM Pacific Rim Fund
Allianz NACM Emerging Markets Opportunities Fund

Sector-Related
Allianz RCM Technology Fund
Allianz RCM Global Resources Fund
Allianz RCM Healthcare Fund
Allianz RCM Biotechnology Fund

Asset Allocation
Allianz Global Investors Multi-Style Fund

Investors should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. This and other information is contained in the fund's prospectus, which may be obtained by contacting your financial advisor, by visiting www.allianzinvestors.com or by calling 1-888-877-4626. Please read this prospectus carefully before you invest.

Allianz Global Investors

Not FDIC Insured | May Lose Value | No Bank Guarantee

*Oppenheimer Capital (OCC) assumed the sub-advisory role for these funds on November 1, 2006. They were formerly sub-advised by PEA Capital.

There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Investments are subject to risk, including possible loss of principal. These Funds, other than the Allianz CCM Funds, may use derivative instruments for hedging purposes or as part of its investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that a fund could not close out a position when it would be most advantageous to do so. Portfolios investing in derivatives could lose more than the principal amount invested in these instruments. Allianz Global Investors Fund Management LLC serves as the Closed-End Funds' investment manager, and the sub-advisors are Pacific Investment Management Company LLC (PIMCO), Oppenheimer Capital LLC (OPCAP), Nicholas-Applegate Capital Management LLC (NACM) and NFJ Investment Group L.P. (NFJ). Managed accounts are available through Allianz Global Investors Managed Accounts LLC, 1345 Avenue of the Americas, New York, NY 10105-4800. The mutual funds are distributed by Allianz Global Investors Distributors LLC, 2187 Atlantic Street, Stamford, CT 06902 © 2007. For information about any product, contact your financial advisor.

ACO33_16895

Russell Investments

Value of Diversification

BEST PERFORMANCE

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SMALL CAP VALUE 29.14	INT'L 32.94	INT'L 8.06	LARGE CAP VALUE 38.35	REAL ESTATE 35.26	LARGE CAP VALUE 35.18	LARGE CAP GROWTH 38.71	SMALL CAP GROWTH 43.09	REAL ESTATE 26.35	SMALL CAP VALUE 14.03	BONDS 10.26	SMALL CAP GROWTH 48.54	REAL ESTATE 31.57	INT'L 14.02	REAL ESTATE 35.06	LARGE CAP GROWTH 11.81
SMALL CAP 18.41	SMALL CAP VALUE 23.84	REAL ESTATE 3.17	LARGE CAP 37.77	LARGE CAP GROWTH 23.12	LARGE CAP 32.85	LARGE CAP 27.02	LARGE CAP GROWTH 33.16	SMALL CAP VALUE 22.83	REAL ESTATE 13.93	REAL ESTATE 3.81	SMALL CAP 47.25	SMALL CAP VALUE 22.25	REAL ESTATE 12.15	INT'L 26.86	INT'L 11.63
REAL ESTATE 14.52	REAL ESTATE 19.67	LARGE CAP GROWTH 2.66	LARGE CAP GROWTH 37.19	LARGE CAP 22.45	SMALL CAP VALUE 31.78	INT'L 20.33	INT'L 27.30	BONDS 11.63	BONDS 8.44	SMALL CAP VALUE -11.43	SMALL CAP VALUE 46.03	INT'L 20.70	LARGE CAP VALUE 7.05	SMALL CAP VALUE 23.48	SMALL CAP GROWTH 7.05
LARGE CAP VALUE 13.81	SMALL CAP 18.91	LARGE CAP 0.38	SMALL CAP GROWTH 31.04	LARGE CAP VALUE 21.64	LARGE CAP GROWTH 30.49	LARGE CAP VALUE 15.63	SMALL CAP 21.26	LARGE CAP VALUE 7.01	SMALL CAP 2.49	LARGE CAP VALUE -15.52	INT'L 39.17	SMALL CAP 18.33	LARGE CAP 6.27	LARGE CAP VALUE 22.25	BONDS 6.97
LARGE CAP 9.04	LARGE CAP VALUE 18.12	SMALL CAP VALUE -1.55	SMALL CAP 28.44	SMALL CAP VALUE 21.37	SMALL CAP 22.36	BONDS 8.69	LARGE CAP 20.91	SMALL CAP -3.02	LARGE CAP VALUE -5.59	INT'L -15.66	REAL ESTATE 37.14	LARGE CAP VALUE 16.49	LARGE CAP GROWTH 5.26	SMALL CAP 18.37	LARGE CAP 5.77
SMALL CAP GROWTH 7.77	SMALL CAP GROWTH 13.36	SMALL CAP -1.82	SMALL CAP VALUE 25.75	SMALL CAP 16.49	REAL ESTATE 20.29	SMALL CAP GROWTH 1.23	LARGE CAP VALUE 7.35	LARGE CAP -7.79	SMALL CAP GROWTH -9.23	SMALL CAP -20.49	LARGE CAP VALUE 30.03	SMALL CAP GROWTH 14.31	SMALL CAP VALUE 4.71	LARGE CAP 15.46	LARGE CAP VALUE -0.17
BONDS 7.40	LARGE CAP 10.15	LARGE CAP VALUE -1.99	BONDS 18.47	SMALL CAP GROWTH 11.26	SMALL CAP GROWTH 12.95	SMALL CAP -2.55	BONDS -0.82	INT'L -13.96	LARGE CAP -12.45	LARGE CAP -21.65	LARGE CAP 29.89	LARGE CAP 11.40	SMALL CAP 4.55	SMALL CAP GROWTH 13.35	SMALL CAP -1.57
LARGE CAP GROWTH 5.00	BONDS 9.75	SMALL CAP GROWTH -2.43	REAL ESTATE 15.25	INT'L 6.36	BONDS 9.65	SMALL CAP VALUE -6.45	SMALL CAP VALUE -1.49	LARGE CAP GROWTH -22.42	LARGE CAP GROWTH -20.42	LARGE CAP GROWTH -27.89	LARGE CAP GROWTH 29.75	LARGE CAP GROWTH 6.30	SMALL CAP GROWTH 4.15	LARGE CAP GROWTH 9.07	SMALL CAP VALUE -9.78
INT'L -11.85	LARGE CAP GROWTH 2.90	BONDS -2.92	INT'L 11.55	BONDS 3.63	INT'L 2.06	REAL ESTATE -17.51	REAL ESTATE -4.62	SMALL CAP GROWTH -22.43	INT'L -21.21	SMALL CAP GROWTH -30.26	BONDS 4.10	BONDS 4.34	BONDS 2.43	BONDS 4.33	REAL ESTATE -15.69

WEAKEST PERFORMANCE

Please note that this chart is based on past index performance and is not indicative of future results. Indexes are unmanaged and cannot be invested in directly. Index performance does not include fees and expenses an investor would normally incur when investing in a mutual fund. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

SEE REVERSE FOR SOURCE DATA

SOURCES:

LARGE CAP RUSSELL 1000® INDEX	LARGE CAP GROWTH RUSSELL 1000® GROWTH INDEX	LARGE CAP VALUE RUSSELL 1000® VALUE INDEX
Measures the performance of the 1,000 largest companies in the Russell 3000® Index, representative of the U.S. large capitalization securities market.	Measures the performance of those Russell 1000® Index securities with higher price-to-book ratios and higher forecasted growth values, representative of U.S. securities exhibiting growth characteristics.	Measures the performance of those Russell 1000® Index securities with lower price-to-book ratios and lower forecasted growth values, representative of U.S. securities exhibiting value characteristics.

SMALL CAP RUSSELL 2000® INDEX	SMALL CAP GROWTH RUSSELL 2000® GROWTH INDEX	SMALL CAP VALUE RUSSELL 2000® VALUE INDEX
Measures the performance of the 2,000 smallest companies in the Russell 3000® Index, representative of the U.S. small capitalization securities market.	Measures the performance of those Russell 2000® Index securities with higher price-to-book ratios and higher forecasted growth values, representative of U.S. securities exhibiting growth characteristics.	Measures the performance of those Russell 2000® Index securities with lower price-to-book ratios and lower forecasted growth values, representative of U.S. securities exhibiting value characteristics.

REAL ESTATE NAREIT EQUITY REIT INDEX	INTERNATIONAL MSCI® EAFE INDEX	BONDS LEHMAN BROTHERS AGGREGATE BOND™ INDEX
An index, with dividends reinvested, representative of tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System.	An index, with dividends reinvested, representative of the securities markets of twenty developed market countries in Europe, Australasia, and the Far East.	An index, with income reinvested, representative of securities from Lehman Brothers Government/ Corporate Bond Index, Mortgage-Backed Securities Index, and the Asset-Backed Securities Index.

Copyright © Russell Investments 2008. All rights reserved.

Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between $10 billion and $200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than $2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or, such stock may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments. Fund investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation.

Non-U.S. markets entail different risks than those typically associated with U.S. markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Securities may be less liquid and more volatile.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages.

Russell Investment Group is a Washington, USA corporation, which operates through subsidiaries worldwide, including Russell Investments, and is a subsidiary of The Northwestern Mutual Life Insurance Company.

The Russell logo is a trademark and service mark of Russell Investments.

Securities distributed through Russell Fund Distributors, Inc., member FINRA, part of Russell Investments.

First used July 2006. Revised February 2008. RFD08-6079 01-01-218 (1 03/08)

www.russell.com

Not FDIC Insured
May Lose Value
No Bank Guarantee

Russell Investments

The Callan Periodic Table of Investment Returns (including REITs)

Annual Returns for Key Indices (1988–2007) Ranked in Order of Performance

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Russell 2000 Value	S&P/Citi 500 Growth	LB Agg	Russell 2000 Growth	Russell 2000 Value	MSCI EAFE	MSCI EAFE	S&P/Citi 500 Growth	NAREIT Equity	S&P/Citi 500 Growth	S&P/Citi 500 Growth	Russell 2000 Growth	NAREIT Equity	Russell 2000 Value	LB Agg	Russell 2000 Growth	NAREIT Equity	MSCI EAFE	NAREIT Equity	MSCI EAFE
29.47%	36.40%	8.96%	51.18%	29.15%	32.57%	7.78%	38.13%	35.27%	36.52%	42.16%	43.09%	26.37%	14.02%	10.26%	48.54%	31.58%	13.54%	35.06%	11.17%
MSCI EAFE	S&P 500	S&P/Citi 500 Growth	Russell 2000	Russell 2000	Russell 2000 Value	NAREIT Equity	S&P 500	S&P/Citi 500 Growth	S&P 500	S&P 500	S&P/Citi 500 Growth	Russell 2000 Value	NAREIT Equity	NAREIT Equity	Russell 2000	Russell 2000 Value	NAREIT Equity	MSCI EAFE	S&P/Citi 500 Growth
28.26%	31.69%	0.20%	46.05%	18.42%	23.86%	3.17%	37.58%	23.97%	33.36%	28.58%	28.25%	22.83%	13.93%	3.82%	47.25%	22.25%	12.15%	26.34%	9.13%
Russell 2000	S&P/Citi 500 Value	S&P 500	Russell 2000 Value	NAREIT Equity	NAREIT Equity	S&P/Citi 500 Growth	S&P/Citi 500 Value	S&P 500	Russell 2000 Value	MSCI EAFE	MSCI EAFE	LB Agg	LB Agg	Russell 2000 Value	Russell 2000 Value	MSCI EAFE	S&P/Citi 500 Value	Russell 2000 Value	Russell 2000 Growth
24.89%	26.13%	-3.11%	41.70%	14.59%	19.65%	3.14%	36.99%	22.96%	31.78%	20.00%	26.96%	11.63%	8.43%	-11.43%	46.03%	20.25%	5.82%	23.48%	7.05%
S&P/Citi 500 Value	Russell 2000 Growth	S&P/Citi 500 Value	S&P/Citi 500 Growth	S&P/Citi 500 Value	Russell 2000	S&P 500	Russell 2000 Growth	S&P/Citi 500 Value	S&P/Citi 500 Value	S&P/Citi 500 Value	Russell 2000	S&P/Citi 500 Value	Russell 2000	MSCI EAFE	MSCI EAFE	Russell 2000	S&P 500	S&P/Citi 500 Value	LB Agg
21.67%	20.16%	-6.85%	38.37%	10.52%	18.89%	1.32%	31.04%	22.00%	29.98%	14.69%	21.26%	6.08%	2.49%	-15.94%	38.59%	18.33%	4.91%	20.81%	6.97%
Russell 2000 Growth	Russell 2000	NAREIT Equity	NAREIT Equity	Russell 2000 Growth	S&P/Citi 500 Value	S&P/Citi 500 Value	Russell 2000	Russell 2000 Value	Russell 2000	LB Agg	S&P 500	Russell 2000	Russell 2000 Growth	Russell 2000	NAREIT Equity	S&P/Citi 500 Value	Russell 2000 Value	Russell 2000	S&P 500
20.38%	16.25%	-15.35%	35.70%	7.77%	18.61%	-0.64%	28.44%	21.37%	22.36%	8.70%	21.04%	-3.02%	-9.23%	-20.48%	37.13%	15.71%	4.71%	18.37%	5.49%
S&P 500	LB Agg	Russell 2000 Growth	S&P 500	S&P 500	Russell 2000 Growth	Russell 2000 Value	Russell 2000 Value	Russell 2000	NAREIT Equity	Russell 2000 Growth	S&P/Citi 500 Value	S&P 500	S&P/Citi 500 Value	S&P/Citi 500 Value	S&P/Citi 500 Value	Russell 2000 Growth	Russell 2000	S&P 500	S&P/Citi 500 Value
16.61%	14.53%	-17.42%	30.47%	7.62%	13.37%	-1.55%	25.75%	16.53%	20.26%	1.23%	12.73%	-9.11%	-11.71%	-20.85%	31.79%	14.31%	4.55%	15.79%	1.99%
NAREIT Equity	Russell 2000 Value	Russell 2000	S&P/Citi 500 Value	LB Agg	S&P 500	Russell 2000	LB Agg	Russell 2000 Growth	Russell 2000 Growth	Russell 2000	LB Agg	MSCI EAFE	S&P 500	S&P 500	S&P 500	S&P 500	Russell 2000 Growth	Russell 2000 Growth	Russell 2000
13.49%	12.43%	-19.50%	22.56%	7.40%	10.08%	-1.81%	18.46%	11.32%	12.93%	-2.55%	-0.82%	-14.17%	-11.89%	-22.10%	28.68%	10.88%	4.15%	13.35%	-1.57%
S&P/Citi 500 Growth	MSCI EAFE	Russell 2000 Value	LB Agg	S&P/Citi 500 Growth	LB Agg	Russell 2000 Growth	NAREIT Equity	MSCI EAFE	LB Agg	Russell 2000 Value	Russell 2000 Value	S&P/Citi 500 Growth	S&P/Citi 500 Growth	S&P/Citi 500 Growth	S&P/Citi 500 Growth	S&P/Citi 500 Growth	S&P/Citi 500 Growth	S&P/Citi 500 Growth	Russell 2000 Value
11.95%	10.53%	-21.77%	16.00%	5.06%	9.75%	-2.44%	15.27%	6.05%	9.64%	-6.45%	-1.49%	-22.08%	-12.73%	-23.59%	25.66%	6.13%	4.00%	11.01%	-9.78%
LB Agg	NAREIT Equity	MSCI EAFE	MSCI EAFE	MSCI EAFE	S&P/Citi 500 Growth	LB Agg	MSCI EAFE	LB Agg	MSCI EAFE	NAREIT Equity	NAREIT Equity	Russell 2000 Growth	MSCI EAFE	Russell 2000 Growth	LB Agg	LB Agg	LB Agg	LB Agg	NAREIT Equity
7.89%	8.84%	-23.45%	12.14%	-12.18%	1.68%	-2.92%	11.21%	3.64%	1.78%	-17.50%	-4.62%	-22.43%	-21.44%	-30.26%	4.10%	4.34%	2.43%	4.33%	-15.69%

- **S&P 500 Index** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- **S&P/Citigroup 500 Growth** and **S&P/Citigroup 500 Value Indices** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are NOT mutually exclusive.
- **Russell 2000 Index** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ.
- **Russell 2000 Value** and **Russell 2000 Growth Indices** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth index contains those securities with a greater-than-average growth orientation. Securities in the Value index generally have lower price-to-book and price-earnings ratios than those in the Growth index. The constituent securities are NOT mutually exclusive.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.
- **LB Agg** is the Lehman Brothers Aggregate Bond Index. This index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.
- **NAREIT Equity** measures the performance of Real Estate Investment Trust (REIT) stocks traded on the NYSE, AMEX and NASDAQ. The index composition and market capitalization changed significantly starting in 1994; comparisons between pre- and post-1994 results are problematic.

© 2008 Callan Associates Inc.

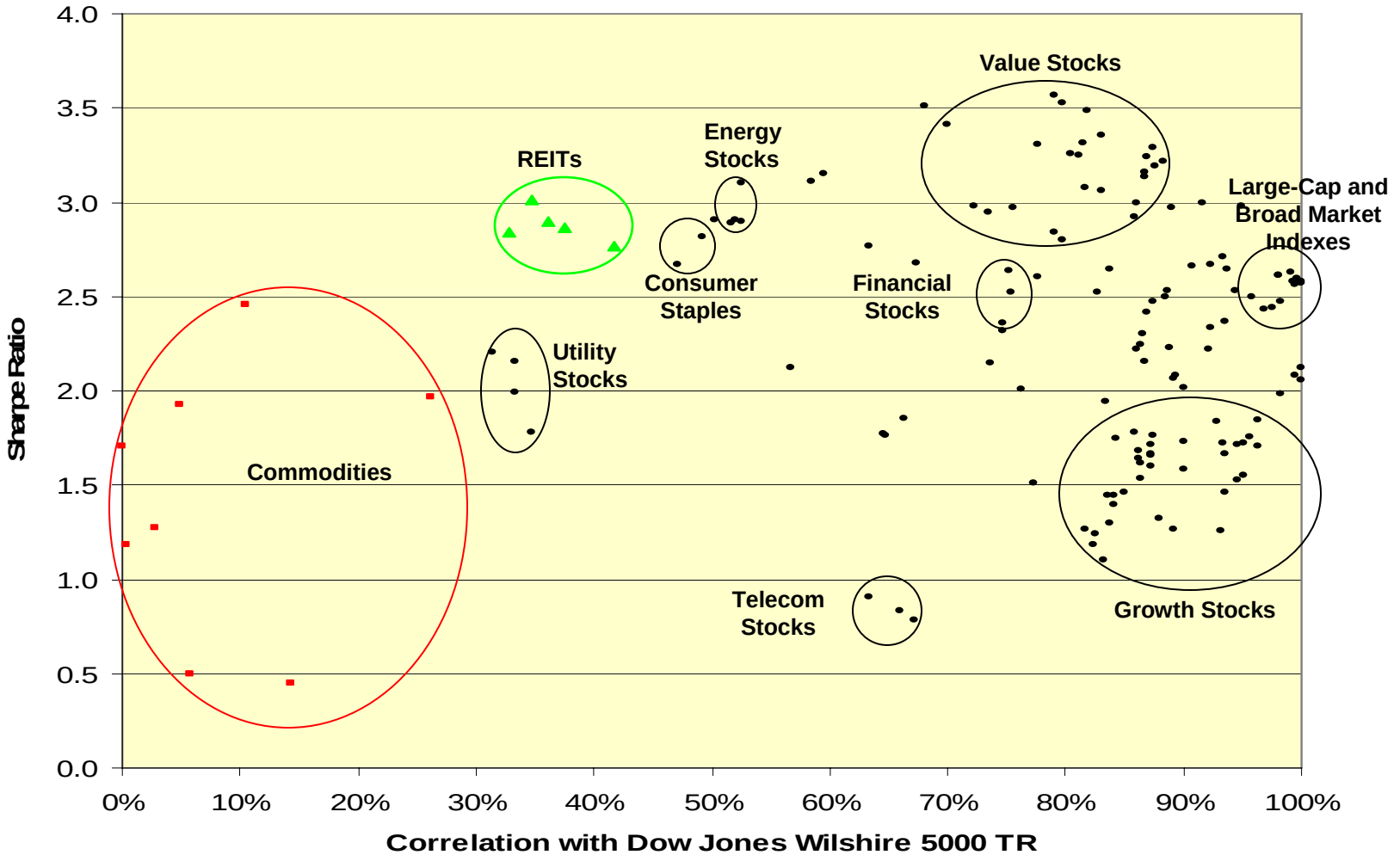
EXHIBIT 3

Commercial Real Estate Equity Investment
REITs in the Institutional Portfolio

Real Estate & REITs in the Institutional Portfolio

Diversification & Risk Adjusted Performance

Monthly total returns February 1993 – January 2008



Note: Based on monthly returns.
Source: NAREIT®, IDP and FactSet

EXHIBIT 4

Federal Register
March 16, 2006

Part V

Office of Management and Budget
North American Industry Classification System
Revision for 2007; Notice

Federal Register

Tuesday,
March 16, 2006

Part V

Office of Management and Budget

North American Industry Classification System—Revision for 2007; Notice

OFFICE OF MANAGEMENT AND BUDGET

North American Industry Classification System—Revision for 2007

AGENCY: Executive Office of the President, Office of Management and Budget.

ACTION: Notice of final decisions.

SUMMARY: Under 44 U.S.C. 3504(e), the Office of Management and Budget (OMB) is announcing its final decisions for adoption of the North American Industry Classification System (NAICS) revisions for 2007 as recommended by the Economic Classification Policy Committee (ECPC) in OMB's notice for solicitation of comments published in Part IV of the March 11, 2005, **Federal Register** (70 FR 12390–12399). In addition, responding to comments received on the ECPC recommendations, OMB is adopting a classification change for Real Estate Investment Trusts (REITs) that was not part of the ECPC's recommendations. After additional consultation with the National Association of Real Estate Investment Trusts, the agencies participating in the ECPC, and other interested agencies, NAICS 525390, Real Estate Investment Trusts, will be deleted from the classification and portions will be reclassified as follows: (1) Equity REITs will be classified in the Real Estate Subsector in NAICS Industry Group 5311, Lessors of Real Estate, under individual national industries based on the content of the portfolio of real estate operated by a particular REIT; and (2) Mortgage REITs will remain classified in the Finance Sector but will be moved from NAICS 525930 to NAICS 525990, Other Financial Vehicles. More details of this decision are presented in the **SUPPLEMENTARY INFORMATION** section below. In addition to this change, the title of NAICS industry 561422, ''Telemarketing Bureaus'', is changed to ''Telemarketing Bureaus and Other Contact Centers'' to more accurately reflect the content of the industry. There is no content change; the title is simply revised to reflect the actual activities undertaken and the various technologies used.

In the March 11, 2005, notice, OMB's Economic Classification Policy Committee recommended a revision of the industry classification system to modify the structure and detail for telecommunications industries based on changes that have occurred and are anticipated to occur in the future. The ECPC also recommended the creation of a new national industry for biotechnology research and development to reflect the growing importance of this activity in the economy. Additional changes were recommended to more adequately align the activities of producers in agriculture; manufacturing; and professional, technical, and scientific services.

DATES: *Effective Date:* Federal statistical establishment data published for reference years beginning on or after January 1, 2007, should be published using the 2007 NAICS United States Codes. Publication of a 2007 NAICS United States Manual or supplement is planned for January 2007.

ADDRESSES: You should send correspondence about the adoption and implementation of the 2007 NAICS as shown in the March 11, 2005, **Federal Register** notice, and modified by Attachments 1 and 2 of this notice, to: Katherine K. Wallman, Chief Statistician, Office of Management and Budget, 10201 New Executive Office Building, Washington, DC 20503, telephone number: (202) 395–3093, fax number: (202) 395–7245. All comments submitted in response to this notice will be made available to the public, including by posting them on OMB's Web site. For this reason, please do not include in your comments information of a confidential nature, such as sensitive personal information or proprietary information. You may send comments via e-mail to *naics@omb.eop.gov* with subject NAICS07. Because of delays in the receipt of regular mail related to security screening, respondents are encouraged to use electronic communications.

You should address inquiries about the content of industries or requests for electronic copies of the 2007 NAICS tables to: John Murphy, Assistant Division Chief for Classification Activities, Service Sector Statistics Division, Bureau of the Census, Room 2641–3, Washington, DC 20233, telephone number: (301) 763–5172, fax number: (301) 457–1343, or by e-mail: *John.Burns.Murphy@census.gov.*

Electronic Availability and Comments

This document and the March 11, 2005, **Federal Register** notice are available on the Internet from the Census Bureau's Web site via WWW browser at *http://www.census.gov/naics.* This WWW page also contains previous NAICS **Federal Register** notices and related documents.

FOR FURTHER INFORMATION CONTACT: Paul Bugg, 10201 New Executive Office Building, Washington, DC 20503, e-mail address: *pbugg@omb.eop.gov* with subject NAICS07, telephone number: (202) 395–3095, fax number: (202) 395–7245. Because of delays in the receipt of regular mail related to security screening, respondents are encouraged to use electronic communications.

SUPPLEMENTARY INFORMATION: The March 11, 2005, **Federal Register** notice (1) summarized the background for the proposed revisions to NAICS 2007 in Part I; (2) contained a summary of public comments in Part II; (3) detailed the structure changes agreed upon by the three countries in Part III; and (4) provided a comprehensive listing of changes for national industries and their links to NAICS 2002 industries in Part IV.

In response to the ECPC recommendations in the March 11, 2005, **Federal Register,** the National Association of Real Estate Investment Trusts (NAREIT) submitted comments to OMB requesting reconsideration of the ECPC recommendation regarding the classification of REITs. In response, the ECPC met on several occasions with other interested agencies, including representatives from the Department of the Treasury's Office of Tax Analysis, the Federal Reserve Board, and the Statistics of Income Division at the Internal Revenue Service to discuss the possible change in classification for REITs. OMB and the Bureau of Economic Analysis also met with representatives from NAREIT to discuss their request. Taking all of the information into account, OMB decided to change the classification of REITs.

OMB's final decisions regarding revision of NAICS for 2007 are to adopt the proposal contained in the March 11, 2005, **Federal Register**, with the one change to the classification of REITs. Attachments 1 and 2 show the corrected lines for Tables 1 and 2 in the March 11, 2005, **Federal Register** notice based on this change. In addition to this change, the title of NAICS industry 561422, ''Telemarketing Bureaus,'' is changed to ''Telemarketing Bureaus and Other Contact Centers'' to more accurately reflect the content of the industry. There is no content change; the title is simply revised to reflect the actual activities undertaken and the various technologies used.

After taking into consideration other comments submitted in direct response to the March 11, 2005, **Federal Register** notice, as well as benefits and costs, and after consultation with the Economic Classification Policy Committee, Mexico's Instituto Nacional de Estadística, Geografía e Informática (INEGI) and Statistics Canada, OMB made no other changes to the scope and

substance of the ECPC's recommendations outlined in the March 11, 2005, **Federal Register** notice. The other comments that were received supported proposed changes, suggested changes that would be incompatible with the production-based foundation of NAICS, or suggested changes that would be incompatible with proposals that were accepted.

NAICS was jointly developed by Canada, Mexico, and the United States. For the 2007 revision the three countries focused on updating telecommunications, while recognizing significant new activities such as biotechnology research and development, and minor content changes to more adequately reflect the production function orientation of NAICS.

TABLE 1.—NAICS UNITED STATES 2007 MATCHED TO NAICS UNITED STATES 2002

2007 NAICS code	2007 NAICS and U.S. description	Status code	2002 NAICS code	2002 NAICS description
531110	Lessors of Residential Buildings and Dwellings	R	531110	Lessors of Residential Buildings and Dwellings.
			*525930	Real Estate Investment Trusts—hybrid or equity REITs primarily leasing residential Buildings and Dwellings.
531120	Lessors of Nonresidential Buildings (except Miniwarehouses).	R	531120	Lessors of Nonresidential Buildings (except Miniwarehouses) .
			*525930	Real Estate Investment Trusts—hybrid or equity REITs primarily leasing nonresidential buildings.
531130	Lessors of Miniwarehouses and Self-Storage Units.	R	531130	Lessors of Miniwarehouses and Self-Storage Units .
			*525930	Real Estate Investment Trusts—hybrid or equity REITs primarily leasing miniwarehouses and self-storage units.
531190	Lessors of Other Real Estate Property	R	531190	Lessors of Other Real Estate Property .
			*525930	Real Estate Investment Trusts—hybrid or equity REITs primarily leasing other real estate property.
525990	Other Financial Vehicles	R	525990	Other Financial Vehicles.
			*525930	Real Estate Investment Trusts—hybrid or mortgage REITs primarily underwriting or investing in mortgages.

*—Part of 2002 industry, R—NAICS 2002 industry code reused with different content, N—new NAICS industry for 2007, E—existing industry with no changes.

TABLE 2.—NAICS UNITED STATES 2002 MATCHED TO NAICS UNITED STATES 2007

2002 NAICS code	2002 NAICS and U.S description	Status code	2007 NAICS code	2007 NAICS description
525930	Real Estate Investment Trusts.			
	Hybrid or equity REITs primarily leasing residential buildings and dwellings.	pt.	531110	Lessors of Residential Buildings and Dwellings.
	Hybrid or equity REITS primarily leasing nonresidential buildings.	pt.	531120	Lessors of Nonresidential Buildings (except Miniwarehouses).
	Hybrid or equity REITs primarily leasing miniwarehouses or self-storage units.	pt.	531130	Lessors of Miniwarehouses and Self-Storage Units.
	Hybrid or equity REITS primarily leasing other real estate property.	pt.	531190	Lessors of Other Real Estate Property .
	Hybrid or mortgage REITs primarily underwriting or investing in mortgages.	pt.	525990	Other Financial Vehicles.

pt.—Part of NAICS United States 2007 industry.

Donald R. Arbuckle,

Acting Administrator and Deputy Administrator, Office of Information and Regulatory Affairs.

[FR Doc. E6–7414 Filed 5–15–06; 8:45 am]

BILLING CODE 3110–01–P

EXHIBIT 5

California Public Employees Retirement System
CalPERS Investments: Asset Allocation

CalPERS Assets
- Asset Allocation
- Current Investment Fund Values
- California Investments
- Equities
- Fixed Income
- Inflation-Linked
- Real Estate

California Pension Fund Investments: A Golden Opportunity
CalPERS Assets
Investment Policies
CalPERS Risk Management System
The Shareowner Forum (Corporate Governance & Proxy Votes)
Environmental Investment Initiatives
Emerging Manager & Financial Service Provider Database
Current CalPERS Investment News
Annual Investment & Financial Reports
CalPERS Board of Administration & Committee Meeting Agendas
Investment Business Opportunities

Asset Allocation

The starting point and most important element of CalPERS successful return on investment is our asset allocation - our diversification among stocks, bonds, cash and other investments.

Asset allocation is not an asset-only or liability-only decision. All factors, including liabilities, benefit payments, operating expenses, and employer and member contributions are taken into account in determining the appropriate asset allocation mix. Our goal is to maximize returns at a prudent level of risk - an ever-changing balancing act between market volatility and long-term goals.

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. Policy targets are typically implemented over a period of several years on market declines and through dollar cost averaging.

CalPERS current asset allocation mix by market value and policy target percentages as of February 29, 2008 are:

Asset Class	Market Value ($ Billion)	Cash Market Allocation	Effective Allocation	Target[1]
Cash Equivalents	**$2.4**	**1.0%**	**0.1%**	**0.0%**
Domestic Fixed Income	$60.0	24.8%	24.8%	17.0%
International Fixed Income	$7.0	2.9%	2.9%	2.0%
Total Global Fixed Income	**$66.9**	**27.7%**	**27.7%**	**19.0%**
AIM	$22.8	9.4%	9.4%	10.0%
Domestic	$78.0	32.3%	33.9%	28.0%
International	$49.0	20.3%	20.5%	28.0%
Total Global Equities	**$149.8**	**62.0%**	**62.8%**	**66.0%**
Real Estate	**$20.6**	**8.5%**	**8.5%**	**10.0%**
Inflation Linked	**$2.0**	**0.8%**	**0.8%**	**5.0%**
Total Fund*	**$241.7**	**100.0%**	**100.0%**	**100.0%**

[1] Target allocation effective December 2007.
* Figures for this document are rounded for viewing purposes.

Dated: 04-11-2008

What's New
- 2007 Comprehensive Annual Financial Report
- Business Opportunities
- Investment News

Shortcuts
- External Managers
- Investment Policies
- Environmental Initiatives
- Annual Reports

California Public Employees' Retirement System © Copyright 2008 CalPERS Privacy Policy Conditions of Use RSS

EXHIBIT 6

California Public Employees Retirement System
CalPERS Investments: Real Estate Overview

Real Estate

- Real Estate Overview
- External Real Estate Managers

California Pension Fund Investments: A Golden Opportunity

CalPERS Assets

Investment Policies

CalPERS Risk Management System

The Shareowner Forum (Corporate Governance & Proxy Votes)

Environmental Investment Initiatives

Emerging Manager & Financial Service Provider Database

Current CalPERS Investment News

Annual Investment & Financial Reports

CalPERS Board of Administration & Committee Meeting Agendas

Investment Business Opportunities

Real Estate Overview

The CalPERS real estate program is comprised of two distinct portfolios - Core and Specialized. The Core Portfolio is managed to be broadly diversified by property type and geography, maintain high occupancy, emphasize current income, and exhibit prudent use of leverage. The Core includes four property types: apartment, industrial, office, and retail. These investments are acquired and managed through REITs, separate accounts, partnerships, and limited liability corporations between CalPERS and investment advisory firms. The program has developed partnerships with various external managers whose mandate is to explore new opportunities in various real estate sectors.

The Non-Core Portfolio includes the following property types: national housing, single family housing, senior housing, urban, natural resources (timber and agriculture), technology, opportunistic, and international. Like the Core Portfolio, these investments are acquired and managed through multiple investment vehicles.

The goal of the real estate program is to perform as "the investor of choice" and leverage marketplace opportunities to achieve superior risk-adjusted returns.

Additional Resources
Real Estate Program Business Opportunities
CalPERS Investment Policies - Real Estate

Dated: 12-14-2007

What's New

- 2008 Corporate Governance Focus List
- Permissible Equity Markets
- Current Fund Values
- Investment News

Shortcuts

- Alternative Investments
- Equities
- Fixed Income
- Real Estate
- Investments Video Center

View All >>

California Public Employees' Retirement System © Copyright 2008 CalPERS Privacy Policy Conditions of Use RSS