The Strategic Rationale for Real Estate

Why Real Estate Now

National Council on Teacher Retirement

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Strategic rationale for real estate

- Risk-adjusted performance – low volatility
- Low correlation with stocks and fixed income
- High current income and cash distributions
- Hedge against inflation
- Real estate has outperformed broader equities during exogenous shocks

Past performance is not a guaranty of future results.
The photographs depicted above are not intended to be representative of all assets in the portfolio. For more information on all assets, including those not shown herein, please contact RREEF.

Risk-adjusted performance – low volatility

Real estate has provided compelling returns with low relative and absolute volatility

Global USD Total Returns, as of December 31, 2011					
	1 Year	3 Year	5 Year	10 Year	10 Yr St Dev
Stock					
S&P 500 Index	2.1%	14.1%	-0.3%	1.5%	18.7%
Bonds					
Barclays Capital U.S. Government/Credit Index	8.7%	6.6%	6.5%	6.1%	4.5%
Real Estate - Public					
FTSE NAREIT U.S. Equity Index	8.3%	21.0%	-1.4%	10.5%	25.6%
Real Estate - Private					
NFI-ODCE Total Return (Net)	16.0%	-1.8%	-0.2%	6.1%	8.5%
Real Estate - Private/Public					
65% Private, 35% Public	13.9%	7.3%	0.7%	8.4%	11.6%

Data as of December 31, 2011.
Sources: Bloomberg, MSCI Barra, Barclays, NCREIF, Thomson Financial, Cambridge Associates, FTSE EPRA/NAREIT.
Past performance is not indicative of future results. See Notes to Performance Information for a description of the private and public real estate indices and how the Private/Public Hybrid returns were calculated. Note: Private/Public Hybrid Real Estate portfolio consists of 65% investment in NCREIF ODCE index and 35% investment in FTSE EPRA/NAREIT index and assumes quarterly rebalancing. See Notes to Performance Information for a description of these indices.

Low correlation with stocks and fixed income

- Private real estate markets have very low correlation to other asset classes
- The low correlation between REITs and Private Real Estate makes them complimentary investment for accessing real estate exposure
- Real estate is a powerful diversifier of mixed-asset portfolios

Low correlation between REITs and the private real estate markets makes both vehicles complementary investments for a given risk/return.

20 Year Correlation Coefficients
4Q1991-4Q2011, Quarterly

	CPI	FTSE EPRA/NAREIT	NPI All Property	S&P 500	10 Yr. Treasury
CPI	1.00				
FTSE EPRA/NAREIT	0.17	1.00			
NPI All Property	0.22	0.17	1.00		
S&P 500	0.03	0.60	0.14	1.00	
10 Yr. Treasury	0.09	-0.02	0.24	0.12	1.00

NPI = NCREIF Property Index.
Past performance is not indicative of future results.
Sources: NAREIT NCREIF, BLS, and Bloomberg.
As of December 31, 2011.

Hedge against inflation

Real estate becomes an inflation hedge during periods of high inflation

- Leases often have escalations tied to CPI or other multipliers
- Key construction costs – labor and materials – are inflation sensitive
- Requires balanced market conditions

Asset Correlations with Inflation During Periods of High and Low Inflation

	Real Estate (NCREIF)	Stocks (S&P500)	Bonds (Barclays Aggregate)
High Inflation Period (1978 – 1982)	0.97	0.21	-0.87
Low Inflation Period (1983 – 2011)	0.12	0.14	.0.06

See Notes to Performance Information for a description of the NCREIF Property Index.
Sources: NCREIF Property Index, Standard & Poors, Barclays (U.S. Government and Credit), BLS.
As of December 31, 2011.

Comparison of different real estate investment options

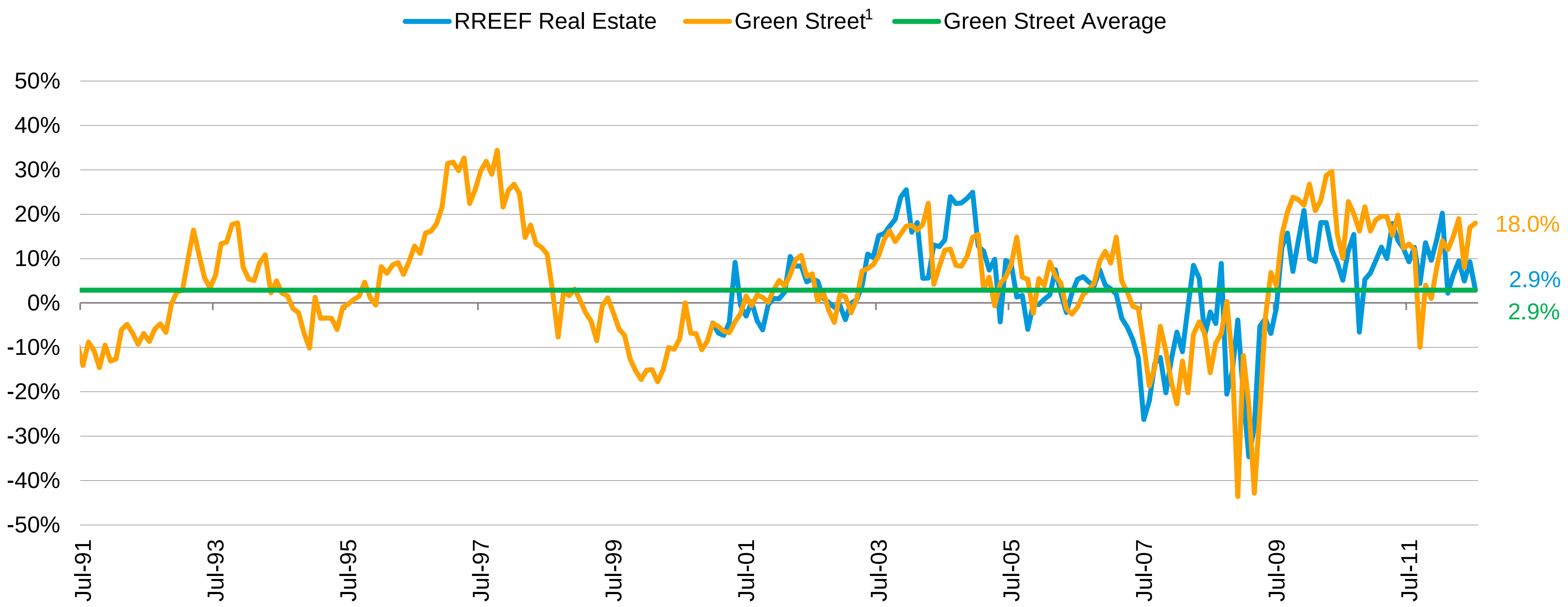
Dimension	Direct Real Estate	Private Real Estate Funds	Real Estate Securities
Access to Direct Real Estate	✓✓	✓✓	✓
Access to Good Real Estate Managers	✓	✓✓	✓✓
Scope for Portfolio Diversification	✗	✓	✓✓
Volatility	✓✓	✓✓	✗
Liquidity	✗	✗	✓✓
Yield	✓✓	✓	✓
Costs of Trading	✗	✗	✓✓
Costs of Asset Management	✗	✓	✓✓

Note: ✓✓ Significant Strength, ✓ Some Strength, ✗ No Advantages
This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.
Source: RREEF Real Estate Research

REIT valuations

Relative to private real estate valuation

Average Premium to NAV



REITs Look Fair to Expensive from a Historical Perspective

[1]Green Street Advisors provides real estate and REIT Research.

Past performance is not indicative of future results. Returns are shown for illustrative purposes only. Returns are shown gross of fees and would have been lower if advisory fees and other expenses had been applied.

Sources: Green Street Advisors, RREEF Real Estate. As of July 31, 2012.

Notes to Performance Information (continued)

[9] RREEF FTSE/EPRA NAREIT Developed Composite. Please see for full GIPS Composite Notes and Report with regards to RREEF Core Composite Performance.

[10] FTSE NAREIT Equity REIT Index. The FTSE NAREIT Equity REITs Index measures the performance of all publicly traded equity real estate investment trusts traded on U.S. exchanges. The FSTE NAREIT Equity REIT Index is a subset of the FTSE NAREIT All REITs index. The FTSE NAREIT Equity Index is a free float, market capitalization-weighted real estate index designed to track the performance of US REITs, and does not include mortgage or hybrid REITs. To eligible for inclusion a REIT must have a market cap of at least $100 million at the date of the annual review and meet a minimum liquidity screen as well. The FSTE NAREIT Equity REIT Index is unleveraged, though the underlying stocks have leverage, and is calculated assuming dividend reinvestment.

[11] Use of Industry Benchmarks. The MSCI World and Barclays Global Aggregate Bond are the industry standard for their asset classes. The UBS Global Infrastructure & Utilities is the most commonly used infrastructure benchmark. The Private Equity Index is an index created by Cambridge Associates that tracks broad based private equity companies across a variety of industries.

[12] NCREIF vs. REIT Index – Lagged and Delevered Calculation Methodology. 1) FTSE NAREIT Equity REIT Index: see FTSE NAREIT Equity REIT Index footnote, 2) FTSE NAREIT Equity REIT – Delevered Index: same return as (1), excluding leverage of the underlying REITs. Quarterly leverage levels were provided by GreenStreet and were backed out of the Index returns to arrive at unlevered returns, 3) FTSE NAREIT Equity REIT - Delevered (Lagged 18 mo): Same as (2) except moved 18 months forward.

[13] Creation of “Model” Portfolios. The Model portfolio scenarios were created by taking the quarterly total returns which include both income and appreciation (gross or net, as noted) and applying the allocation target to such quarterly returns. The standard deviation of the combined quarterly return for such allocation targets was then calculated over the identified periods in order to calculate volatility. The Sharpe Ratio was then calculated using the quarterly three-month U.S. Treasury bill as the risk free rate. As of June 30, 2010 and September 30, 2010 where noted. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. in addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. for example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material pints which can also adversely affect actual trading results. there are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

Notes to Performance Information (continued)

[14] NCREIF Property Index. The NCREIF Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. The NPI is a collection of unlevered property level returns that meet NCREIF's defined inclusion requirements (considered by many to reflect a "core" investment strategy based on the property types included, the exclusion of development projects, and returns being reported on an unleveraged basis). Calculations are based on quarterly returns of individual properties before the deduction of portfolio-level management fees, but inclusive of property level management fees. Each property's return is weighted by its market value (value-weighted). The NPI quarterly, annual and annualized total returns consist of three components of return - income, capital and total. The *Income Return* measures that portion of total return attributable to each NPI property's net operating income, or NOI. NOI is gross rental income plus any other income less operating expenses - utilities, maintenance, taxes, property management, insurance, etc. The income return is computed by dividing NOI by the average daily investment for each quarter. The formula takes into consideration any capital improvements and/or any partial sales that occurred during the quarter. The *Capital Return* measures the change in market value from one period to the next. A property's value can go up (appreciation) or it can decline (depreciation) epending on market forces. The formula takes into consideration any capital improvements and/or any partial sales that occurred during the quarter. The *Total Return* is computed by adding the Income Return and the Capital Return.

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