

0407 | 2019

ASIA CHART OF THE WEEK

Improve your risk-return profile

In a long term portfolio that holds different asset classes, investors often look not just at return; but also the amount of risk taken to achieve that return.

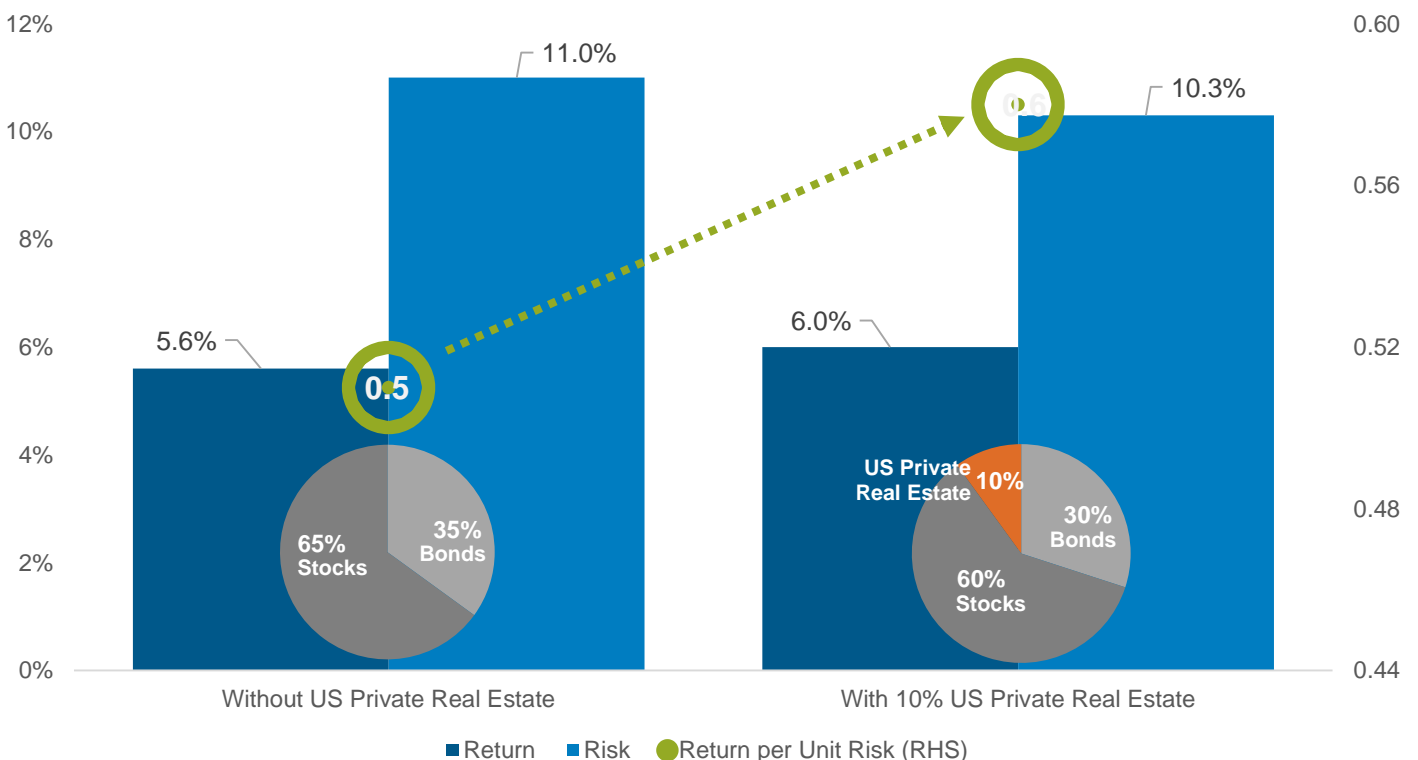
While stocks and bonds gyrate with market noise, US Private Real Estate capitalizes on long-term, demographic and socioeconomic trends. In addition, the regular income generated by the leases in place introduces a cash buffer should markets turn south. In fact, if inflation picks up, a repricing of the leases could lead to an increase in cash flow.

From 1998 to 2018, a typical equity-bias (65% Equity and 35% Bonds) allocation for moderate growth, returns were 5.6% per annum while risk (as measured by price volatility) measured 11%. That gave a return per unit of risk of 0.5. However, with a 10% allocation to US Private Real Estate over the same time period, the return per unit of risk improved by 20% to 0.6 on the back of better returns and less volatility.

The bottom line

Over the last 20 years, US Private Real Estate has leveraged income and diversification characteristics and demonstrated its ability to enhance the risk-return profile of a stock-bond portfolio. Astute, long-term, multi-asset investors should take heed.

Chart: 20 Year Portfolio Characteristics without and with US Private Real Estate (1998 - 2018)



Note: The NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment. Please visit <https://www.ncreif.org/data-products/property/> for more information.

Source: Legg Mason, NCREIF, S&P, Barclays Capital, Bloomberg as at 31 December 2018. US Real Estate refers to the NCREIF Property Index (NPI), Equities refer to the S&P 500, Bonds refer to the Barclays Capital Aggregate Bond Index. Risk is measured using standard deviation of annual total returns. A risk of loss exists. Past performance is no guarantee of future results. Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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Investment in real estate entails significant risks and is suitable only for certain investors as part of an overall diversified investment strategy and only for investors able to withstand a total loss of investment.

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