



REITs – Low Beta Provides Valuable Asset Class Diversification

May 2015

With its relatively low beta to global equities, global REITs can provide valuable diversification within a multi-asset-class (MAC) portfolio. This can be particularly useful at times when the risk of a correction in equity markets is great. Regardless of the outlook for equities, however, the inclusion of lower beta positions can still improve the risk-adjusted returns of a MAC portfolio.

REITs' diversification benefits within a MAC portfolio

Calculated using monthly data, the beta of global REITs (GPR 250 REIT index) relative to global equities (MSCI World Equities) over the last five years has been 0.80. This indicates that the risk-adjusted returns of a portfolio of equities can be improved through the inclusion of REITs. The results below demonstrate that this has indeed been the case:

5 years	Global Equities	Global REITs	Global Bonds	MAC (80/20, equities/REITs)	MAC (70/20/10, equities/REITs/bonds)
Performance	87,2%	94,9%	10,0%	88,8%	81,1%
Standard deviation	26,82	27,22	3,92	26,64	24,08
Sharpe ratio	3,2%	3,5%	2,5%	3,3%	3,4%

With reference to the 80/20 MAC portfolio, the inclusion of REITs over the five-year period under review not only enhanced return (compared to the equities-only portfolio), but slightly decreased standard deviation. The result was a higher Sharpe ratio. When looking back further than five years including periods where REITs underperformed equities, the Sharpe ratio of an 80/20 equities/REITs portfolio was still superior to an all-equities portfolio.

Due to the low volatility of bonds, the Sharpe ratio of the MAC portfolio would have been further improved with the inclusion of bonds (Citigroup World Government Bond Index) to form a 70/20/10 equities/REITs/bonds portfolio. Of course, this would have resulted in lower MAC portfolio performance because of the low returns that bonds exhibited.

Outlook: global property within a MAC portfolio

Given the above, we remain of the view that a diversified MAC portfolio including global REITs is superior to an equity-only portfolio. This is particularly pertinent during a time when market participants believe that a correction in global equities may be due, even though diversification benefits can accrue regardless of the absolute performance of equities or the relative performance of REITs versus equities. We believe that sticking to our investment process will not only result in returns in excess of our benchmark, but provide great benefits to those looking to diversify a MAC portfolio with the inclusion of REITs.