



## NOT ALL REAL ESTATE IS CREATED EQUAL

### Private Real Estate Can Deliver Powerful Portfolio Benefits

#### PRIVATE VS. PUBLIC REAL ESTATE: Two Different Types of Investment Structures

Institutional investors have historically benefited by investing in privately owned (private) commercial real estate. Compared to publicly traded real estate, these benefits may include superior income returns, diversification and strong overall risk-adjusted returns (returns with less volatility). Owning private commercial real estate means investing in individual properties or through a pooled investment vehicle that is open to individual investors but is not listed on a stock exchange. Since private real estate is not publicly traded, it is not subject to the stock market volatility responsible for much of the fluctuation in the share prices of publicly owned (public) real estate.<sup>1</sup> Private real estate investments do not provide the ready liquidity of public real estate.

In recent years, new investor-friendly structures with greater transparency and enhanced liquidity features have made an investment in private real estate more accessible to individual investors. Compared to a portfolio that included only public real estate, a portfolio inclusive of

private real estate has historically generated better risk-adjusted returns — returns relative to the riskiness of the investment — in addition to adding the potential for income and diversification.<sup>2</sup>

The NCREIF Open-End Diversified Core (ODCE) Index, an equal weighted, time weighted index representing a blended portfolio of institutional-quality real estate funds reported net of management and advisory fees (with the exception of the private real estate income data shown in the income return table below, which is reported gross of management and advisory fees) is a commonly used measure of private real estate, and is the index used in this report to represent private real estate. While funds used in this index have characteristics that differ from net asset value real estate investment trusts (NAV REITs), which include differing management fees, Black Creek Group's management feels this index is an appropriate and accepted index for the purpose of evaluating returns on investments in NAV REITs.

#### THE BENEFITS OF PRIVATE REAL ESTATE

Over the past 20 years, the income return of private real estate has exceeded the income return of public real estate. Private real estate's 6.6% income return represents

more than 70% of its total return, an attractive feature to investors who want a balanced mix of growth and income.<sup>2</sup>

#### DELIVERING HIGHER INCOME RETURNS

Private real estate has delivered higher income returns than public real estate, bonds, cash or equities.

##### PRIVATE REAL ESTATE

6.6%

VS

##### OTHER ASSET CLASSES

Equities

2.0%

Cash

2.2%

Bonds

4.2%

Public REITs

5.5%

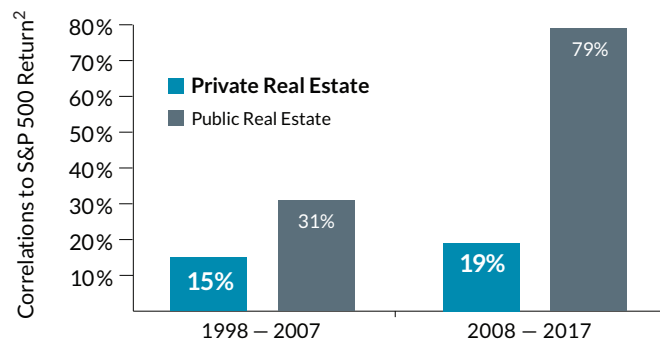
Average Annual Income Returns<sup>2</sup>

# THE BENEFITS OF PRIVATE REAL ESTATE

## More Effective Portfolio Diversifier

Public real estate returns have correlated with stock market returns more closely over time than private real estate returns, potentially making private real estate a more effective portfolio diversifier. From 2008–2017, 79% of public real estate returns were correlated to S&P 500 returns, up from a correlation of about 31% over the previous decade. Meanwhile, private real estate correlated only to 15% to 19% of S&P 500 returns over the past two decades, underscoring the diversification benefit of investing in private real estate vs. public real estate.<sup>2</sup>

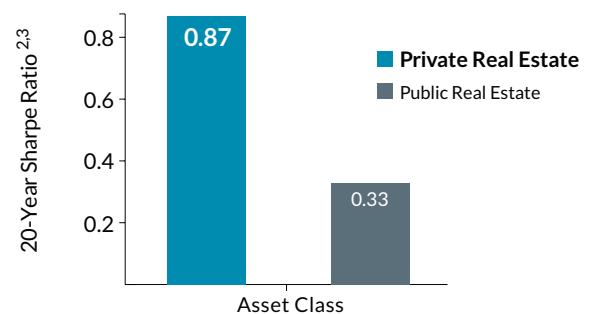
## Private real estate continues to exhibit low correlation to public real estate, providing diversification benefits



## Better Risk-Adjusted Returns

Thanks in part to private real estate's lower volatility, it has also produced stronger risk-adjusted returns — as defined by a higher Sharpe ratio — than public real estate over the past 20 years.<sup>1</sup> A Sharpe ratio is one of the standard tools financial professionals use to compare investments. A Sharpe ratio represents the risk premium an asset generates relative to the volatility of its returns, where a higher figure indicates a better return relative to the riskiness of the investment. In the past 20 years, private real estate has generated risk-adjusted returns that are approximately 2.5 times better than public real estate returns.

## Private real estate has delivered better risk-adjusted returns for investors over the last 20 years



## PRIVATE REAL ESTATE: A Key Component of a Well-Diversified Portfolio

Individual investors are increasingly discovering there are diversification benefits to adding private real estate to their portfolios. Given private real estate's historical income returns, diversification, and strong overall risk-adjusted returns, we believe it should have a place alongside stocks, bonds and public real estate in a diversified investment portfolio.

New investment products with investor-friendly shareholder structures and liquidity features have opened opportunities for individuals to invest in private real estate, providing access to its potential benefits with modest minimum investment requirements.

1 | This difference in volatility is very much connected to the different ways that private real estate and NAV REITs are valued compared with publicly traded REITs. Private real estate and NAV REITs are valued based on the book value of the underlying assets, using real estate appraisals, whereas publicly traded REITs are valued based on their trading prices determined by willing buyers and sellers of the securities at any given time, which may take into account the book value of the underlying real estate but may also take into account many other factors, such as whether there are more buyers or sellers of the security at any given time, whether stock market investors are more fearful or more confident generally, and whether investors believe management is executing on a good strategy. At any given time, the trading prices of a publicly traded REIT may be higher or lower than the book value of the underlying assets and liabilities. It is also important to note when comparing the NAV of NAV REITs with trading prices of publicly traded REITs, that the NAV of NAV REITs does not reflect upfront fees and commissions that investors may pay when purchasing shares, and that redemption programs of NAV REITs may impose short-term trading discounts.

2 | Sources: Bloomberg; NCREIF; NAREIT. 20 years ending December 31, 2017. Private real estate is represented by the NCREIF Open-End Diversified Core (ODCE) Index, an equal weighted, time weighted index representing a blended portfolio of institutional-quality real estate funds reported net of management and advisory fees (with the exception of the private real estate income data shown, which is reported gross of management and advisory fees). The term core typically reflects lower risk investment strategies, utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties. Funds are weighted equally, regardless of size. While funds used in this index have characteristics that differ from NAV REITs (including differing management fees), Black Creek Group's management feels that the NCREIF ODCE Index is an appropriate and accepted index for the purpose of evaluating returns on investments in NAV REITs. Public real estate is represented by the FTSE NAREIT All Equity REITs Index, which is a free-float adjusted, market capitalization-weighted index of publicly traded U.S. Equity REITs. Equities are represented by the S&P 500 Index, an unmanaged index of the 500 largest stocks (in terms of market value), weighted by market capitalization and considered representative of the broad stock market. Bonds are represented by the Barclays Capital Aggregate Bond Index, an index of securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. Bond income return is represented by the yield to worst of Bloomberg Barclays US Aggregate Bond Index. Public real estate, bonds and equities provide ready liquidity and are easily traded.

Comparisons shown are for illustrative purposes only and do not represent specific investments or the performance of NAV REITs. Past performance does not guarantee future results. NAV REITs have the ability to utilize higher leverage than is allowed for the funds in the NCREIF ODCE Index, which could increase a NAV REITs volatility relative to the Index.

These indices are used in comparison to the NCREIF ODCE Index in order to illustrate the differences in historical total returns generated by private real estate, public real estate, stocks and bonds. The prices of securities represented by these indices may change in response to factors including: the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates and investor perceptions. All indices are unmanaged and do not include the impact of fees and expenses. An investment cannot be made directly in any index. The returns presented are not indicative of returns to be attained by NAV REITs. Diversification does not guarantee against the risk of loss.

3 | The Sharpe ratio is calculated by subtracting the risk-free rate — such as that of the 3-Month Treasury Bill — from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

