Hines | Global Perspectives

OUTLOOK | PROPRIETARY RESEARCH

Real Estate Investment Solutions

APRIL 2024

CONFIDENTIAL AND PROPRIETARY

Introduction

The last few years have brought with them a new normal of heightened uncertainty on the back of a succession of arguably “once-in-a-lifetime” crises – the Great Recession, COVID and now, “Higher for Longer,” as the Federal Reserve and other global central banks abruptly reversed a world of low rates. We would argue these unprecedented events elicit the question – how does this impact investors in 2024 and beyond? Hines Research believes it is time to reconsider the commonly accepted portfolio mix of fixed income and equity vehicles and in this paper, we explore the impact of adding real estate to this mix.

Part I

Why Real Estate: Real estate has offered a blend of equity-like and bond-like characteristics that have allowed it to thrive in different economic and investment environments. Real estate has historically delivered income that has grown over time, underpinning capital appreciation.

Part II

Allocating to Alternatives: With private wealth portfolio compositions now venturing beyond the traditional 60/40 stock and bond mix to include up to 30% alternative investments, real estate can claim a meaningful allocation amidst alternative options with the possibility of enhanced portfolio performance.

Part III

Diversifying the Diversifier: Hines Research shows that adding global real estate exposure may improve outcomes. A mix of geographies and strategic approaches provides additional layers of diversification.

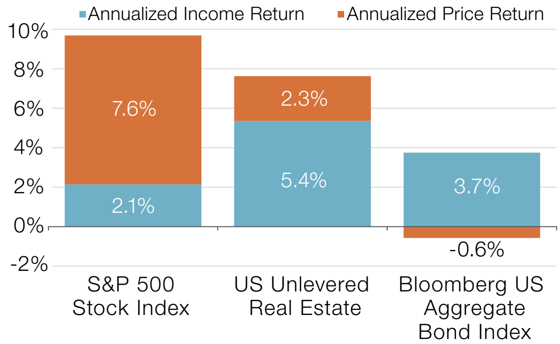
IN THIS PAPER, “WE” AND “OUR” REFERS TO HINES PROPRIETARY RESEARCH (“HINES RESEARCH”).

PART I: WHY REAL ESTATE

The Value Proposition

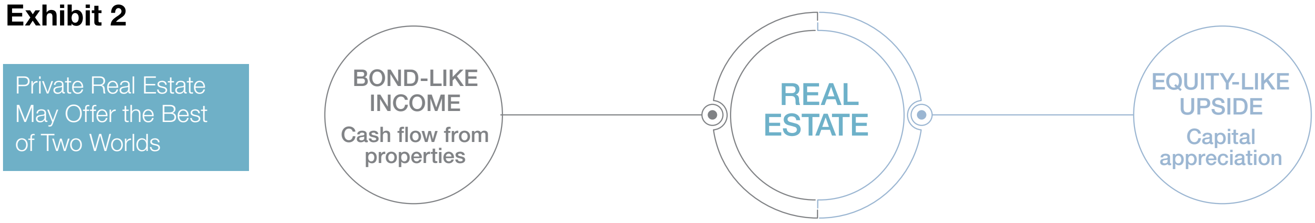
The real estate value proposition is rooted in the composition of its risk/performance over time – an apartment building, warehouse or office complex can offer the potential for ongoing income complemented by capital appreciation (the latter underpinned by rising income from rent increases). As shown in Exhibit 1, the average returns for real estate over the past 20 years have slotted between equities and fixed income. The combination of cash flow and capital appreciation makes real estate, in our view, a blend of both traditional vehicles (a hybrid with equity and bond-like characteristics). It could be viewed as a natural bridge between stock and bond allocations.

Exhibit 1



Past performance cannot guarantee future results.
For definitions of each index, please see the end of this paper.
Sources: NCREIF, Standard and Poor's, Bloomberg, Hines Research. As of 4Q2023. The returns shown are average annualized total returns broken down into income and price returns. For U.S. Levered Real Estate, Hines Research used the NCREIF Property Index (NCREIF NPI), which measures property-level returns that do not consider the impact of mortgage debt-to-equity returns. NCREIF NPI provides capital, income, and total return; returns do not include a return of capital.

Exhibit 2



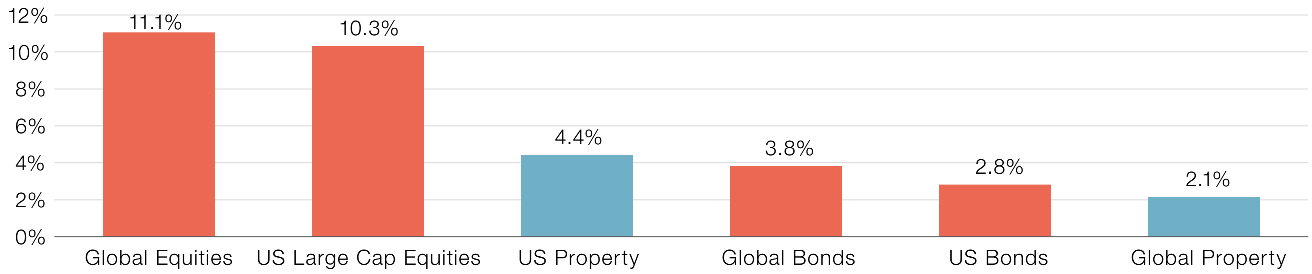
Past performance cannot guarantee future results.
Source: Hines Research. As of Q4 2023.

INCOME AND PRICE RETURNS OVER TRAILING 20 YEARS

Our research suggests that a real estate allocation can play a supporting role for an equity portfolio during periods of low growth by offering income together with potential appreciation. It may also serve as a complement to an underperforming bond allocation during periods of strong equity growth. In addition, historically real estate has had lower volatility than other commonly held investments. Since 2001 (the oldest global return data available), the asset with the lowest downside volatility – a measure that considers only the severity of negative returns for any investment – is global real estate (as shown in Exhibit 3). This is due in part to the diversification benefits which may come from investing across global regions and sectors. Lower volatility generally translates into better capital preservation in down markets.

Exhibit 3

Downside Volatility for various asset classes for the period from 2001 - 2022



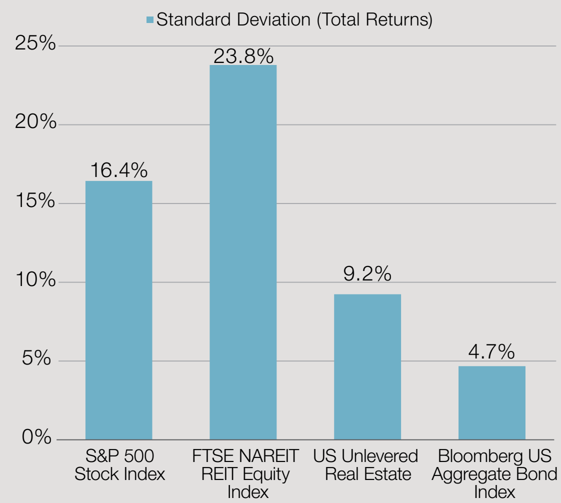
Past performance cannot guarantee future results. For definitions of each index, please see the end of this paper.
As of Q4 2022 for the period from 2001 – 2022.
Source: MSCI, Standard & Poor's, Bloomberg, Hines Research.

- Global equities are represented by the MSCI World Index,
- U.S. Large Cap Stocks are represented by the dividend yield of the S&P 500 Index.
- U.S. real estate is represented by the MSCI U.S. Annual Property Index.
- Global bonds are represented by the Bloomberg Aggregate Bond Index.
- U.S. bonds are represented by the Bloomberg Aggregate Bond Index.
- Global real estate is represented by the MSCI Global Annual Property Index ("MSCI Global Annual").

HINES NOTE

Public REITs are securities that are bought and sold on an exchange, so their performance is not a proxy for the real estate market. In fact, annualized volatility for publicly traded REITs over the last 20 years has averaged 23.8% versus only 9.2% for unlevered U.S. property. Over the same period, the correlation of U.S. publicly traded REIT total returns (measured by R^2) to the S&P 500 has been 0.74 versus only 0.14 for U.S. property. As such, U.S. publicly traded REIT performance is similar to that of an equity index.

Exhibit 4



Sources: NCREIF, Standard and Poor's, Bloomberg, FTSE NAREIT, Hines Research. As of 4Q2023. Volatility is calculated using rolling 1-year total returns.

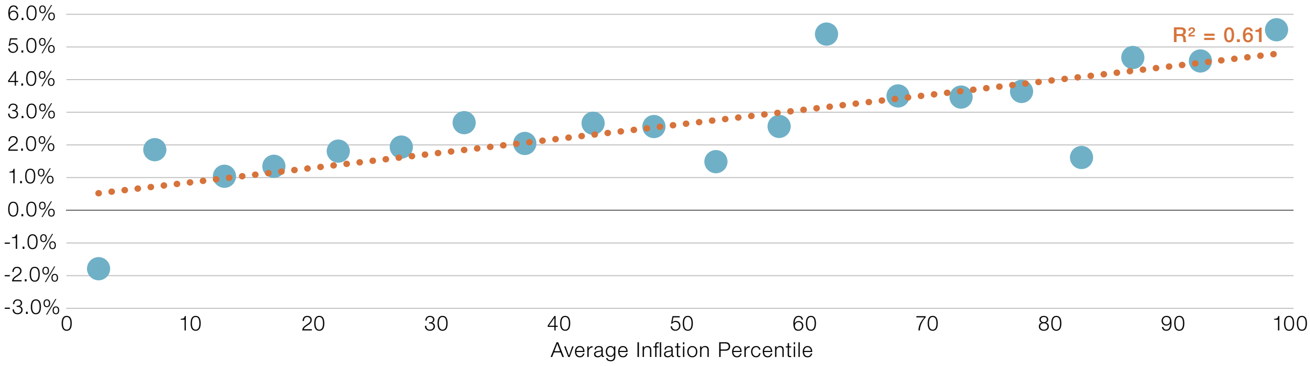
Public REIT Performance is not a Proxy for the Real Estate Market

REAL ESTATE HAS ACTED AS AN INFLATION HEDGE

Our research shows that real estate has historically behaved as an inflation hedge by offering capital appreciation underpinned by cash flow growth. Exhibit 5 shows that trailing annual rent growth, a key factor in the generation of cash flow at the property level, has a very significant relationship with concurrent inflation. Higher inflation tended to result in higher rent growth (a very welcome development during inflationary times).

Exhibit 5

Historical Global Property Rent Growth Relative to Inflation



Past performance cannot guarantee future results.
Sources: Oxford Economics, JLL, CBRE, PMA, NCREIF, CoStar, Hines Research. As of Q3 2023. Hines Research took country-level trailing annual inflation and scored each quarter's (normal distribution) against the country's own history. This was applied to all markets under coverage in Europe, Asia and North America. All datapoints were bucketed into bands of 5 points (i.e., 0-5, 5-10, etc.). Then the trailing annual rent growth associated with each datapoint (each quarter for the market in question) was averaged for each band. The results are charted here or quoted in the table. The period covered is from 1981 to present, though data availability differs by market. * R^2 is a measure that indicates the proportion of the variance in the dependent variable that can be explained by the independent variables in a regression model. It provides an assessment of how well the regression line fits the observed data points. R^2 values range from 0 to 1, where a higher value indicates a better fit of the model to the data. An R^2 value of 1 indicates that all the variability in the dependent variable can be explained by the independent variables, while a value of 0 suggests that the independent variables have no explanatory power.

Our Research leads us to believe that in the current economic environment inflation could very well run hotter for longer than most expect, part of a shift we view as “regime change.” What we mean by this term is that the world will likely experience a persistent shift in the investment and economic environment from low inflation, low interest rates and low growth to higher inflation, higher interest rates and (we would argue) higher growth. If growth is measured using nominal gross domestic product (GDP), which does have a higher correlation to performance measures like price and rent growth, the result is real GDP growth plus higher equilibrium inflation. Our data suggests real estate can perform well in this new regime, potentially outrunning inflation by delivering appreciation returns driven by cash-flow growth.

WHERE ARE WE IN THE REAL ESTATE ADJUSTMENT CYCLE?

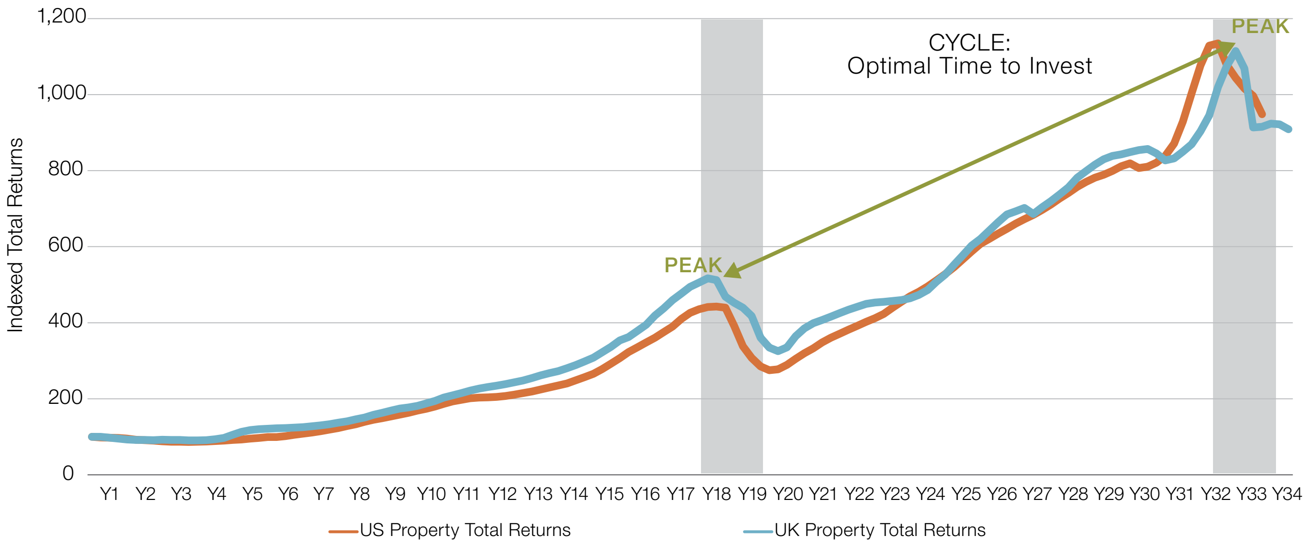
We have uncovered a pattern supporting what appears to be longer multi-year real estate cycles. Reviewing historical market data, real estate performance has tended to track in what we call "long cycles." These are defined as 15 to 17-year periods, measured peak to peak, that end (and begin) with significant downturns. In the U.S. and U.K., there have been two each using the available data (in the early 1990s and from 2008 to 2010). Any mid-cycle downturn, like 2002 or the one during COVID, turned out to be much more moderate. As shown in Exhibit 6, there has been a significant drop in real estate prices at the far right of the chart, which represents the most recent period over 2022 and 2023. We believe the scale of the current downturn, visually clear in Exhibit 6, signals the beginning of a new long cycle of growth is likely near. Real estate investing in the next 6-8 months may allow participation in a multi-year recovery, with investors possibly experiencing rising income from distributions, stability in value, downside risk mitigation, and capital appreciation supported by cash flow growth as rents respond to the higher inflation.

Exhibit 6

Long Cycle Investing: A New Long Cycle May Be in the Offing

Prioritizing long-term investment strategies has alleviated the pressure of perfectly timing the market's bottom

U.S. and U.K. All-Property Long Cycles and Total Returns Based on Entry Point



Past performance cannot guarantee future results. For definitions of each index, please see the end of this paper.
Sources: MSCI, NCREIF, Hines Research. As of 4Q2023. We are using total returns for all properties. Hines Research uses the NFI-ODCE Fund Index for U.S. private real estate in this analysis. The "long cycle" is a concept that is the opinion of Hines Research, backed by the following rationale: Real estate cycles in two markets where Hines Research dates to at least 1989, the U.S. and U.K., can extend from cyclical downturns of equal to or greater than 10% declines using total returns (U.S.: (1) -13%, 3Q1990-2Q1993 (2) -38%, 2Q2008-4Q2009; U.K.: (1) -10%, 4Q1989-4Q1992 (2) -37%, 2Q2007-2Q2009). Any intermediate downturns, if any, are of scale less than -10% using total returns. We show one cycle (averaged from two cycles) for each of the markets shown.

PART II: ALLOCATING TO ALTERNATIVES

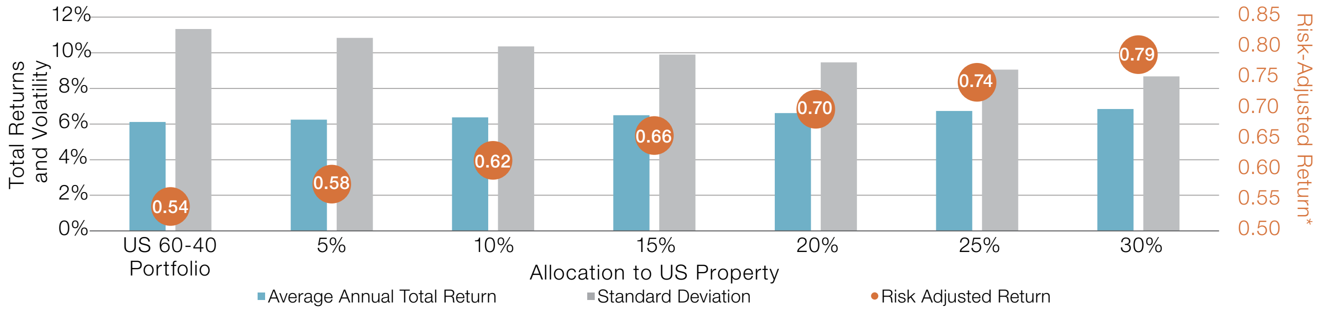
Diving into the Data

While investment allocation is an inexact science, there is a view that private wealth portfolios could soon have as much as 30% allocated to alternatives, with equities and bonds making up the other 70%.[1] The bucket known as alternatives is quite broad, and generally will include private market corporate equity, real estate debt and equity, and infrastructure. Certainly, not all investors adhere to the traditional 60%/40% mix of stocks and bonds, and many are likely to have already invested in some form of alternatives. However, this analysis begins with the 60/40 split as a reasonably illustrative portfolio. In this exercise, real estate will be competing with other alternatives, but the question to be answered is whether a real estate allocation historically has enhanced portfolio performance and what would have happened if the allocation were expanded.

Using return data from a single source to make all analyses comparable, we calculated the impact of adding U.S. direct-owned private real estate, as represented by the MSCI US Annual Property Index, to the traditional 60/40 portfolio. Annual returns were used in an effort to avoid understating the normal volatility of private real estate (i.e. to "de-smooth" the results). We found that because private real estate has historically recorded lower volatility (including to the downside), and competitive total returns, the data showed that every 5% incremental increase in U.S. property allocation both increased returns (real estate's equity-like characteristics supplanting the poorer return performance of bonds) and decreased volatility (real estate's more bond-like stability supplanting the higher volatility of equities) all the way up to 30%, the aforementioned assumption for an alternatives allocation, as shown in Exhibit 7. Risk-adjusted returns, here defined as return divided by risk, so "return per unit of risk," understandably increased every step up as well.

Exhibit 7

A 60/40 U.S. Stock and Bond Portfolio with U.S. Direct-Owned Private Real Estate added in 5% Increments



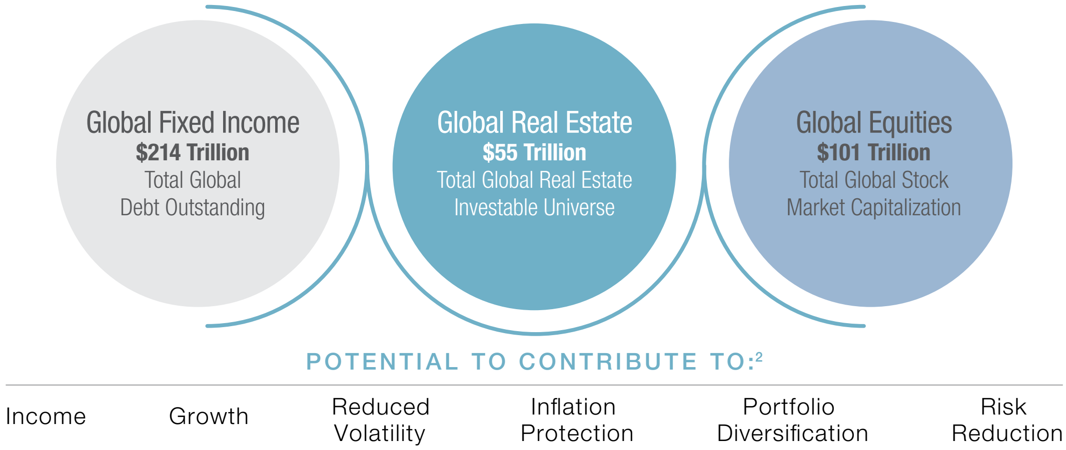
Past performance cannot guarantee future results.
Source: MSCI, Standard & Poor's, Bloomberg, Hines Research. As of Q4 2022 for the period from 2001 – 2022. We are using an annual index (MSCI Global Annual Property Index) of direct-owned private real estate total return performance from a single source to maintain comparability. For all country level indices provided by MSCI and included by MSCI in the Global Property Index, including the US (MSCI US Annual Property Index) utilized here, data is not yet available for 2023. *Risk-adjusted returns are calculated by dividing the total return by the standard deviation of rolling annual returns over the same period.

[1] The Case for the 40/30/30 Portfolio, wealthmanagement.com, January 2024.

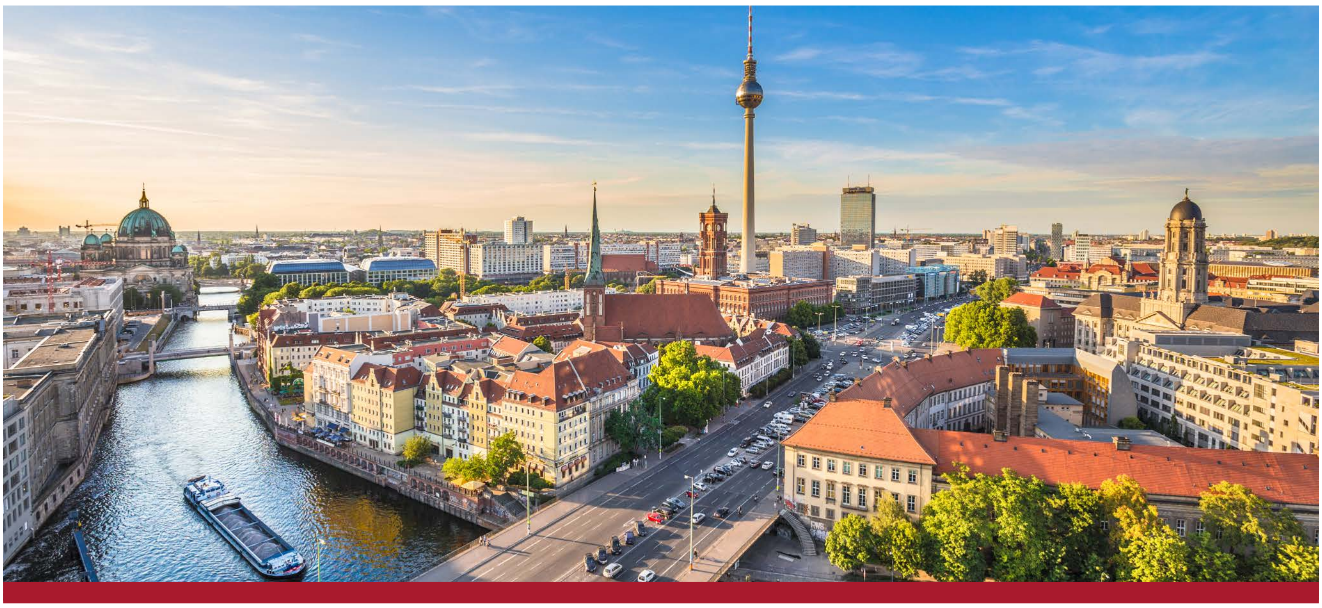
OUR TAKE ON A PRIVATE REAL ESTATE ALLOCATION

Notwithstanding the findings of Exhibit 7, we would not suggest adding a 30% allocation to private real estate. There are many other investment ideas under the alternatives umbrella to be considered in addition to a property allocation. To arrive at what might be considered a rational allocation, we triangulated by examining what a passive market weight allocation would be. This is a market-sizing exercise in which the total value of investible real estate relative to other asset classes would serve as a guide. Market size is a measure of a market's relative importance to investors – the scale of any given asset class is driven by the balance of supply (investible investments) and demand (investor flows). In effect, this is the allocation as determined by market forces. In a global context, the total value of invested direct-owned private commercial real estate is equal to just under 15% of the sum of global equities, bonds, and property itself as shown in Exhibit 8. This suggests that a 15% allocation might be appropriate.

Exhibit 8
Global Real Estate – A Key Asset Class[1]



Sources: Bank of International Settlements, Hines Proprietary Research ("Hines Research") and World Federation of Exchanges.
[1] Market capitalizations: as of Q3 2022 for fixed income; global real estate and equities.
[2] There is no assurance that real estate investments will achieve capital appreciation, provide regular distributions or protect against inflation. The value of an investment in global real estate may seem less volatile because its value is not subject to the market pricing forces to which publicly traded investments are subject. An investment in global real estate is significantly less liquid than publicly traded investments and is not immune to fluctuations. Diversification does not guarantee a profit or eliminate the risk of loss.



PART III: GEOGRAPHY AND STRATEGY

Diversifying the Diversifier

We believe that a blend of distinct real estate investments may diversify against each other. Here we explore various approaches that could make up a multilayered real estate allocation.

GEOGRAPHIC DIVERSIFICATION

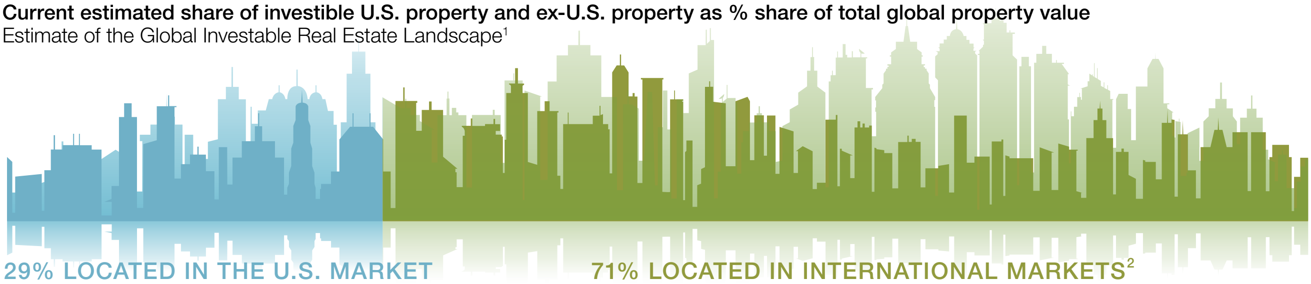
Domestic bias is always a concern because investors appear to be more comfortable investing in their backyard, whether with stocks, bonds, real estate, or other vehicles. In our view, this may be short sighted, as more than two-thirds of the world's investible commercial property is held outside of U.S. markets[2] which you can see in Exhibit 9.

Exhibit 9

Market Sizing Tells Us that a Global Property Allocation is Warranted

Current estimated share of investible U.S. property and ex-U.S. property as % share of total global property value

Estimate of the Global Investable Real Estate Landscape[1]



Past performance does not guarantee future results.

1. Diversification does not guarantee a profit or eliminate the risk of loss. International real estate investing is subject to additional risks that include the need to comply with a wide variety of foreign laws and the uncertainty of such laws; the tax treatment of transaction structures; political and economic instability; foreign currency fluctuations; and inflation and governmental measures to curb inflation that may adversely affect the performance of your investment.

2. Data as of 12/31/2023. Hines Research estimates the size of the investable real estate universe in each country by averaging that country's share of global gross domestic product ("GDP"), as sourced from Oxford Economics, and that country's share of global real estate transaction volume, as sourced from Real Capital Analytics, to estimate each country's share of the real estate universe. By blending the share of global transaction volume with the share of global GDP, Hines Research believes it is able to produce estimates that incorporate where real estate investors are actually allocating funds around the world.

We believe a broad opportunity set across markets with asynchronous economic and fundamental cycles will likely offer the potential for arbitrage (i.e. investing in a less expensive or recovering market when others are expensive and/or set for a correction).

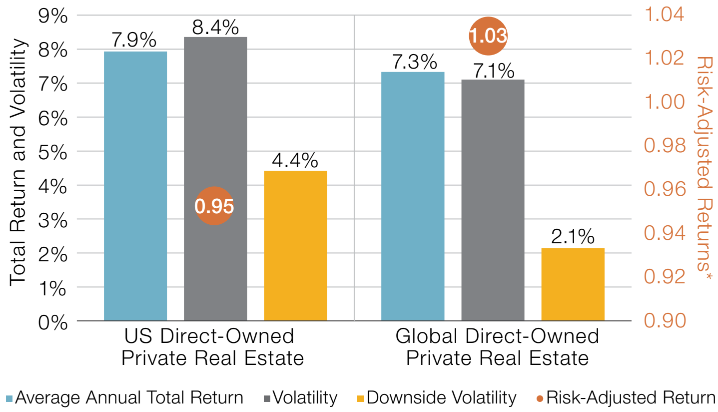
[2] Oxford Economics, Hines Research using estimates as of Q4 2023 (excluding Canada, the Middle East, and Latin America).

More traditional portfolio analysis provides quantitative evidence of the historical advantages of "going global." As shown in Exhibit 10, global direct-owned private real estate as represented by the MSCI Global Annual Property Index has demonstrated the ability to reduce risk by investing across countries that are not perfectly correlated. We found that while average annual total returns were slightly lower for global property (in U.S. dollar terms)[3] relative to the historically high-performing U.S. property market, that performance came with lower volatility. Consequently, risk-adjusted returns have been higher for the global index as well.

Exhibit 10

Global Property Has Offered Lower Volatility Than U.S., Even in Downturns

Comparative risk/return performance for US and Global Direct-Owned Real Estate



Past performance cannot guarantee future results.
Sources: MSCI, Standard & Poor's, Bloomberg, Hines Research. As of Q4 2022 for the period from 2001 – 2022. We are using an annual index (MSCI Global Annual Property Index) of direct-owned private real estate total return performance from a single source to maintain comparability. For all country level indices provided by MSCI and included by MSCI in the Global Property Index, including the U.S., data is not yet available for 2023. *Risk-adjusted returns are calculated by dividing the total return by the standard deviation of rolling annual returns over the same period. **Downside volatility is a measure of volatility that uses standard deviations of only negative returns, so a measure of the relative scale of declines.

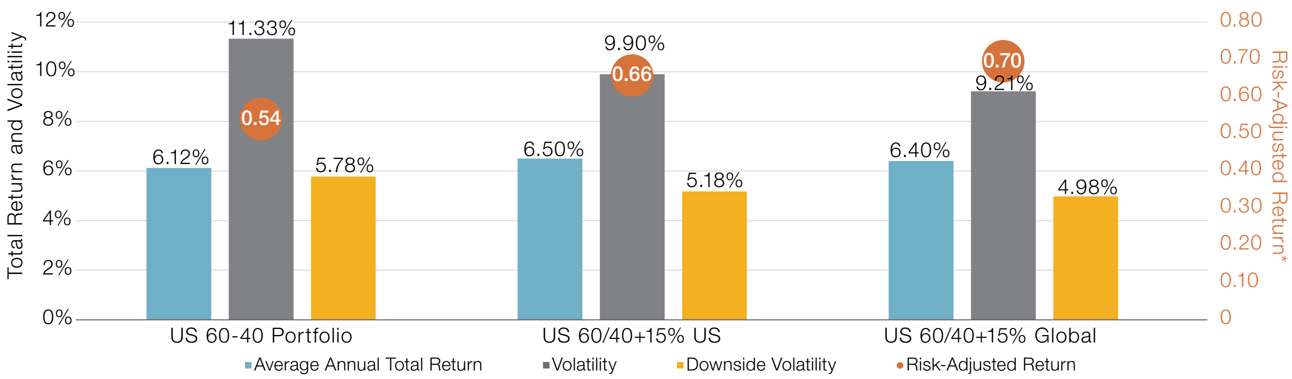
IMPACT ON PERFORMANCE

To examine the impact of geographic diversification on portfolio performance, we took the next logical step of replacing the 15% U.S. property allocation to the 60/40 stock and bond portfolio with an equal allocation to global property. Due to lower volatility, the risk-adjusted return with a 15% global real estate allocation exceeded that of the traditional equity/fixed income mix and of the 15% U.S. real estate allocation – see Exhibit 11.

Exhibit 11

Global Property Has Offered Further Geographic Diversification Benefits

Comparative risk/return for U.S. and global direct-owned real estate at 15% allocation to a U.S. 60/40 stock/bond portfolio



Past performance cannot guarantee future results.
Sources: MSCI, Standard & Poor's, Bloomberg, Hines Research. As of Q4 2022 for the period from 2001 – 2022. We are using an annual series of direct-owned private real estate return performance from a single source to maintain comparability. For all components of this family of indices, including the U.S., data is not yet available for 2023. *Risk-adjusted returns are calculated by dividing the total return by the standard deviation of rolling annual returns over the same period. **Downside volatility is a measure of volatility that uses standard deviations of only negative returns, so a measure of the relative scale of declines.

[3] The data we used is in US dollar terms with floating exchange rates. Thus, this analysis incorporates the impact of currency, both deleterious and advantageous.

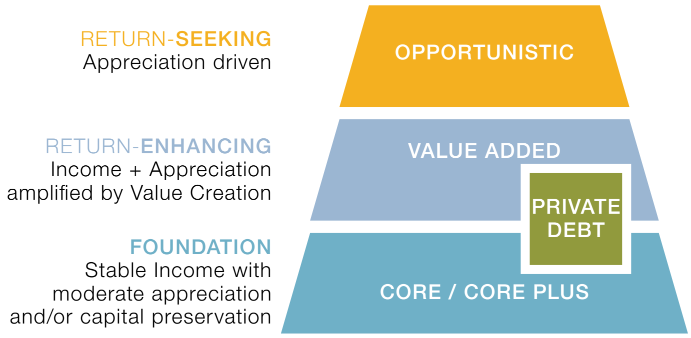
STRATEGY DIVERSIFICATION

Within the real estate investment sector there are various strategies intended to deliver different risk/return profiles along a continuum from lower risk/lower return to higher risk/higher return. The major strategy categories are Core/Core-Plus, Value-Add and Opportunistic, but we will also consider Private Debt.[4]

Core/Core-Plus: Historically this strategy is primarily invested in "Core" property considered to have high-quality design, function, be in highly sought-after locations, and be leased to a level of 95% or higher across all sectors.

- This strategy typically uses lower amounts of leverage.
- In the case of Core-Plus, there may be a mandate to take some marginal risk (relative to pure Core funds) in asset management to earn moderate additional return through value creation at the property level.

Exhibit 12
Real Estate Allocation by Strategy



Past performance cannot guarantee future results. See endnotes for additional information on these strategies.
Sources: Hines Research. As of Q4 2023.

Core/Core-Plus real estate generally earns returns that generate a relatively moderate return premium ("alpha") over the market.[5] It should provide all the benefits of real estate: potentially stable income, appreciation supported by this income (and potential income growth), capital preservation, and long-term inflation hedging from rent growth.

Value-Add: A Value-Add strategy seeks to invest in assets in high-quality locations but possessing flaws that can be addressed by a new owner/manager (such as poor design, high vacancy rate, poor access to capital, etc.).

- The goal of this strategy is to "buff to Core" – improve it and sell to a "Core" buyer for a premium. An additional sub-strategy is to exploit price discounts, particularly from distressed sellers.
- This strategy generally uses slightly higher amounts of leverage.

Value-Add real estate seeks to generate higher returns (relative to Core/Core-Plus returns) through active value creation, with the added benefit that owned assets (either successfully improved or partially leased during improvement phase) could contribute additional investor income.

[4] Private debt is the provision of debt finance to companies from funds, rather than banks, bank-led syndicates, or public markets.
[5] "Alpha" is used to measure the ability of an investment manager to select and efficiently manage assets. Alpha is calculated as the difference in unlevered IRR over the hold period of the asset and the benchmark unlevered IRR of the same market and property type over the exact same hold period.

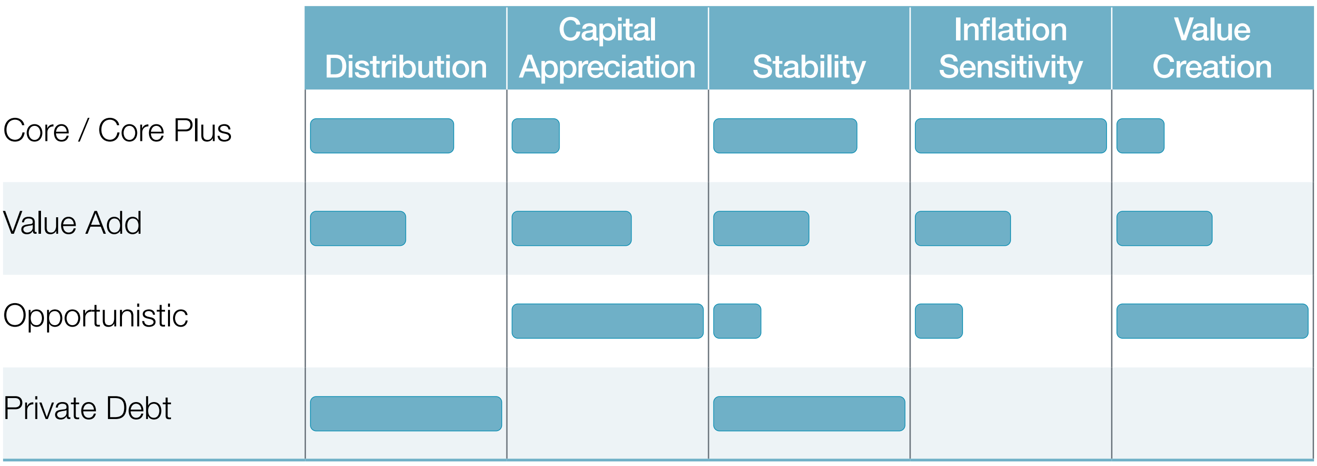
Opportunistic: This is a “return-seeking” strategy that carries higher risk. It is the highest risk strategy along this continuum but has the highest potential for compelling returns.

- An opportunistic strategy typically includes development projects where an asset (or group of assets) is built from the ground up. Opportunistic may also take the form of buying existing distressed property. An example would be a completely empty or highly discounted asset with flaws that, while surmountable by a skilled operator, are extensive.
- Opportunistic strategies focus on schedule maintenance, cost maintenance, and executing a plan that is believed to create something highly desirable. The skill of the developer is of paramount importance to success.
- The strategy may also employ a “build to hold” structure where once development is complete, the investors remain invested or are replaced by other capital while the developer transitions into a role as day-to-day asset manager.
- Opportunistic strategies typically use significantly higher amounts of leverage.

The Opportunistic strategy seeks heightened value creation, thus potentially higher return. It offers no income and less inflation sensitivity as compared to a portfolio holding longer-term, income-producing assets where rents could respond to inflation. However, if market fundamentals work in the favor of landlords, development can benefit from rising costs and rents in an inflationary environment as well. Moreover, the scale of returns (supported by value creation), may outrun inflation and act as a hedge.

Private Debt: Private Debt is a growing investment opportunity that seeks to deliver enhanced cash distributions and capital preservation. It will generally not provide capital appreciation or inflation hedging.

Exhibit 13
The Benefits of Key Real Estate Strategies



Past performance cannot guarantee future results.
Source: Hines Research. As of Q4 2023.
Private debt, also known as private credit, is a private capital strategy in which investment managers and institutions invest by making private, non-bank loans.

Conclusion

We see the present moment as an opportunity to participate in a global real estate market that is now reaching the end of a long cycle downturn, with the possibility of a multi-year recovery on the horizon. The value proposition of real estate as a blend of equity and bond characteristics offers a natural bridge between these two core allocations for private wealth portfolios that are increasingly moving beyond traditional 60/40 compositions to embrace the inclusion of higher-percentage investments in alternatives. A strategic allocation to geographically-diversified global real estate assets, also stylistically diversified from Core/Core-Plus to Value-Add, Opportunistic, and Private Debt can provide portfolios with the potential for capital appreciation, inflation hedging, income distributions, and downside risk mitigation resulting from a lower level of volatility for direct-owned private real estate compared to publicly traded REITs.

ABOUT HINES' PROPRIETARY RESEARCH TEAM

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Josh Scoville and his team, including Michael C. Hudgins, Senior Managing Director, the lead author on this paper, are responsible for constructing the Hines macroeconomic view and outlook for commercial real estate market fundamentals and pricing. Hines Research is also responsible for assisting with the development of investment strategies for the firm's investment programs; working closely with the local and fund management teams, clients and partners; and supporting U.S. regional and international country heads in identifying market/submarket opportunities and risks. The views of the local and fund management teams on the latest market developments are exchanged regularly via biweekly conference calls and quarterly market updates and are essential for reviewing investment strategies and fund portfolio allocations.

Additional members of Hines' Proprietary Research team include Ryan McCullough, James Purvis, Tim Jowett, Erik Thomas, Michael Spellane, and Anthony Witkowski.

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Endnotes

This paper contains information in the form of charts, graphs and/or statements that we indicate were obtained by us from published sources or provided to us by independent third parties, some of whom we pay fees for such information. Hines considers such sources to be reliable. It is possible that data and assumptions underlying such third-party information may have changed materially since the date referenced. You should not rely on such third-party information as predictions of future results. None of Hines Interests Limited Partnership ("Hines"), its affiliates or any third-party source undertakes to update any such information contained herein. Further, none of Hines, its affiliates or any third-party source purports that such information is comprehensive, and, while it is believed to be accurate, it is not guaranteed to be free from error, omission or misstatement. Hines and its affiliates have not undertaken any independent verification of such information. Finally this information should not be construed as investment, tax, accounting or legal advice. An investment cannot be made directly in an unmanaged index.

U.S. Unlevered Real Estate is represented by the NCREIF NPI, short for the NCREIF Property Index -- is a quarterly index tracking the performance of core institutional property markets in the U.S. The objective of the NPI is to provide a historical measurement of property-level returns to increase the understanding of, and lend credibility to, real estate as an institutional investment asset class. The universe of investments: (1) is comprised exclusively of operating properties acquired, at least in part, on behalf of tax-exempt institutions and held in a fiduciary environment; (2) includes properties with leverage, but all returns are reported on an unleveraged basis; and (3) includes apartment, hotel, industrial, office and retail properties, and sub-types within each type. The database fluctuates quarterly as participants acquire properties, as new members join NCREIF, and as properties are sold. Sold properties are removed from the index in the quarter the sales take place (historical data remains). Each property's market value is determined by real estate appraisal methodology, consistently applied.

FTSE Nareit Equity REITs Index contains all publicly-listed and traded equity REITs not designated as Timberland REITs or Telecommunications REITs. Prior to December 2010, the index included Timberland REITs and Telecommunications REITs.

Stocks/U.S. Equities are represented by the S&P 500 Index, widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Global Equities are represented by the MSCI World Index, a global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. The index is reviewed quarterly with the objective of reflecting change in the underlying equity markets in a timely manner, while limiting undue index turnover.

US Property – MSCI U.S. Annual Property Index is the U.S. component of the MSCI Global Annual Property Index.

R squared: Coefficient of determination ranging between 0 -1 (0 -100), reflecting percentage of the response variation reflected by the linear model/factor. The higher the number the higher the correlation with 1 (100) reflecting a complete correlation.

Global Property – MSCI Global Annual Property Index ("MSCI Global Annual"). The constituents of the MSCI Global Indexes are real estate investments that are held in professionally managed portfolios. They therefore may include properties held in insurance and pension funds, sovereign wealth funds, listed property companies including REITs, unlisted pooled funds, charitable trusts, traditional landed estates, and by other large private property owners.

The MSCI Global Annual reports the market rebalanced returns of the 25 most mature markets (including the U.S.). The index began tracking markets in 2001 and reporting results starting with the year ended December 31, 2001. Results are reported annually. The MSCI Global Annual Indexes measure unlevered total returns of directly held standing property investments from one valuation to the next. The returns are based solely on directly held standing investments in completed and lettable properties, often described as operating properties. The index tracks performance of 58,827 property investments, with a total capital value of USD 2,079.7 billion as of December 2022 and is comprised of all property sectors (retail, office, industrial, residential, hotel and other), direct ownership structures and interests. The index is computed at the building level and excludes properties held indirectly through investment in other funds, the impact of debt, fund management fees, taxation and cash. The MSCI Global Annual is used to gauge the performance of the global real estate market. The countries included in the MSCI Global Annual will be subject to change as their coverage extends to more countries and as more accurate estimates of the value of each investment market become available. The Indexes reflect the impact of entity level expenses.

Endnotes - continued

US Bonds are represented by the Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency).

Global Bonds –are represented by the Bloomberg Global Aggregate Index which is a measure of global investment grade debt from a multitude local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Investments in direct real estate may be subject to more expenses than a direct investment in bonds, including management fees and entity-level expenses.

US Property Returns are represented by the NFI ODCE, short for NCREIF Fund Index Open End Diversified Core Equity, is a capitalization weighted, gross of fee, time weighted return index with an inception date of December 31, 1977. Other supplemental data such as equal weight and net of fee returns are also provided by NCREIF for information purposes and additional analysis. To be eligible for NFI ODCE membership, each member fund must be marketed as an open-end fund with a diversified core investment strategy primarily investing in private equity real estate. All members funds must adhere to the following index inclusion criteria: (1) At least 80 of market value of net assets must be invested in real estate 20 cap on cash and equivalents); (2) At least 80 of market value of real estate net assets must be invested in private equity real estate properties 20 cap on real estate assets invested in but not limited to, property debt, public company equity/debt or private company equity/debt; (3)At least 95 of real estate net assets must be located in U S markets; (4) At least 80 of market value of real estate net assets must be invested in office, industrial, apartment and retail property types; (5) No more than 65% (+/- for market force)s of market value of real estate net assets in one property type or region as defined by NCREIF Property Index; and (6)No more than 40% leverage. Each member fund must also comply with the NCREIF PREA Reporting standards. Please note that when returns are computed for the NPI, the returns for the levered properties are computed on a de-levered basis, i.e., the impact of financing is excluded.

UK Property Returns are represented MSCI UK Quarterly Property Fund Index, which represents the performance of U.K. unlisted pooled property funds. The Index is value-weighted, denominated in Great Britain Pound Sterling (GBP) and based on the Net Asset Value (NAV) of its constituent property funds each quarter.

Opportunistic are investments characterized by high risk/high return, including development, redevelopments, or acquisition projects where most of the expected return is from value appreciation, have significant leasing risk or high leverage, and are typically under a shorter-term tactical investment.

Core investments are separated into two categories: (1) Traditional Core and (2) Core-Plus. Traditional Core are investments characterized by low risk/low return, are generally institutional quality operating properties with most of the return derived from income with little expected volatility of that income and are typically a long-term strategic investment. Core-Plus are investments characterized by lower risk/lower return (relative to value-add or opportunistic strategies), are generally institutional quality operating properties with most of the return derived from income with some expected volatility of that income and are typically long-term strategic investments. Core-Plus presents somewhat more risk than Traditional Core because of higher leverage, leasing risk, or moderate capital expenditures. Value-add investments are separated into two categories: (1) Traditional Value-Add and (2) Long-Term Hold Value-Add.

Traditional Value-Add are investments characterized by moderate risk/higher return, generally operating properties or properties in lease-up, may require some renovations, have a significant portion of return expected from the appreciation of the property, and are a shorter-term tactical investment. Long-Term Hold Value-Add is the same as above but with the intention of holding for the long term.

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