

THE DEFINED CONTRIBUTION SURVEY 2021

A comprehensive study of DC capital raising, structuring and enterprise benchmarking metrics in the real estate investment management industry

Research-Development
Operating expense
Marketing
NET INCOME 59,877,892.00

EQUITY STATEMENT

REVENUES 6,554,224.00
NOT SALES 3,420,349.00
Investment 6,764,984.00



92%



EQUITY	
Current	
Non-Current	
CASH FLOW STATEMENT	
OPERATIONS	1,224,000.00
NOT SALES	3,420,349.00
Investment	6,764,984.00
EXPENSES	
Development	1,550,452.00
Operating expenses	3,337,864.00
Marketing	2,698,500.00
NET INCOME	500,795.00



The Defined Contribution Survey 2021

The Defined Contribution Survey is the only study of DC capital raising, structuring, organizational metrics and best practices of real estate investment managers in supporting strategies for the Defined Contribution market.

Produced by the Defined Contribution Real Estate Council (DCREC), NAREIM and Ferguson Partners, the Defined Contribution Survey 2021 also tracks, for the first time ever, DC investor appetite for real estate as well as portfolio construction strategies and allocation intentions.

The report provides an in-depth view of Defined Contribution (DC) capital raising and organizational metrics from the real estate manager perspective relating to:

- Scale and growth of DC offerings and the management of DC real estate vehicles
- Breakdown of trends, including AUM growth and DC real estate capital flows from 2016–2020
- Organizational resources utilized in supporting DC real estate strategies

It also covers DC investor allocations and appetite for real estate, with metrics covering:

- Rationale for investing in private markets and real estate
- Target allocations to real estate
- Methods for incorporating investment structures and managers

Representing more than \$1 trillion in AUM and a cross-section of the industry in terms of size, strategy and geography, 18 real estate investment management firms and 13 DC institutional investors responded to the Defined Contribution Survey 2021. Data was collected between April and June 2021.

The final report, released in December 2021, includes 38 pages of detailed insights into DC capital raising and enterprise management practices that allow respondents to benchmark themselves against the industry to identify ways to target and expand into the DC investment market more efficiently and effectively.

We extend our sincere thanks and appreciation to all responding organizations for providing this valuable information.

Michael O'Connor and Sara Shean
Co-Presidents, DCREC

Zoe Hughes
CEO, NAREIM

Erin Green
Managing Director, Ferguson Partners



The Defined Contribution Real Estate Council was formed in 2012 to promote the inclusion of investments in direct commercial real estate and real estate securities, including REITs, within defined contribution plans. Its goal is to improve participant outcomes by furthering education about, advocacy for, and best practices of such investments. Members include many of the leading providers of real estate investment products to the defined contribution marketplace.

NAREIM is the industry association dedicated to the business and organizational strategy of real estate investment management. Founded in 1990, NAREIM today represents real estate investment management firms with combined assets under management of \$2 trillion.

For 30 years, NAREIM has been the home of real estate investment management benchmarking and best practice education, where investment managers candidly share intelligence and learn – through peer-to-peer workshops – how to drive process and strategy, and how others in the industry are innovating their businesses, their departments – and individual roles and strategies.

NAREIM's benchmarking research comprises enterprise-wide organizational metrics (the Global Management Survey), real estate investment management's only industry-specific Compensation Survey, the first corporate DEI Survey and now, organizational metrics focused on Defined Contribution capital raising, structuring and best practice education.

As a global talent management boutique serving all industries and with a strong concentration of real estate, real assets, healthcare, hospitality and private equity clients, **Ferguson Partners** orchestrates the essential disciplines impacting strategy and human capital – executive and board recruitment, compensation consulting, diversity, equity & inclusion, leadership consulting, and management consulting – to deliver trustworthy solutions that help clients capitalize on the advantages of great leadership. Our boutique firm has 11 offices worldwide dedicated to understanding our clients' unique needs and advancing their success.

EXECUTIVE SUMMARY

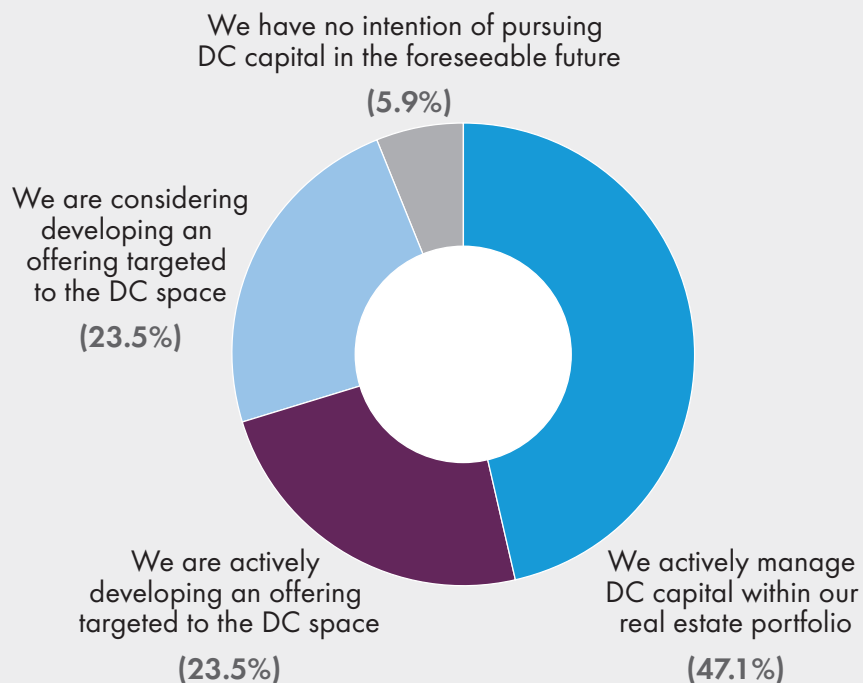
The move from acceptance to increasing innovation and adaptability

Key takeaways from the Defined Contribution Survey 2021

- Interest in investing in real estate by DC investors is rising, with the median AUM of an investment manager managing dedicated DC real estate strategies increasing more than 50% over the past five years, and overall AUM increased 24%.
- DC investors have grown more sophisticated in their knowledge of the real estate asset class and many are looking closer at asset-level and manager performance. Almost 33% of DC investors invest with multiple managers, a sign of comfort with real estate as an asset class and increased sophistication of investors.
- Interest in DC is growing among real estate investment managers with 94% of managers surveyed having or actively developing a DC-focused real estate offering.
- Among the managers surveyed, ERISA DC client capital represented over 10% of net AUM, approximately \$94 billion as of year-end 2020. DC capital AUM includes client investments both in dedicated daily valued private real estate vehicles as well as broader institutional real estate investment funds.
- Total capital flows into DC real estate products were impacted in 2020, with 60% of real estate investment managers seeing net negative capital flows. 2020 was the first year the real estate investment management industry witnessed total net outflows of DC capital rather than net inflows. As with all businesses, the pandemic had a significant impact on priorities, with Covid-19 redirecting DC investor attention towards remote working protocols and maintaining employer contributions to the DC plan, rather than incorporating new asset classes within multi-asset strategies for DC plan participants.
- Liquidity remains a critical component of managing DC capital. The Defined Contribution Survey 2021 highlights two key takeaways in relation to liquidity: 1) even in times of normal economic activity, liquidity to accommodate DC investor rebalancing is important; and 2) in an economic downturn, such as 2020, redemptions and outflows can be significant; with an average liquidity sleeve of 15%, investment managers have built liquidity into their vehicles, which helped DC investors address rebalancing/asset allocation needs during the pandemic.

Rising interest from real estate investment managers

Almost half of real estate investment managers responding to the Defined Contribution Survey 2021 are actively managing DC capital within their real estate portfolios. Another 47% of managers are considering or actively developing offerings for the DC market. The scale of interest in the DC channel is growing every year.



When it comes to Defined Contribution, improving participant outcomes through real estate is top of mind – not just for investors, but for investment managers as well.

That's the key takeaway from the first edition of the DCREC, NAREIM and Ferguson Partners Defined Contribution Survey 2021.

For years, the value of real estate as a potential asset class has been steadily increasing among Defined Contribution (DC) investors. Net assets under management (AUM) of real estate offerings managing DC capital increased more than 50% over the past five years, and net capital flows remained positive every year until the pandemic of 2020.

It's not just investors who are interested. The wider real estate investment management industry is also increasingly looking to understand and provide solutions for the DC market.

According to another survey – the Global Management Survey 2021, a benchmark of enterprise metrics for real estate investment managers – more than 80% of respondents rated Defined Contribution, retail and high-net-worth capital as 'somewhat' or 'very important' to their business over the next three years.

That data, produced by NAREIM, INREV and Ferguson Partners, represents more than 70 real estate investment management firms managing over \$1 trillion of AUM and highlights the growing interest of the industry in DC-focused real estate offerings.

Together with the increased innovation and sophistication of DC investors, the role of Defined Contribution capital in real estate – and real estate in Defined Contribution – is a growth story that will undoubtedly continue to be told in future editions of the Survey.

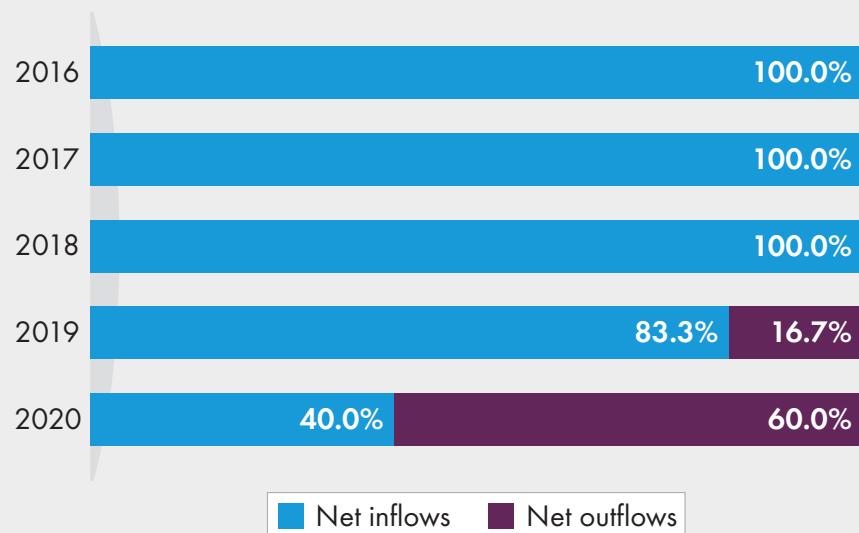
SURVEY ORIGINS

First created in 2015 by the Defined Contribution Real Estate Council (DCREC) as part of its annual survey of real estate investment managers, the Defined Contribution Survey has become an integral tool to understanding manager strategies towards the DC market.

In 2021, DCREC partnered with NAREIM and Ferguson Partners, to help expand the metrics being tracked to provide a benchmark of DC capital raising and structuring considerations, as well as organizational and

2020 impacts capital flows for six out of 10 managers

The Survey highlights two key takeaways in relation to capital flows over the past five years: 1) even in times of normal economic activity, redemptions or outflows need to be carefully managed; 2) in an economic downturn, redemptions and outflows can be significant; in 2020, 60% of managers saw net capital outflows.



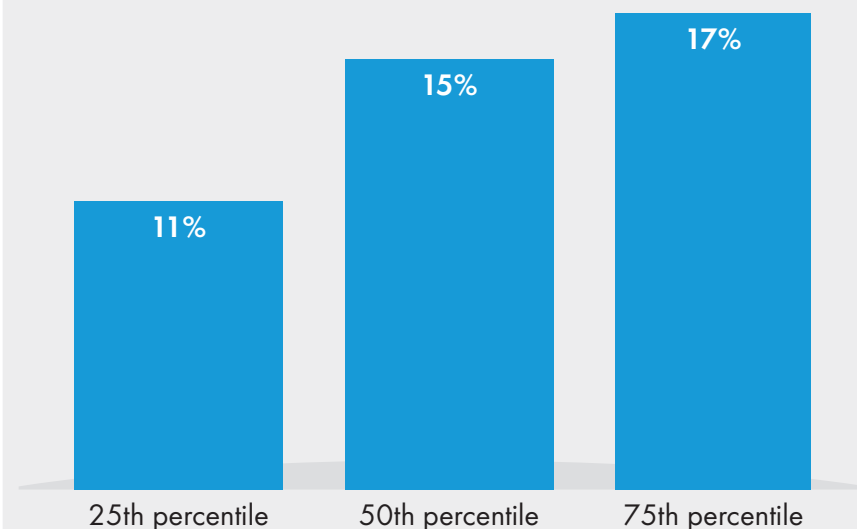
staffing best practices among real estate investment managers. The Defined Contribution Survey 2021 also tracks, for the first time, investor appetite for real estate as well as portfolio construction strategies and allocation intentions.

DISRUPTION IN 2020

The pandemic impacted every facet of life in 2020, from the way we work, to how we view the world and our place within it. Covid-19 transformed every aspect of our personal and professional lives and rapidly accelerated emerging societal and business trends.

Average liquidity sleeve hits 15%

Many real estate investment managers supporting dedicated DC real estate strategies have built-in liquidity sleeves of between 11% and 17%, typically listed REITs. The art of liquidity management lies in understanding the role of listed REITs as a tool for liquidity, as well as their impact on risk-adjusted returns when combined with private real estate.



One key trend that was already underway by the start of 2020 was the growth in capital inflows for real estate strategies from DC investors.

Within our sample set, between 2016 and 2020, there was a 50% increase in the median firm AUM and a 24% increase in total AUM.

However, in 2020, 83% of managers reported that net AUM growth was flat or declining. Indeed, just 17% of responding firms saw an increase in year-over-year AUM. As with all businesses, the pandemic had a significant impact on priorities, with Covid-19 redirecting DC investor

attention towards remote working protocols and maintaining employer contributions to the DC plan, rather than incorporating new asset classes within multi-asset strategies for DC plan participants.

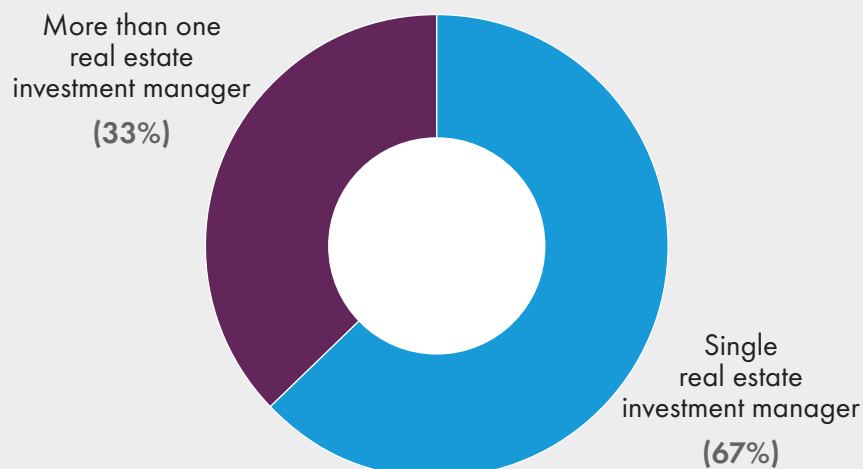
PROACTIVE LIQUIDITY

Liquidity remains a critical component of managing DC capital. The Survey highlights two key takeaways in relation to liquidity.

First, even in times of normal economic activity, redemptions or outflows to accommodate DC investor rebalancing is an important element of supporting DC real estate strategies. The Defined Contribution Survey 2021, which tracks capital inflows and outflows between 2016 and 2020, shows that redemptions represent, on average, 14% of AUM.

DC investors eye multiple managers as they find comfort with real estate

Some 33% of DC investors are also investing with multiple managers rather than just one, a sign of comfort with real estate as an asset class and increased sophistication of investors.



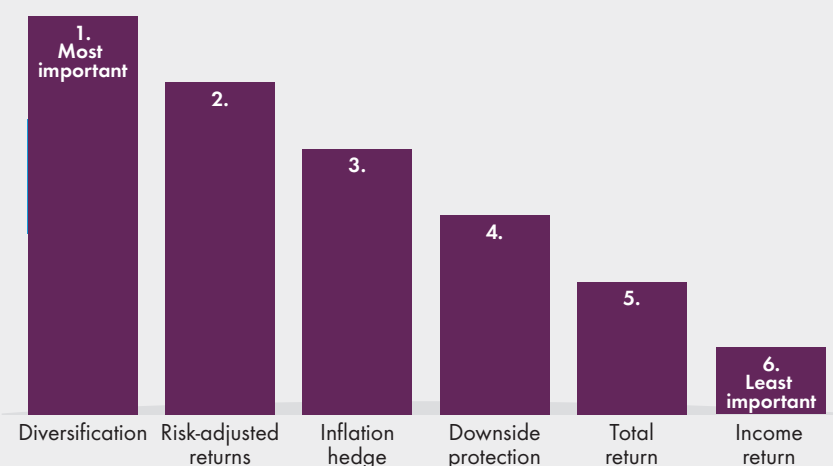
Second, it is imperative to understand the impact of the liquidity sleeve on the overall portfolio. The art of liquidity management lies in understanding the role of listed REITs as a tool for liquidity, as well as their impact on risk-adjusted returns when combined with private real estate.

INNOVATION AND ADOPTION

Like all crises, Covid-19 has helped accelerate trends that were already occurring pre-pandemic. A number of DC investors that offer target date funds for their participants have sought to incorporate more diversifying asset classes and product solutions into their portfolios. This has led to the need for innovative product solutions to enable private real estate to be utilized in the DC marketplace. Increased adoption has come from DC investors and real estate investment managers working together to

Diversification tops the drivers for RE investment

Diversification, risk-adjusted returns and inflation are the top three drivers for real estate investment by DC investors. The ranking may change order in future editions, as the commercial real estate cycle matures and investors start investing in a mix of products according to structure, manager and asset type.



overcome structural hurdles; and with the recent market volatility, the interest level has expanded.

INCREASED INVESTOR SOPHISTICATION

In addition to utilizing products with built-in liquidity features, a number of DC investors are increasingly willing to manage their own liquidity as well as expand the number of strategies utilized in their retirement plans. As can be seen in the accompanying chart, 33% of DC plan sponsor investors invest with multiple managers, a growing trend which mirrors a long-standing practice of DB investors utilizing real estate.

Anecdotally, DCREC and NAREIM members report on the growing sophistication of conversations with DC investors. Investors are gradually moving away from talking primarily about product structure and the benefits of real estate for the portfolio, to more discussions on the performance at the asset level and the drivers of net operating income.

It's a trend likely to continue. Managers also anticipate that DC investors will also start mixing the vehicles they invest in to provide diversification of managers as well as diversification of vehicles, structure, liquidity and asset type.

INVESTOR SENTIMENT, APPETITE

In the Defined Contribution Survey 2021, investors cited diversification, risk-adjusted returns and inflation-hedging as the primary reasons for investing in real estate. DC investors also noted that more than 80% of the time the real estate investment allocation replaced equities rather than fixed income investments. It will be interesting to see if this trend changes in future editions of the Defined Contribution Survey as investors increasingly focus on the currently low yields and potential impacts of interest rate movements on fixed income investments.

DC IN 2022 AND BEYOND

The Defined Contribution Survey 2021 builds on six years of research


helping investment managers and DC investors better understand scale and execution of real estate products for DC participants.

The 2021 report demonstrates that there is heightened interest from both real estate investment managers who are either actively developing their DC offerings or considering doing so, as well as from DC investors who increasingly view real estate as a valuable component of their portfolio construction and improving outcomes for their participants.

The key objective of the Defined Contribution Survey this year and in future iterations, is to benchmark that understanding. This report is the foundation of all respondents working together to share insights and best practices for the benefit of the entire industry.

The Defined Contribution Survey 2022

The Defined Contribution Survey 2022 will launch in April 2022 for data collection. All DCREC and NAREIM members are eligible to respond and will be contacted pre-launch.



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