Todd: Good morning, and welcome back to the special edition DC REC briefing. I am your host, Todd Schnick, recording today from New York City. Very, very exciting. Let's get to it. Today, we're going to discuss the anticipated implications of real estate becoming its own sector within S&Ps, Global Industry Classification Standard, better known as GICS. Today we're joined by Tom Bohjalian, executive vice president and head of US Real Estate with Cohen & Steers. Tom, welcome to the show.

Tom: Good morning.

Todd: Well, it's good to have you. I appreciate you stopping by and joining us. Let's get right to it. Lead us off by walking us through the history of Cohen & Steers.

Tom: Sure, so as pioneers in this space, which Marty Cohen and Bob Steers launched the strategy, back in 1991, it did so with the belief that real estate would become increasingly more securitized and that the restructure real estate investment trust would combine the best characteristics of the underlying real estate, along with the benefits of daily trading and liquidity. Here we stand 25 years later, the asset class has grown from about 10 billion in market capitalization and now is almost 900 billion. And that's just if you're looking at the US alone. Now, on a global basis, that market capitalization is even higher—it's closer to 1.7 trillion. And when you look at the patterns of returns for this asset class, over the last 25 years, they have been remarkable. Now, the decision to elevate real estate to the 11th sector category in the Global Industry Classification Standard, or the way we like to call it, GICS, arguably represents the most significant index change since GICS was created 17 years ago. And really, one of the most important ones for REIT since their admission into the S&P 500 in 2001.

Todd: So what exactly is GICS and what was that recent change?

Tom: GICS was first created in 1999 by the S&P and MSCI index, really as a way to give investors a consistent framework to categorize stocks and that was organized around 10 primary sector categories. Now, since then, the GICS sectors have become the so called defacto global standards for slicing up markets to analyze performance trends, develop portfolio strategies, and really to create investment products. Now, on August 31st of this year, real estate became the first GICS, what we're calling expansion franchise. Now, that houses both equity REITs, but also real estate management and development companies, having moved from their former home in financials. Now, adding real estate as the 11th GICS doesn't really change real estate's waiting in the S&P or the MSCI broad market indexes. It really affects the constituents that are simply reclassified from financials to real estate. So as of the 31st of August this year, there are 28 real estate stocks in the S&P 500 and that makes up about just under 3% of the index, generally on par with some of the other GICS categories in the S&P, such as utilities, telecom, and materials. The other thing to note is that the real estate sector has the third highest divan in yield, which could attract the attention of income-focused investors who are also looking for capital appreciation. Now, in the global markets, real estate accou8nts for 3.4% of the MSCI world index and about 4% of the MSCI EAFE index. The GICS realignment really acknowledges that real estate is fundamentally different from other businesses and that it belongs in a well-diversified portfolio. The changes also serve as really an important validation of the restructure, signaling the market's confidence that REITs have the staying power and that return potential to support their sector category.

Todd: Okay, well, thank you for sharing that. So since this change was made, what have we seen in the market?

Tom: REITs have historically been significantly underrepresented in broad equity portfolios. In many cases, no exposure. But by pulling real estate out of the so called shadows of the financial sector, we believe that this GICS realignment will drive greater awareness of the asset class. We do think there's a lot of capital that's still sitting on the sidelines that will ultimately get reinvested in REITs, active mutual fund managers begin to cut their underweight positions. Now, it's probably going to be a slow process, but ultimately we think that will likely happen is that REITs overall should benefit from those increased allocations. On top of that, we do believe that there will be a reduced volatility as REITs will no longer be guilty by association, as they say, to traditional financials, such as banks. This greater awareness has the potential to increase market growth, ultimately reduce volatility, and increase focus on fundamentals, lower correlations, and increase REIT allocation in many equity funds.

Todd: Okay, well thank you for that. We are about out of time. Before I let you go, how can someone contact you, should they have any questions?

Tom: I would say if you have additional questions, you can reach out through CohenandSteers.com and there's a wealth of information that is easily accessible, and if not, feel free to contact us through the website.

Todd: All right. Tom Bohjalian, the executive vice president and head of US Real Estate, with Cohen & Steers. Tom, great to have you. Thank you again for stopping by.

Tom: Thank you.

Todd: All right. Thank you again for joining us. That's all the time we have for today. Again, on behalf of my guest Tom Bohjalian, I am Todd Schnick. We're coming to you from New York and we'll see you next time of the DCREC briefing.