Todd: Good morning, and welcome back to the special edition DC REC briefing. I am your host, Todd Schnick, we're coming to you from New York City. Let's get to it. Today, we're going to discuss the benefits of blending public and private real estate for the defined contribution marketplaces. This is part 1 of 2 of a discussion on this topic. I'm very much looking forward to this conversation. We're joined this morning by Adam Walk, a senior research fellow, and Dr. Michael Drew, a professor of finance, both from Griffith University in Australia. Gentlemen, welcome to the show.

Michael: Thank you.

Todd: It's good to have you. I appreciate you stopping by and joining us. Looking forward to this conversation. In fact, let's jump right to it. Michael, I'll start off with you. So on this discussion, real estate allocation, within the defined contribution lifecycle, a dynamic approach. Can you briefly describe what that means exactly?

Michael: Thanks. Real estate has a really important part to play in the way we think about achieving retirement security. We know that real estate has had a very long history with defined benefit plans. But this is now growing in the defined contribution market around the world. It's accepted that real estate has diversifying qualities, it can reduce the overall portfolio risk, it's a good hedge against inflation, it has stabilized in cash flows of the portfolio. So we're thinking about the role of private and public real estate through a plan member's lifecycle. And I think as we go through this journey, we know the risk—what's safe and what's risky—changes the plan member through their life stages, and we're looking at how real estate can assist in both smoothing volatility and providing greater certainty of retirement outcomes.

Todd: Okay, so Adam, walk us through; give us a brief overview of some of the key topics covered in this research of yours.

Adam: Sure. We took some fairly common allocation approaches, and added a blend of public and private real estate, and looked at the margin of benefit from those clauses being added. And we did that in some classical types, in research question one. In the second research question, we did the same thing, but did this for dynamic lifestyle stretches, which would be considered relatively innovative type of strategy—they're target-aware strategies. And then the third question, we really looked at how varying the balance between public and private real estate throughout the lifecycle, how that impacted returns and outcomes. So there were really three questions we sought to answer.

Todd: Outstanding. So, Michael, any key findings we should be aware of here?

Michael: I think, again, one of the key messages to come from the research is that the case for real estate stands, that even in a DC context, there's a very important component in the part that real estate, public and private, can play in reducing the range of outcomes for our plan members, and also allows us to think about the destination. And this is a really important point, I think, for planned sponsors, that risk, in this context, is typically defined as standard deviation. Where this sort of research frames the risk as falling short of the retirement objective. So we wanted to really show, as Adam was saying, testing a series of well-regarded, well-understood asset allocation designs, and the thing that maybe struck us was that, this dynamic approach, the target aware approach, and the combination of a target aware approach, think about where risk on and risk is off through the lifecycle, a combination of the diversification benefits that include a sleeve of public and private real estate, can add to outcomes, but also really improve downside risks of portfolio design.

Todd: Okay. So, Adam, let's close off part one of our conversation. So, this white paper of yours provides empirical support of providing meaningful allocation to real estate, and we're the key drivers here that make real estate so attractive as an asset class.

Adam: Sure. The classical one is the lower correlation typical assets Mike mentioned earlier. It has got some hedging characteristics, which are useful. I think the other interesting is that private and public real estate bring slightly different things to portfolios, so a blend, having both in there, I think is a real benefit.

Todd: Okay. Good stuff. Well, gentlemen, we're about out of time for part 1 of this conversation. We're going to do part 2 pretty soon. Just in case, though, before we close this up, should anyone have any questions and need to learn more, where can they go and get information?

Adam: The white paper is available at www.DCREC.org or e-mail contact@DCREC.org.

Todd: All right. So thank you for joining us. That's all the time we have for part 1. On behalf of my guests, again, Dr. Adam Walk, and Dr. Michael Drew, I am Todd Schnick, coming to you from New York City. We'll see you next time on the DCREC briefing for part 2 of the discussion on the benefits of blending public and private real estate for the defined contribution marketplace. We'll see you then.