

**1. What's the role of a REIT allocation in a portfolio?**

Apart from the potential for attractive returns, Real Estate Investment Trusts (REITs) are a nice diversifying asset class in a portfolio due to their relatively low correlations with both equities and fixed income. Our research has shown that adding an allocation to the REIT asset class to a stock/bond portfolio can substantially improve the portfolio's risk-adjusted return. Over extended time periods, REITs and equities tend to generate similar returns.

**2. Why does Gerstein Fisher prefer a global approach to investing in REITs?**

Investing in a diversified basket of real estate across different economies, property markets, interest-rate environments, and inflation regimes provides greater portfolio diversification and can enhance overall risk-adjusted returns. REITs currently trade in about 40 countries. We think the average American investor's allocation to American REITs is too low; but his or her investment exposure to foreign REITs is virtually zero.

**3. What is an appropriate allocation to global REITs?**

Depending on the investor's situation, I feel that a 4% to 10% portfolio allocation to global REITs is generally appropriate. Since the bulk of REITs' returns come from nonqualified dividends, most investors are better off holding these income-producing assets in tax-deferred accounts such as IRAs and 401(k)s.

**4. What is your investment style and where are you finding opportunities now?**

Gerstein Fisher favors a quantitative approach that targets investment factors (such as value and size) that have been demonstrated by academic research to explain differences in returns. One factor we favor in both domestic and international REITs is low leverage. One of our top low-leverage US holdings is AvalonBay Communities, an attractively valued REIT which develops and manages apartment buildings. In Asia, we like Japan Hotel REIT Investment, a small cap stock demonstrating both momentum and low leverage factors.



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