

# REIT Quarter-End Performance Review—4Q18



**R**EITs declined during the fourth quarter, although not as much as most stock market indices. Our portfolio lagged the NAREIT Index for the quarter, as Specialized REITs declined more sharply than REITs as a whole.

The Federal Reserve raised its short-term fed funds rate to 2.5% on December 19, marking its fourth rate increase of 2018. While higher interest rates could be expected to result in slightly lower valuation multiples for REITs, it is worthwhile noting that the Federal Reserve’s most recent commentary indicates that they believe a 2.75% fed funds rate is effectively a “neutral” level. This is only .25% above where the rate is today and suggests that we may be near the end of the Fed’s interest rate increases.

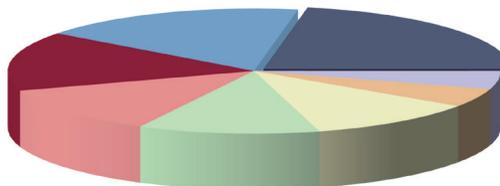
## PERFORMANCE

	Quarter Ending 12/31/18	Year Ending 12/31/18
Institutional Composite (gross)	-8.13%	-4.53%
(net)	-8.27%	-5.08%
FTSE NAREIT <sup>(4)</sup>	-5.72%	-3.94%

Source: Renaissance Research, Bloomberg

## REIT CATEGORY ALLOCATION AND HOLDINGS <sup>(1)(2)(3)</sup>

<ul style="list-style-type: none"> <li>● <b>Residential</b> <span style="float: right;">22.1%</span> <ul style="list-style-type: none"> <li>American Homes 4 Rent</li> <li>Equity LifeStyle Properties</li> <li>Essex Property Trust</li> <li>UDR</li> </ul> </li> <li>● <b>Specialized</b> <span style="float: right;">17.6%</span> <ul style="list-style-type: none"> <li>CoreCivic</li> <li>CoreSite Realty</li> <li>National Storage Affiliates Trust</li> <li>PotlatchDeltic</li> </ul> </li> <li>● <b>Retail</b> <span style="float: right;">15.4%</span> <ul style="list-style-type: none"> <li>Simon Property Group</li> <li>Tanger Factory Outlet Centers</li> <li>Urstadt Biddle Properties</li> </ul> </li> <li>● <b>Hotel &amp; Resort</b> <span style="float: right;">12.3%</span> <ul style="list-style-type: none"> <li>Hospitality Properties Trust</li> <li>Host Hotels &amp; Resorts</li> <li>Pebblebrook Hotel Trust</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● <b>Health Care</b> <span style="float: right;">11.9%</span> <ul style="list-style-type: none"> <li>CareTrust</li> <li>National Health Investors</li> </ul> </li> <li>● <b>Diversified</b> <span style="float: right;">11.2%</span> <ul style="list-style-type: none"> <li>Liberty Property Trust</li> <li>PS Business Parks</li> </ul> </li> <li>● <b>Industrial</b> <span style="float: right;">4.8%</span> <ul style="list-style-type: none"> <li>Prologis</li> </ul> </li> <li>● <b>Office</b> <span style="float: right;">4.7%</span> <ul style="list-style-type: none"> <li>Piedmont Office Realty Trust</li> </ul> </li> <li>● <b>Mortgage</b> <span style="float: right;">0.0%</span></li> </ul>
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Source: Renaissance Research, FactSet

<sup>(1)</sup>Based on a representative account of the strategy discussed and shown as supplemental information to the GIPS compliant presentation. Portfolio characteristics (e.g. sector weights, valuation, growth rate) are based on a representative account that we believe is illustrative of the strategy. Characteristics and/or holdings may not be the same for all accounts invested in the strategy due to factors such as pending trades or account restrictions.

<sup>(2)</sup>Weights as of the end of the presentation period, which only include the equity portion of the portfolio. Cumulative total weighting may not add up to 100% due to weights being rounded to the nearest decimal place.

<sup>(3)</sup>Any securities referenced should not be considered a recommendation to purchase or sell a particular security. These securities may represent a portion or all of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. Non-performance based criteria have been used to select the securities listed. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold or recommended for this strategy. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings may not be current recommendations to buy or sell any security, and may no longer be held in the representative account. To request a complete list of portfolio holdings recommendations for the past year, the calculation methodology, or a list showing the contribution of every holding to the representative account’s performance for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

<sup>(4)</sup>Primary benchmark.

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## CONTRIBUTORS TO RETURN<sup>(1)(3)</sup>

Company Name	Average Weight <sup>(2)</sup>	Contribution to Return	Comments
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### TOP THREE CONTRIBUTORS—REIT

CareTrust REIT	6.31%	0.26%	CareTrust REIT is a health care REIT that owns and administers senior housing and other health care-related properties. CareTrust owns a diversified portfolio of 191 net-leased health care properties and 3 senior housing properties across 24 states. For the third quarter, net income increased 28% over the prior year quarter and deal flow returned to normal as the company acquired \$41 million in new assets.
National Storage Affiliates	4.98%	0.20%	National Storage Affiliates is a storage REIT that holds ownership interests in and operates 675 self-storage properties located in 34 states with approximately 43 million rentable square feet. In the three years since the IPO, National Storage has completed \$3.7 billion in acquisitions while increasing the dividend 52.6% and averaging a 14.8% year-over-year increase in core funds from operations per share.
PS Business Parks	5.38%	0.17%	PS Business Parks is an office REIT that owns and operates approximately 28.2 million rentable square feet of commercial space in 6 states: California, Florida, Maryland, Texas, Virginia and Washington in addition to a 95% interest in 395 apartments. Net income available to common shareholders for the third quarter was \$25.1 million, up from \$18.1 million for the same period in 2017, an increase of 38.6%.

### BOTTOM THREE CONTRIBUTORS—REIT

CoreCivic	4.12%	-1.09%	CoreCivic is the nation's largest owner of partnership correctional, detention and residential reentry facilities comprised of 44 owned and operated facilities with approximately 64,000 beds and 7 managed-only facilities with approximately 8,800 beds. The First Step Act, signed into law by President Trump in December 2018, may open up further avenues of growth for CoreCivic such as their parole, probation and monitoring services.
CoreSite Realty	4.76%	-1.05%	CoreSite operates 21 data centers in eight major communications markets across the United States and serves more than 1,350 customers with a portfolio totaling more than 4.1 million square feet of data center space. CoreSite expects the 2018 revenue growth rate to be between 11% and 14% with the revenue and adjusted EBITDA growth rates to be in the upper single digits in 2019 and the lower double digits in 2020.
PotlatchDeltic	4.36%	-1.00%	PotlatchDeltic is a timber REIT that owns nearly 2 million acres of forestland in Alabama, Arkansas, Idaho, Louisiana, Minnesota and Mississippi. The company also operates eight manufacturing facilities that produce lumber and panel products. The Tax Cut and Jobs Act reduced the blended federal and state effective tax rate from 39% to 26%. The synergies realized from the merger with Deltic Timber have been achieved ahead of schedule.

Source: Renaissance Research, FactSet

The long-term average annualized total returns for REITs have fared well compared to large-cap U.S. stocks, small-cap U.S. stocks, and the U.S. aggregate bond market. Many investors are increasing their allocation to REITs not only for the diversification benefits of reducing portfolio volatility, but also in order to increase returns. Over the past 35 years, REITs have an average annualized total return of 9.0% and have outpaced both large- and small-cap stocks over the past 1-, 5-, 20-, and 25-year periods.

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<sup>(2)</sup>Average weights over the presentation period, which only include the equity portion of the portfolio.

<sup>(3)</sup>The securities listed should not be considered a recommendation to purchase or sell a particular security. These securities represent the top three and bottom three contributors by weight to the performance of a representative account in this strategy as of the date stated and are intended for informational purposes only. Renaissance has chosen to only present our top 3 and bottom 3 positions due to the 6 positions represented accounting for approximately 30% of the REIT securities in the strategy. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold or recommended for this strategy. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings may not be current recommendations to buy or sell a security and may no longer be held in the representative account. To request a complete list of portfolio holdings recommendations for the past year, the calculation methodology, or a list showing the contribution of every holding to the representative account's performance for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).



## DISCLOSURES

The opinions stated in this presentation are those of the authors as of the date listed on this presentation and are subject to change at any time due to changes in market or economic conditions.

## STOCK REFERENCES

If securities are referenced, they should not be considered a recommendation to purchase or sell a particular security. These securities may represent a portion or all of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. Non-performance based criteria have been used to select the securities listed. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold or recommended for this strategy. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. Portfolio holdings may not be current recommendations to buy or sell any security, and may no longer be held in the representative account. To request a complete list of portfolio holdings recommendations for the past year, the calculation methodology or a list showing the contribution of every holding to the representative account's performance for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

## PERFORMANCE

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. All performance is shown in U.S. dollars unless otherwise stated. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, durations and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including the loss of principal and are not guaranteed by the U.S. government.

## REFERENCED INDICES

**FTSE NAREIT Index**—The FTSE NAREIT Composite US Real Estate Index is calculated by the FTSE and includes all tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market List that also meet minimum size, liquidity and free float criteria.