CLARION PARTNERS

Benefits of private real estate in volatile markets

Private real estate: A strong performing asset class

In recent years, institutional and retail investor allocations to private real estate have risen steadily. New, professionally managed private real estate products for defined contribution and private wealth management platforms are part of a growing market that has attracted investors seeking higher risk-adjusted returns, less volatility and lower correlations with other asset classes (portfolio diversification).

Over the long term, private real estate investments have performed well relative to other large asset classes and have been especially resilient over recent years during heightened financial market volatility. In the years that followed the pandemic, private real estate's return performance well-outpaced that of publicly traded REITs, as well as stocks and bonds. Of course, private real estate is less liquid than publicly traded REITs and requires a longer-term investment commitment.

Clarion Partners believes that including private real estate in a mixed-asset portfolio is compelling, given the benefits of diversification and downside protection over time, which have proven to be even more important in volatile markets.

Resilient performance in volatile markets in recent years

- **Private CRE total returns outperformed other major asset classes.** Over the past three years, private real estate total returns, measured by the NFI-ODCE benchmark, have performed well relative to all major asset classes. During this period, the performance gap between private real estate funds and publicly listed REITs was significant, with annualized total returns of 9.9 percent and 0.2 percent, respectively.
- **Less return volatility on a relative basis.** Private real estate has also reported fewer negative quarterly returns relative to other asset classes throughout the most recent COVID-19 pandemic and the Federal Reserve's monetary tightening. From 2020 to 2022, private real estate had only two quarters of negative quarterly returns, while publicly traded REITs, stock and bond indices reported significantly more. Private real estate is priced using valuation methods developed by the private equity sponsor, including appraisals by third parties, while publicly traded REITs (and stocks and bonds) are valued in the public markets.

Real estate fortifies a mixed-asset portfolio

Over the past 25 years, private real estate investments have performed well relative to other large asset classes and have been more resilient during heightened financial market volatility. Furthermore, private real estate has historically had a positive effect on the performance of a diversified investment portfolio. For example, a hypothetical multi-asset portfolio with and without a 10 percent private real estate allocation over 3-, 10- and 25-year periods achieved higher risk-adjusted returns with a moderate weight in private real estate in all timeframes.

Clarion Partners believes that institutional and retail investors should maintain an adequate allocation to CRE. The inclusion of private CRE in multi-asset portfolios can decrease volatility, hedge against inflation, and generate durable income, resulting in better outcomes for private wealth clients and defined contribution plan participants.

Asset Allocation	Annualized Total Return			Standard Deviation			Return Per Unit Risk		
	3Y	10Y	25Y	3Y	10Y	25Y	3Y	10Y	25Y
Without private real estate	4.8%	9.1%	6.9%	19.8%	13.5%	14.5%	0.24	0.67	0.48
With 10% private real estate	5.5%	9.3%	7.2%	18.2%	12.2%	13.2%	0.30	0.76	0.54

Sources: Bloomberg, NCREIF, NAREIT All Equity REIT Index, Clarion Partners Investment Research, Q4 2022. Notes: 1) Private real estate = NFI-ODCE. 2) Analysis for all periods ending on December 31, 2022. 3) The standard deviation of return is a statistical measure that reflects the volatility or variability of an investment's returns over a specific period of time. Return per unit risk is a measure of an investment's risk-adjusted return. It is calculated by dividing the investment's return by its standard deviation.

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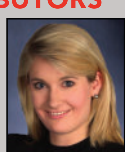

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CORPORATE OVERVIEW

Clarion Partners has been a leading U.S. real estate investment manager for more than 40 years. Headquartered in New York City, the firm has offices in major markets throughout the United States and Europe. With $82.4 billion in total assets under management as of Dec. 31, 2022, Clarion Partners offers a broad range of both debt and equity real estate strategies across the risk/return spectrum to its more than 500 domestic and international institutional investors.

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