

MSCI Survey Reveals Challenges to Long-Term Asset Allocation and Risk Management in Real Estate Investments

New York – February 25, 2014 – [MSCI](#) Inc. (NYSE: MSCI), a leading provider of investment decision support tools worldwide, has published the results of its bi-annual survey of asset allocation practices among pension funds and sovereign wealth funds around the world. The report, titled “[Long-Run Investment Ambitions and Short-Run Investment Processes](#),” finds long-term asset management challenges and increasing risk management in real estate investments.

“The survey results show that the biggest challenge these asset owners face is unifying long-term goals with the short-term nature of asset management. There is no consensus in either the frequency with which they make strategic asset allocation decisions or in the methods they use to do it. This can lead to wide variation in investment outcomes,” said Neil Gilfedder, Managing Director and Head of Analytic Applied Research at MSCI.

The survey also found that 95% of respondents plan to increase or maintain allocations to alternative asset classes. “The reasons asset owners give for holding alternatives are quite diverse,” Gilfedder continued. “When they invest in real estate in particular, some asset owners are looking for returns, others for income and still others for diversification of risk. Without a clear understanding of how alternatives contribute to the risk and return of an overall portfolio, they have no basis for setting expectations with regard to investment outcomes.”

As part of the study there was an exploration of the steps being taken by asset owners to strengthen risk management of real estate exposure. Based on publicly available data of a 138 global asset owners, the research analyzed the use of benchmarks and the monitoring of portfolio and asset-specific risks. It found that although 70% of asset owners have real estate policy benchmarks, over 80% of them have some benchmark misalignment, often using domestic benchmarks when investing in foreign markets.

“The findings reveal significant variations in the role of real estate in investor portfolios, creating the potential for inaccurate views of actual exposure,” said Peter Hobbs, Managing Director of Research for MSCI-IPD. “Asset owners are working hard to overcome these challenges by better integrating real estate with other asset classes and tightening up their risk management practices.”

Survey Methodology

The survey was conducted in Q4 2013 with 80 global asset owners, whose assets totaled close to \$4 trillion. Interviews were carried out in person and online. Respondents were CIOs, CROs, Portfolio Managers, Senior Risk Analysts and Middle Office heads. These responses were supplemented by asset allocation and real estate allocation data gathered from the annual reports and other public documents of 138 global asset owners, representing \$10.3 trillion in assets.

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About MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indices with approximately USD 8 trillion estimated to be benchmarked to them on a worldwide basis¹; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indices and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; ISS corporate governance research, data and outsourced proxy voting and reporting services; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

¹As of March 31, 2013, as reported on July 31, 2013 by eVestment, Lipper and Bloomberg

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