Institutional Investor

Active Management Pays Off in Real Estate Funds

REIT manager Cohen & Steers outshines its index fund rivals.

By Julie Segal

Cohen & Steers, which has been managing real estate investment trusts since REITs were first created in the 1980s, is beating index fund rivals as many have been hard hit by problems in the retail sector.

With active stock managers under continued pressure from low-cost index funds, niche firms such as Cohen & Steers have used specialized expertise and fundamental research in sectors like real estate and energy to outperform benchmarks. Although Cohen & Steers Realty Shares has seen losses this year, its benchmark fared worse. And it's outperforming with high single-digit gains over the past three years.

Realty Shares, Cohen & Steers' flagship fund, lost 3 percent in the 12 months through July, according to Morningstar and FactSet. The fund's benchmark, the FTSE NAREIT Equity REITS Index, lost 4.5 percent over the same period. Over the past three years, Realty Shares gained 9.1 percent annually even after investors paid fees, compared to the index's gain of 8.8 percent and 7.7 percent returned by peers.

Joe Harvey, president and chief investment officer of Cohen & Steers, says the fund outperformed its benchmarks because its managers began lightening up on the fund's exposure to retail about a year ago, something index funds, by definition, can't do. In the fairly slow-moving real estate sector, managers can cut back on companies that will be hurt by big trends, such as the shift by consumers away from shopping in stores to buying online.

A year ago, Cohen & Steers' U.S. team studied big retailers, many of whom are anchor tenants of malls, and the challenges posed by online shopping.

"We did research on the retailers, not on real estate per se," said Harvey. "The conclusion was that the clock was ticking on the financial viability of many of the large tenants in regional malls. That's what gave our managers the conviction to get underweight."

JOSEPH HARVEY, PRESIDENT AND CHIEF INVESTMENT OFFICER, COHEN & STEERS.

[II Deep Dive: More Active Managers Are Beating Passive Funds]

Harvey, who joined Cohen & Steers as a REIT analyst in 1992, says the firm's approach to beating peers and benchmarks has changed over time. Twenty years ago, when the publicly traded real estate sector was still new with fewer competitors, he says that Cohen & Steers could get a bigger information advantage on a company's prospects with fundamental research than it can today.

"At that time, just by virtue of going out and visiting a company, you would learn things that we're very investable," said Harvey. "We've had to up our game."

Cohen & Steers now integrates risk-management techniques into its investment process, so it can confidently buy undervalued securities during market downturns, and it has built up macroeconomic research capabilities.

"The market has become much more macro where factors like momentum or value have come to dominate the markets for periods of time," he said. "We need to know what we might be vulnerable to."

With pressures on all active managers, Cohen & Steers has also established goals and measurement techniques to make sure it is expressing "conviction" in its portfolios.

Increasingly, investors want their funds to have higher conviction, which is often measured by active share, or the percentage of a fund's holdings that differs from the index. If investors are going to pay higher fees for an actively managed fund, they want to make sure it looks a lot different from cheaper index funds.

Active share for Cohen & Steers' Realty Shares fund was 33.4 percent in 2012, rising to 48.7 percent on March 31.

"Higher active share is something that by definition an index fund can't provide," Harvey said.

Cohen & Steers Realty Shares

Total Returns August 31, 2017

Period	Fund	FTSE NAREIT Equity REIT Index	S&P 500 Index
YTD	5.39%	3.69%	11.93%
1 Year	-0.29%	-1.08%	16.23%
3 Year	8.15%	7.64%	9.54%
5 Year	9.52%	9.30%	14.34%
10 Year	6.59%	6.29%	7.61%
Since Inception (7/2/91)	11.85%	11.16%	9.68%

Total Returns June 30, 2017

Period	Fund	FTSE NAREIT Equity REIT Index	S&P 500 Index
QTD	2.51%	1.52%	3.09%
1 Year	0.20%	-1.70%	17.90%
3 Year	8.58%	8.35%	9.61%
5 Year	9.57%	9.52%	14.63%
10 Year	6.22%	6.00%	7.18%
Since Inception (7/2/91)	11.88%	11.19%	9.64%

Expense Ratio as disclosed in the May 1, 2017 prospectus is 0.96%.
Since inception FTSE NAREIT Equity REIT Index calculated from the nearest month end.

Data quoted represents past performance, which is no guarantee of future results. Returns are stated net of fees. *Current performance may be lower or higher than the performance quoted. The investment return and the principal value of an investment will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Periods greater than 12 months are annualized. Returns are historical and include change in share price and reinvestment of all distributions. An investor cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes.*

The S&P 500 Index is an unmanaged index of 500 large-capitalization stocks that is frequently used as a general measure of U.S. stock market performance. The FTSE NAREIT Equity REIT Index contains all tax-qualified REITs except timber and infrastructure REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.

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Risks of Investing in Real Estate Securities

Risks of investing in real estate securities are similar to those associated with direct investments in real estate, including falling property values due to increasing vacancies or declining rents resulting from economic, legal, political or technological developments, lack of liquidity, limited diversification and sensitivity to certain economic factors such as interest rate changes and market recessions. The Fund is classified as a “non-diversified” fund under the federal securities laws because it can invest in fewer individual companies than a diversified fund. However, the Fund must meet certain diversification requirements under the U.S. tax laws. No representation or warranty is made as to the efficacy of any particular strategy or fund or the actual returns that may be achieved.

This article must be accompanied by the most recent Cohen & Steers Realty Shares fact sheet or any other applicable Cohen & Steers mutual fund fact sheets, if used in connection with the sale of mutual fund shares.

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