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Michael A. Marcotte

Index, real estate manager surveys due

Pensions & Investments' index manager and real estate investment manager surveys are due Aug. 13.

The index manager survey focuses on firms managing passive and enhanced index strategies, including ETFs, for U.S. institutional, tax-exempt investors.

The real estate investment manager survey focuses on firms managing direct real estate and related assets, including REITs, for U.S. institutional, tax-exempt investors.

Results of both surveys will be published in the Sept. 20 issue of *P&I*. To request a survey, or obtain further information, please contact Anthony C. Scuderi at 212-210-0140 or ascuderi@crain.com.

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Defined Contribution

More plans offering self-directed brokerage accounts as an option

By Robert Steyer

Defined contribution plans are adding self-directed brokerage accounts as a way of giving participants more choices even as some plans reduce the number of core investment options.

Among those making the move: Sprint Nextel Corp., which began offering a brokerage option for its $2 billion 401(k) plan in October; Stanford University, whose $3.6 billion 403(b) plan's window opened in November; Hawaii's $1.45 billion 457 plan, which launched its self-directed brokerage operation in April; and the Ohio Public Employees Retirement System, which will offer the option in its $373 million 401(a) plan next spring.

DC plan executives "want more simplicity in the core offerings, and the window has become an outlet for people who might be unhappy with the changes or who want more choices," said Pam Hess, director of retirement research at Hewitt Associates LLC, Lincolnshire, Ill.

Pam Hess

Hewitt research shows a steady rise in the use of self-directed brokerage windows. Tracking results every two years since 2001, Hewitt found the percentage rose steadily from 12% in 2001 to 26% in 2009 among midsize and large companies. In 2009, the survey of 285 Hewitt and non-Hewitt clients showed self-directed brokerage accounts represented 3% of assets in plans in which the option was available.

"The primary drivers are the participants with the highest income and highest account balances and the longest tenures," said Stacy Schaus, senior vice president for defined contribution practice at Pacific Investment Management Co., Newport Beach, Calif. "People who use it are typically working with a financial adviser."

Her comments are supported by a 2010 Hewitt survey that shows higher salaries were linked to higher participation in self-directed brokerage accounts. That survey showed 10.4% of participants earning more than $100,000 annually used the option in 2009, compared with 1.5% of those earning $20,000 to $39,000 a year.

Some self-directed brokerage accounts are restricted to mutual

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Real Estate

Investors get back into the game

Joint ventures with REITs open door to commercial properties

By Arleen Jacobius

While most real estate investors are still climbing out of the hole dug by their poor-performing portfolios, some are re-entering the market by teaming up with commercial real estate investment trusts.

Within the last year or so, investors including CalPERS, Texas Teachers, Canada Pension Plan and Dutch money manager PGGM have done joint ventures with REITs.

Joint ventures give REITs a way to purchase properties with less leverage. Institutional investors are the perfect partners because they are satisfied with being silent money partners, industry insiders say.

It's not institutional investors' sole method of investing in commercial real estate, but a number of institutions are again starting to take that route. For example, in June PGGM and Inland Real Estate Corp. Inc., Oak Brook, Ill., entered into a joint venture for which Inland is initially contributing three retail centers worth about $45 million.

DIMINISHING: Mark Preston says that not many joint venture opportunities exist.

PGGM, which runs assets for the €93 billion ($111 billion) Zorg en

[*See* **VENTURES** *on page 25*]

Defined Contribution

2011 Eddy Awards entries now being accepted

By Nancy K. Webman

Entries in the 2011 Eddy Awards are now being accepted and, for the first time, will feature integration of print and new media.

The awards, sponsored annually by *Pensions & Investments* since 1995, also have a new category: fee disclosure and education.

The deadline is Oct. 8.

The Eddy Awards recognize plan sponsors and service providers that epitomize the best practices in providing investment education to defined contribution plan participants.

Entry forms are available online, at www.pionline.com/eddy2011. There are separate entry forms for plan sponsors and service providers.

Beginning with entries for the 2011 Eddy Awards, all categories will integrate print and online. Judges of the 2010 awards made this decision after noticing a dramatic increase in the number of entries that had distinct online components, especially in the initial and ongoing investment education categories.

Now, all entries in all categories can include not just printed materials like brochures, postcards, table tents and posters, but also websites, CD-ROMs, e-mails, flashes, videos and the like.

As a result of this change, the "other media" category has been eliminated.

Judges also added the "fee disclosure and education" category. They noted fee information is a relatively new component of investment education for plan participants, and believed efforts at effective fee disclosure education should be rewarded.

In addition, "communicating in a crisis" was eliminated as a category after just one year. Judges said most, if not all, of the specialized investment education resulting from the financial crisis already had been launched.

The 2011 Eddy Awards categories are:

- initial investment education;
- ongoing investment education;
- special projects;
- conversions to new record keepers;

[*See* **EDDY** *on page 22*]

VENTURES

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Welzijn pension fund, Zeist, Netherlands, will own a 45% interest in the joint venture and invest a total of $130 million: $20 million toward the three seed properties, $50 million toward future contributed properties and another $60 million for new acquisitions.

Equity received from the sale to PGGM of the 45% interest in exchange for $230 million will become the REIT's contribution toward new acquisitions, said George Pandaleon, president of Inland Institutional Capital Partners, an Inland subsidiary.

In a recent report, Chicago-based Morningstar Inc. predicted joint ventures such as this will increase in 2011 and 2012, when many of the mortgage loans made in 2006 and 2007 to buy the properties will start to come due.

"We believe the industry's need to deleverage over the coming years will create an environment that fosters outright asset sales and joint-venture transactions," the report noted.

Partially agree

Industry professionals at least partially agree with Morningstar's assessment. Mark Preston, group CEO of London-based real estate investment firm Grosvenor, called joint ventures the "flavor of the moment."

But Mr. Preston doesn't think that joint ventures with REITs will morph into a "mainstream solution" for institutional investors looking to invest in commercial real estate.

"There are not that many opportunities. It's not an efficient way to put money into the market at scale," he said.

OPPORTUNITIES: Christopher Merrill believes joint ventures offer operating efficiencies.

Inland began forming joint ventures with institutional investors five years ago as a way of diversifying its capital sources, Mr. Pandaleon said. Since then, the REIT has entered into separate joint ventures with the New York State Teachers' Retirement System, Florida State Board of Administration and Utah Retirement Systems, he said.

In April, Kimco Realty Corp., New Hyde Park, N.Y., joined with the C$123.9 billion (US$121.8 billion) Canada Pension Plan Investment Board, Toronto, to create a REIT joint venture that boughtneighborhood shopping centers in the U.S. with an initial $370 million investment that includes five retail properties Kimco had purchased in the fourth quarter of 2009. CPPIB acquired a 45% interest. In addition to retaining a 55% interest, Kimco will earn asset management and other fees for managing the properties.

The joint-venture model has developed over the years to give REITs capital to develop properties, said Scott Landress, CEO of Liquid Realty Partners, a San Francisco-based real estate investment firm that invests on the secondary market.

"The institutional investor capitalizes an off-balance sheet joint venture, which builds a pipeline to develop and deliver properties into the REIT," he said.

Institutions generally like to invest in the joint ventures because they can do so on a deal-by-deal basis; Mr. Landress said. Such arrangements give investors more control, he said.

Institutions usually do not have sufficient bandwidth to transact at a logical pace on a deal-by-deal basis on their own, Mr. Landress said.

PGGM has entered into joint ventures with REITs before; it was the capital source for about half the assets — $200 million — of Behringer Harvard's Multifamily REIT I.

Opportune time

Some institutions see this as an opportune time to buy into REITs. For example, the $96.7 billion Teacher Retirement System of Texas, Austin, is part of a consortium that is turning debt owed to it by bankrupt REIT General Growth Properties Inc., Chicago, into an equity interest when General Growth emerges from Chapter 11 bankruptcy protection. Other members of the consortium include Brookfield Properties, Blackstone Group, Pershing Square Capital Management LP and Fairholme Capital Management.

In April, Global Retail Investors LLC, a joint venture between the $204.4 billion California Public Employees' Retirement System and a REIT fund of First Washington Realty Inc., Bethesda, Md., bought Charter Hall Retail REIT's interest in Macquarie CountryWide Regency II, LLC, a deal valued at $1.73 billion. (Charter Hall Retail REIT was formerly Macquarie Country-Wide Trust.)

"These deals give REITs the opportunity to do off-balance-sheet investments," said Christopher Merrill, president and CEO of real estate investment firm Harrison Street Real Estate Capital LLC, Chicago.

Mr. Merrill's firm, which invests mainly in student housing and public storage, entered into its first joint venture with a publicly traded REIT, Extra Space, in the first quarter of this year. The joint venture bought a portfolio of assets on a 50/50 basis, with the REIT the operating partner.

"REITs can do more value-added and opportunistic investments with a joint venture," he said. "It's a great opportunity to get access to a great portfolio and there's a lot of operating efficiency."

Some of these unions don't last. On Aug. 5, the California State Teachers' Retirement System, West Sacramento, bought out its partners' 10% interest in four joint ventures it entered into with First Industrial Realty Trust in 2005, Ricardo Duran, spokesman for the $129.7 billion system, wrote in an e-mail.

"The move was done to achieve full control of the properties because CalSTRS felt there was not a full alignment of interest between partners," said Mr. Duran, who declined to provide details.

"We had a difference in strategy," said Bruce W. Duncan, president and CEO of First Industrial. "Their situation changed and they wanted to pay down the debt on the properties... we had no obligation to pay the debt and we would rather use the cash to pay down the debt on our balance sheet."

CalSTRS has two other JVs with REITs: Thomas Property Group/CalSTRS LLC, entered into in 2003; and Lillibridge, entered into in 2004, Mr. Duran wrote. ■