

How do asset classes compare?

A well-constructed portfolio should match an investor's risk/reward profile with the most appropriate mix of asset classes. For instance, a balanced portfolio might include a mix of **cash**, **fixed income**, **equities** and **property** in order to produce the desired combination of income and capital growth with acceptable levels of volatility.



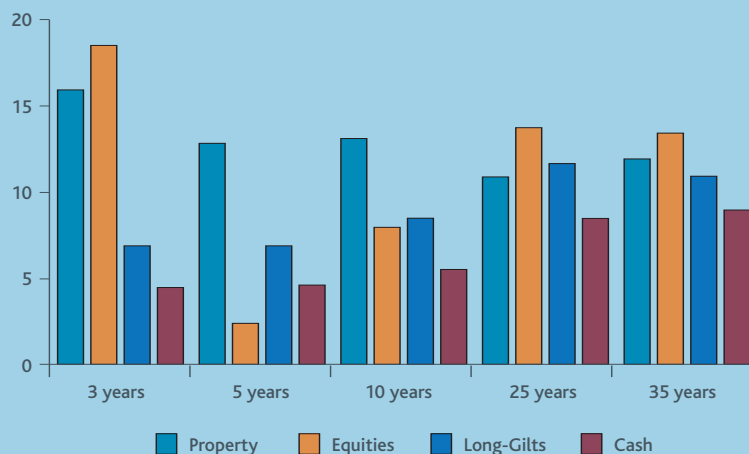
The four main asset classes for retail investors are as follows:

	What it is	What it does	Performance characteristics	
Asset classes	Cash	<ul style="list-style-type: none"> Bank and building society accounts (instant access & timed deposits) Cash funds 	<p>Provides regular (monthly or yearly) income, influenced by changes in base rates</p> <ul style="list-style-type: none"> Capital is secure Income is low and variable (except with notice savings accounts) Ideal for short term savings But no long term protection against inflation 	
	Fixed income	<p>Government and corporate borrowing, e.g.</p> <ul style="list-style-type: none"> UK Government Gilts US Government Treasury Bonds Corporate bonds 	<p>Gilts and bonds generate income:</p> <ul style="list-style-type: none"> Over a set period Based on current interest rates at the time of issue <p>They also</p> <ul style="list-style-type: none"> Pay back the principal on maturity (unless the issuer defaults) 	<p>Individual Gilts and bonds tend to offer:</p> <ul style="list-style-type: none"> Fixed income (yield) Capital values that fluctuate with changing interest rates Potential for capital gain or loss during the life of the bond Greater capital security than equities
	Equities (shares)	<p>Equities:</p> <ul style="list-style-type: none"> Represent shared ownership of limited companies Tend to be listed and traded on national and international stock exchanges (except for privately held companies) 	<p>Equities give owners a share in:</p> <ul style="list-style-type: none"> Company profits as dividends Any increase in the capital value of the shares Any company misfortune, e.g. bankruptcy, up to value of share holding <p>They also provide exposure to:</p> <ul style="list-style-type: none"> Different markets Different sectors 	<ul style="list-style-type: none"> Dividends and share prices fluctuate with company performance and demand for individual shares Some companies have a policy of not paying dividends but re-investing earnings in the company There is potential for substantial capital gains / losses Equities offer diversification across markets (e.g. UK, Europe, US) and sectors (e.g. retail & leisure, financial services and property) so spreading risk
	Property	<ul style="list-style-type: none"> Ownership by companies and individuals of physical residential and commercial property e.g. homes (including buy to let and buy to live), offices, shops and warehouses <p>Note: Property development activities (through both house building and the acquisition, development and onward sale of property) offer different risks and rewards to long term property ownership and both should be considered as distinct sectors within the asset class</p>	<p>Owners:</p> <ul style="list-style-type: none"> Share in rental income from tenants and any capital gain / loss on sale of the property Cover costs of maintenance and management Improve the value of assets through active management and development 	<ul style="list-style-type: none"> Tends to pay regular income (subject to long term market fluctuations) Potential for capital growth in property value Can be illiquid if prices fall or vacancy rates rise Offers diversification across market sectors, territories and types of property so spreading risk

How does performance compare?

Recent Performance Record: Main Asset Classes

Returns (% per annum)



Source: IPD
Date: Dec 2006

- **Commercial property** has outperformed equities, gilts and cash deposits over the last five and ten years.
- **Commercial property** has come a close second after equities over the last one and three year periods.
- Even over 35 years, the longest period for which credible data is available, **commercial property** has produced annualised returns of 11.8%, ahead of both gilts and cash deposits.

Further information

- The Investment Property Forum (IPF) "Understanding commercial property investment: A guide for financial advisers, 2007 edition" – available from either www.reita.org or www.ipf.org
- AIFA Viewpoint – An introduction for IFAs to Real Estate Investment Trusts – REITs available from www.reita.org or from AIFA (info@aifa.net)
- The London Stock Exchange "A new route up the property ladder." Available from www.londonstockexchange.com
- REITA www.reita.org

Important information

The value of investments and the income derived from them can go down as well as up, and you may not necessarily get back the amount you invested. Past performance of an investment is not necessarily a guide to its future performance.

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