

# Specialty and Sector Funds in Defined Contribution Retirement Plans

**Support a balanced approach  
when offering niche investments**



Benefit and Retirement Advisors

When creating and monitoring your organization's participant-directed 401(k) or 403(b) plan investment lineup, it's important to take a balanced approach between the investment categories that are offered and the range of investment knowledge and behaviors among your employees (retirement plan participants).

A reasonably sized investment lineup helps plan sponsors balance breadth of choice while not overwhelming participants with too many options. While nuances will vary by plan, benchmarking indicates an average of 17.5 total offerings in employers' investment menu (target date series counting as one) ([Vanguard's How America Saves 2025](#)).

With the rise of automatic enrollment and the general limited investment experience among many retirement plan participants, a significant portion of plan assets often end up in the Qualified Default Investment Alternative — most commonly a target date series. Alongside other diversified stock and bond solutions, we suggest a public real estate securities fund (i.e., a fund that invests in publicly traded real estate investment trusts, or REITs) as a specialty solution to provide breadth of choice and the potential for enhanced diversification.

While there may be temptation to extend the investment menu to other niche solutions beyond a public real estate securities fund, there are important fiduciary considerations when designing a menu for the best interest of plan participants. Specifically, certain specialty or “sector” funds may be less appropriate for many participants due to being overly concentrated, tied to specific macro-economic themes or narrow return drivers, or prone to unpredictable performance over time in terms of total returns and diversification benefits.

## Gold — A well-known commodity with renewed attention

Gold has a longstanding reputation as a “safe haven” asset during economic downturns and periods of heightened market volatility. Its role in personal and larger-scale finance spans centuries, from ancient coinage to modern investment structures like exchange traded funds and derivatives such as futures contracts.

In addition to physical gold continuing to be purchased as a store of value in the form of coins or jewelry, today, gold trades globally on electronic exchanges and is often used as a hedge against inflation, currency devaluation and geopolitical risk. Its appeal is rooted in its intrinsic value, high liquidity and historical resilience during periods of market stress. Even with these historical benefits,

gold does have its constraints. While gold has historically shown low or negative correlation/sensitivity with the stock market, the commodity's total returns during periods of market stress have not been consistent, as shown on pages 5 and 6.

“Gold funds” can be focused on just owning the commodity itself or investing in gold-related securities such as the publicly traded stock of gold and other precious metals mining companies. Regarding the latter, while precious metals/mining stocks are influenced by price fluctuations in the applicable commodity, they can still carry a degree of stock market sensitivity since they are publicly traded stocks held within major indexes and also carry company-specific risks.

Events and market activity in 2025 reignited interest in gold as it reached record highs and gained just over 60% for the calendar year. This was driven by investor demand for hedges due to policy uncertainty and high stock market valuations. The gains coincide with expectations of continued interest rate cuts and a potentially weaker U.S. dollar.

## Niche investments with more variety in returns

Retirement plan lineups can benefit from access to active and passively managed REIT funds that invest in the publicly traded equity securities (equity REITs) of companies that own, operate and invest in real estate. Investors can also access individual equity REIT securities through public stock exchanges. In addition to equity REITs that can derive gains from price appreciation and income from rent, investors can invest in mortgage REITs, which focus directly on mortgages and mortgage-backed securities that can be accessed through diversified or specialty bond funds.

For retirement plans, it is important to balance providing participants access to a variety of investment categories for both long-term strategic needs, and to an extent, potential near-term tactical opportunities. While gold can play a role in hedging risk and macro uncertainty, retirement plans and participants can potentially benefit further from more diversified exposures. These include niche offerings that can combine potential price appreciation and income for applicable situations and broader market participation, such as with active or passively managed equity REIT funds.

The equity REIT category contains a range of property types, including residential, commercial, industrial, healthcare and, increasingly, more specialized properties/assets like cell towers, data centers and timberland. The expansion of this category has transformed the equity REIT market into a more complex and dynamic sector, where opportunities exist across property types and regions.<sup>1</sup> Over time, they can potentially perform well in inflationary environments, as property values and rents can rise with inflation incrementally. It is important to note that equity REITs, while strongly influenced by real estate trends, also exhibit equity market correlation/sensitivity since the securities are publicly traded stocks held in many indexes and carry company-specific risks.

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<sup>1</sup> Li, Qing & Orzano, Michael. “Understanding REIT Sectors”. S&P Global. 16 Jan 2020. Web. <https://www.spglobal.com/en/research-insights/articles/understanding-reit-sectors>

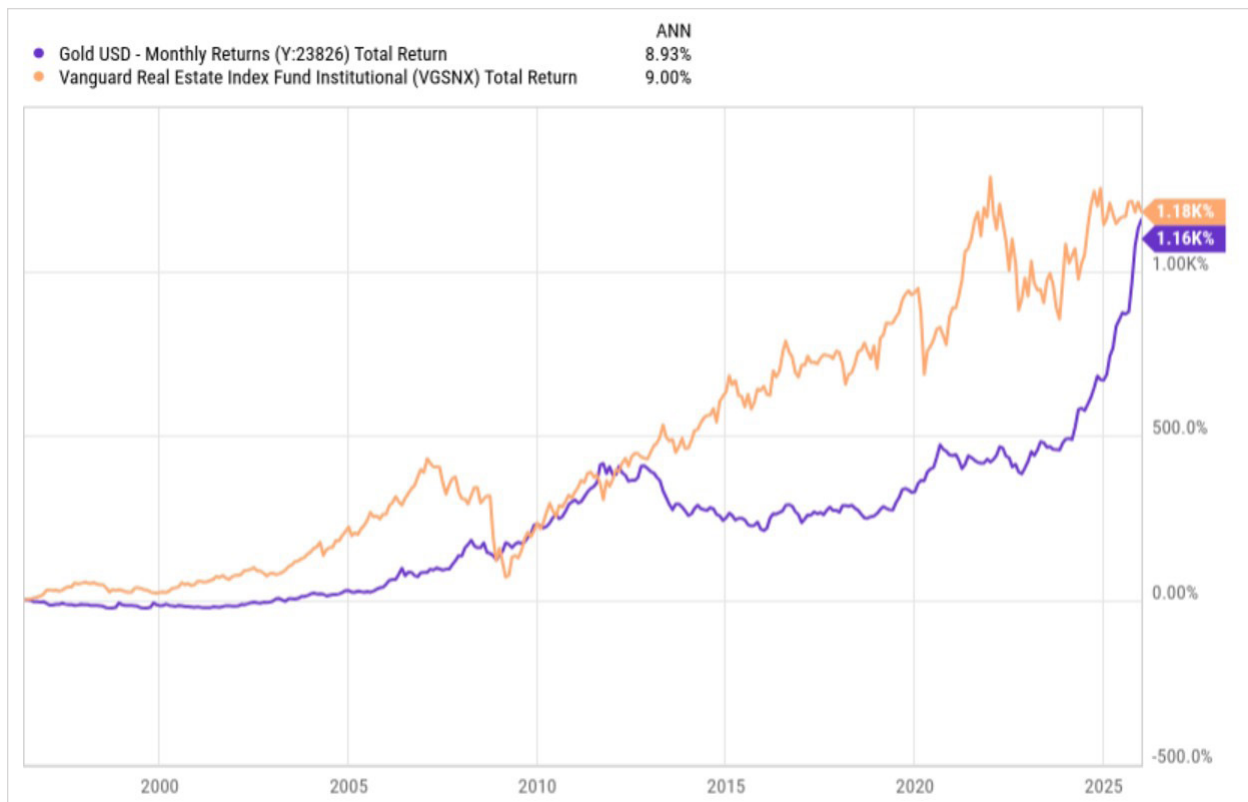
# Evaluating return tendencies and consistency

See below from Ycharts Inc. and pages 4-7

Although gold is often viewed as a reliable asset during periods of market volatility, its inherent drawbacks can make it less suitable for retirement plan investment menus. Public equity REIT funds offer broader diversification, strategic flexibility and a more balanced choice as specialty offerings for participants.

## Cumulative and Annualized Total Returns – Common Inception

(June 1996 - December 2025)



Source: Ycharts

Description for VGSNX: The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of the MSCI US Investable Market Real Estate 25/50 Index that measures the performance of publicly traded equity REITs and other real estate-related investments. The advisor attempts to track the index by investing all, or substantially all, of its assets — either directly or indirectly through a wholly owned subsidiary, which is itself a registered investment company — in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index. The fund is non-diversified.

For illustrative purposes. Indices cannot be invested in directly. Past performance is not indicative of future results.

## Annualized Returns and Volatility

Short, Intermediate and Long-term

	1 Year Return	3 Year Annualized Return	5 Year Annualized Return	10 Year Annualized Return	15 Year Annualized Return	Since Common Inception (June 1996) Annualized Return
<b>Vanguard Real Estate Index Fund (VGSNX)</b>	3.23%	7.76%	5.34%	5.50%	7.57%	9.00%
<b>Gold Price - US Dollars</b>	63.72%	34.07%	18.46%	15.02%	7.86%	8.93%
	1 Year Standard Deviation (Volatility)	3 Year Annualized Standard Deviation (Volatility)	5 Year Annualized Standard Deviation (Volatility)	10 Year Annualized Standard Deviation (Volatility)	15 Year Annualized Standard Deviation (Volatility)	Since Common Inception - June 1996 - Annualized SD (Volatility)
<b>Vanguard Real Estate Index Fund (VGSNX)</b>	11.21%	16.47%	18.45%	19.12%	18.28%	19.74%
<b>Gold Price - US Dollars</b>	12.46%	11.53%	11.97%	11.45%	12.02%	13.24%

Source: Ycharts. Data is through December 2025.

Comparisons between real estate securities and gold reflect different asset classes with distinct risks, return sources and market drivers. REIT performance generally includes income distributions, while gold reflects price return only. Both investments involve risks of loss and may experience substantial volatility. Past performance is not indicative of future results.

## Additional and important perspective

The performance and volatility data shown above are important, but with uncorrelated investments like gold, evaluating performance in volatile and uncertain market environments is also important.

The periodic performance comparisons on pages 5-7 from Ycharts between gold and global equity markets (MSCI All Country World Index) show that while gold's downside protection can be quite evident in certain volatile periods, it is not necessarily a consistent hedge against market uncertainty or declines.

This lack of consistency, along with the noted longer-term periods of subdued and difficult performance on pages 6 and 7, support not offering an overly focused sector or specialty fund, such as gold funds, in retirement plans due to the unpredictable nature of returns over the short, intermediate and long term. As an alternative, plan sponsors might allow their participants to access such investments through a "brokerage window" attached to the plan rather than as part of the core lineup.

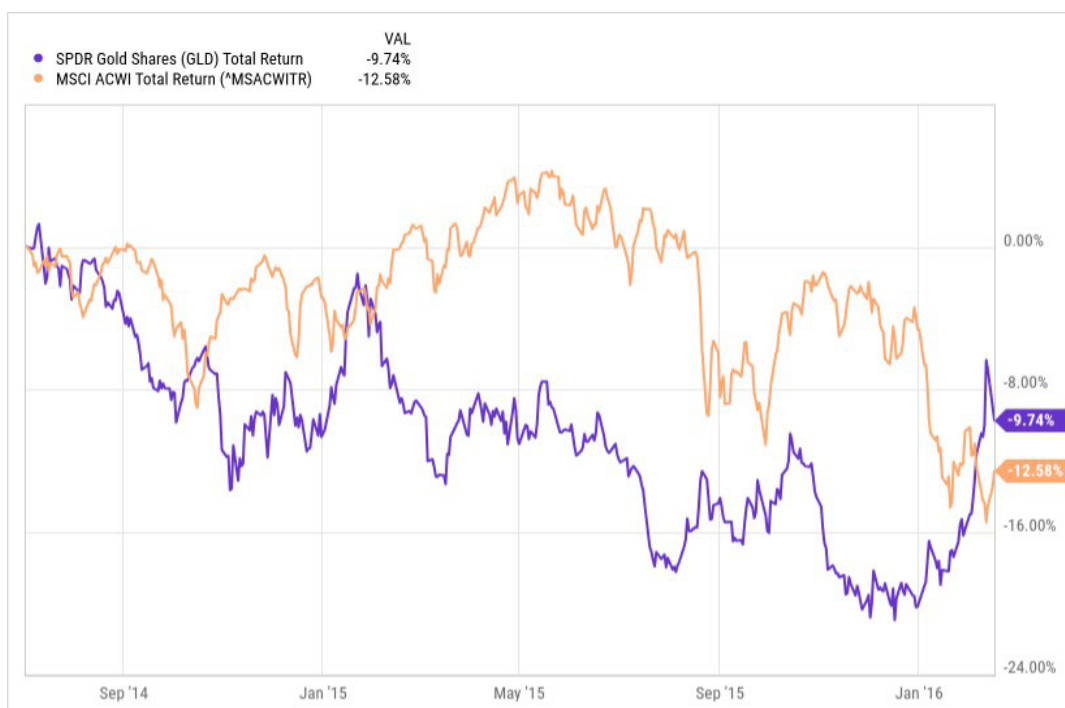
## Global Financial Crisis

Oct. 15, 2007, to March 2, 2009



## Oil/Energy Market Decline and Global Growth Concerns

July 3, 2014, to Feb. 16, 2016



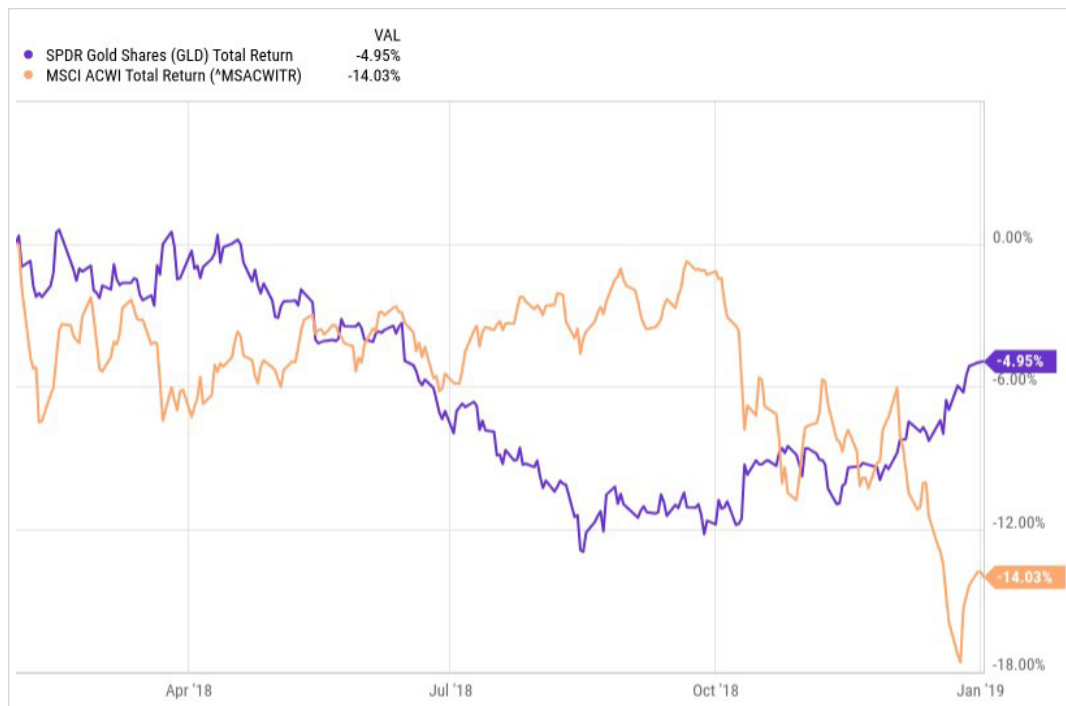
Source: Ycharts

SPDR® Gold Shares (GLD) is shown to capture daily performance and seeks to track the price of gold.

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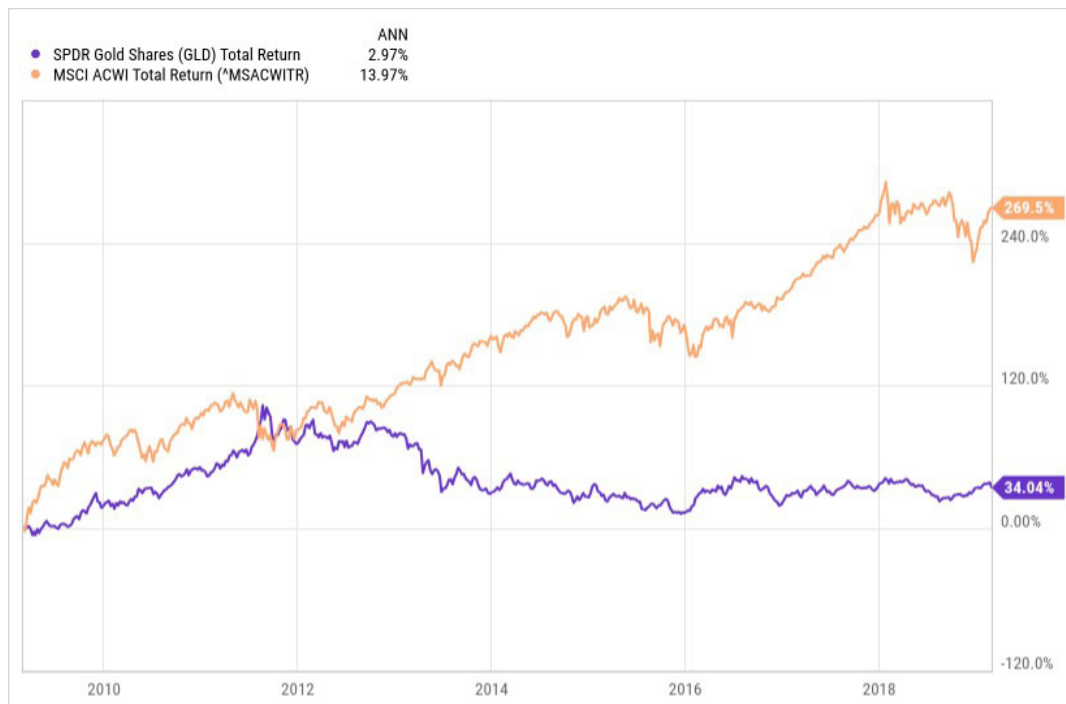
## Market Volatility Sparked by Wage Inflation Scare and U.S./China Trade Tensions

Jan. 31, 2018, to Jan. 2, 2019



## Periods of Long-term Subdued and Difficult Performance

Decade Following the Financial Crisis, March 2, 2009, to March 2, 2019



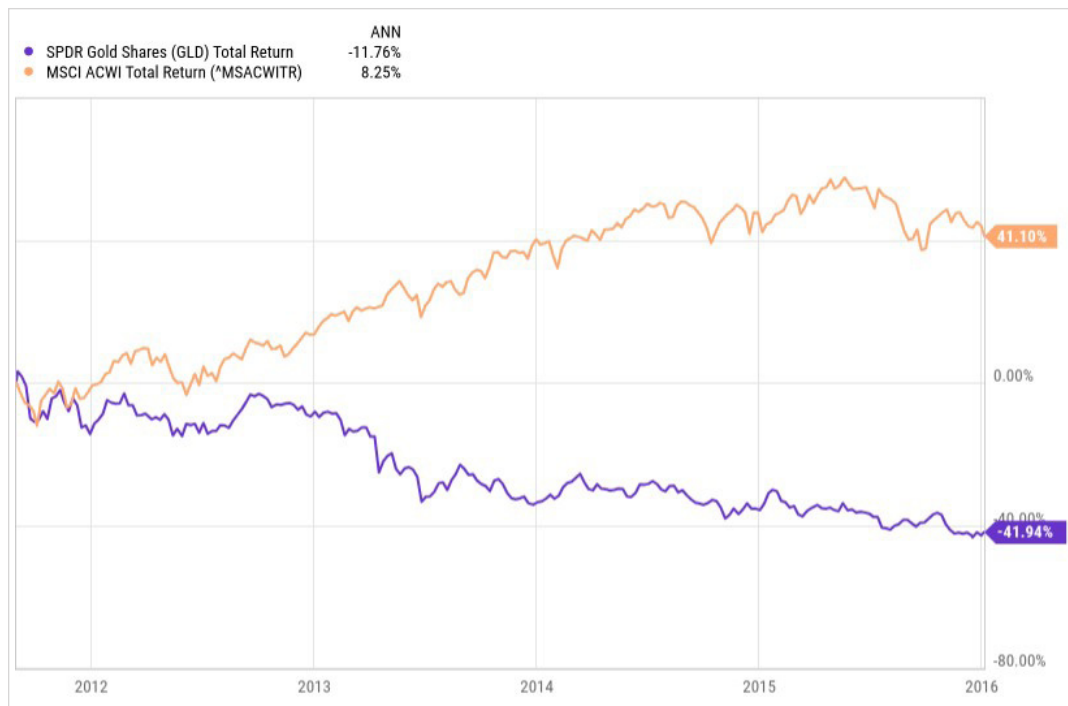
Source: Ycharts

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## Previous Historic Peak to Trough from 2011 to 2016

Aug. 31, 2011, to Jan. 5, 2016



Source: Ycharts

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