Agenda

- Market and industry
- Portfolio construction
- Catalysts for change
Market and Industry
Wholesale property funds are a significant component of investment property market.

As at December 2004 total wholesale funds stood at $38.6 Bn, representing 26% of the institutional property investment vehicles.

Source: PIR, Mercer, UBS and CFSP Research.
Continual asset growth in the indexed unlisted wholesale funds market

Australian unlisted wholesale funds market

Source: Mercers and CFSP Research.

Figures refer to wholesale funds that constitute part of the Mercers Unlisted Property Fund Index.
High degree of manager concentration in wholesale property funds industry

**Market Share: MUPFI Property Fund Manager**
Market Size ($15.2 bn) as at Dec-04
- CFSP: 28%
- ISPT: 18%
- LLC: 18%
- IPG: 2%
- DAM: 9%
- QIC: 12.4%
- AMP: 25%

**Market Share: Wholesale Property Fund Managers**
Market Size ($40.2 bn) as at Dec-04
- CFSP: 19.1%
- HSBC: 1.5%
- MACQ: 1.8%
- ING: 2.5%
- AMP: 28.8%
- LLC: 6.9%
- ISPT: 6.8%
- CHALLENG: 6.3%
- DAM: 6.3%
- EUREKA: 12.4%
- QIC: 12.4%
- Other <$500m: 9.2%

Sources: Mercer and CFSP Research, PIR, Mercer and CFSP Research.
Portfolio Construction
Wholesale property exposes investors to a different asset class with different risk-return.

- **Cash** (Lower risk, lower expected returns)
- **Fixed Interest**
- **Property**
- **Equity**
- **Private Equity** (Higher risk, higher expected returns)

Risk (expected volatility) is depicted on the x-axis, with expected net returns (in % pa) on the y-axis.
Wholesale funds expose investors to a return profile which differs to LPTs

Performance across property asset classes
Rolling nominal annualised total returns on quarterly rests

Dec-85 Dec-88 Dec-91 Dec-94 Dec-97 Dec-00 Dec-03

-40% -30% -20% -10% 0% 10% 20% 30% 40% 50%

LP Ts
Direct property
Mercers UP F

Source: IRESS, PCA, and CFSP Research.
The inclusion of direct property in a balanced portfolio construction shifts frontier upwards. 

**Efficient Portfolio Frontier**

Last 10 years ending Jun-2004

Increasing portfolio return vs. Increasing portfolio volatility.

Frontier with DP vs. Frontier without DP.

Source: CFSP Research.
Expansion of wholesale fund products along the risk-reward space
Catalysts for Change
I. Weight of capital supported via increasing flow of funds from superannuation

Mismatch between capital and product

- Superfund growth: 9.0%
- Core product growth: 3.0%

Future

Investment implications:

- International exposure to source product
- Sector expansion, eg. into hotels, development, aged-care, etc.
- Pressure on discount rates

Source: CFSP Research.
II. Asset allocation – listed versus direct

- LPT sector has grown & evolved significantly

- Character of LPT risk and return profile poses questions for asset allocators:
  - are LPTs becoming more equity like?
  - are property and other alternatives better sources of diversification and alpha?
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