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## Wholesale Funds - Back to the future



# Outline

## Current situation

What are the key issues facing Fund Managers?

## Opportunities

What options are available to the Fund Managers?

## Risks

Outlook for sector in 2010



# Current state of wholesale market

- Global re-weighting toward property
  - US pension funds have re-discovered property
  - Cross-border investment rapidly increasing
- Client demand exceeding supply
  - Limited investor choice – funds closed or have queued equity pending acquisition
  - Some larger funds looking at direct investment
- Supply constrained by low interest rate environment
  - Property yields remain attractive
  - Sale/lease-back not attractive
  - Government and Corporate real estate not entering market
- Total returns of 8-9%pa acceptable for core looking forward

# Other current issues

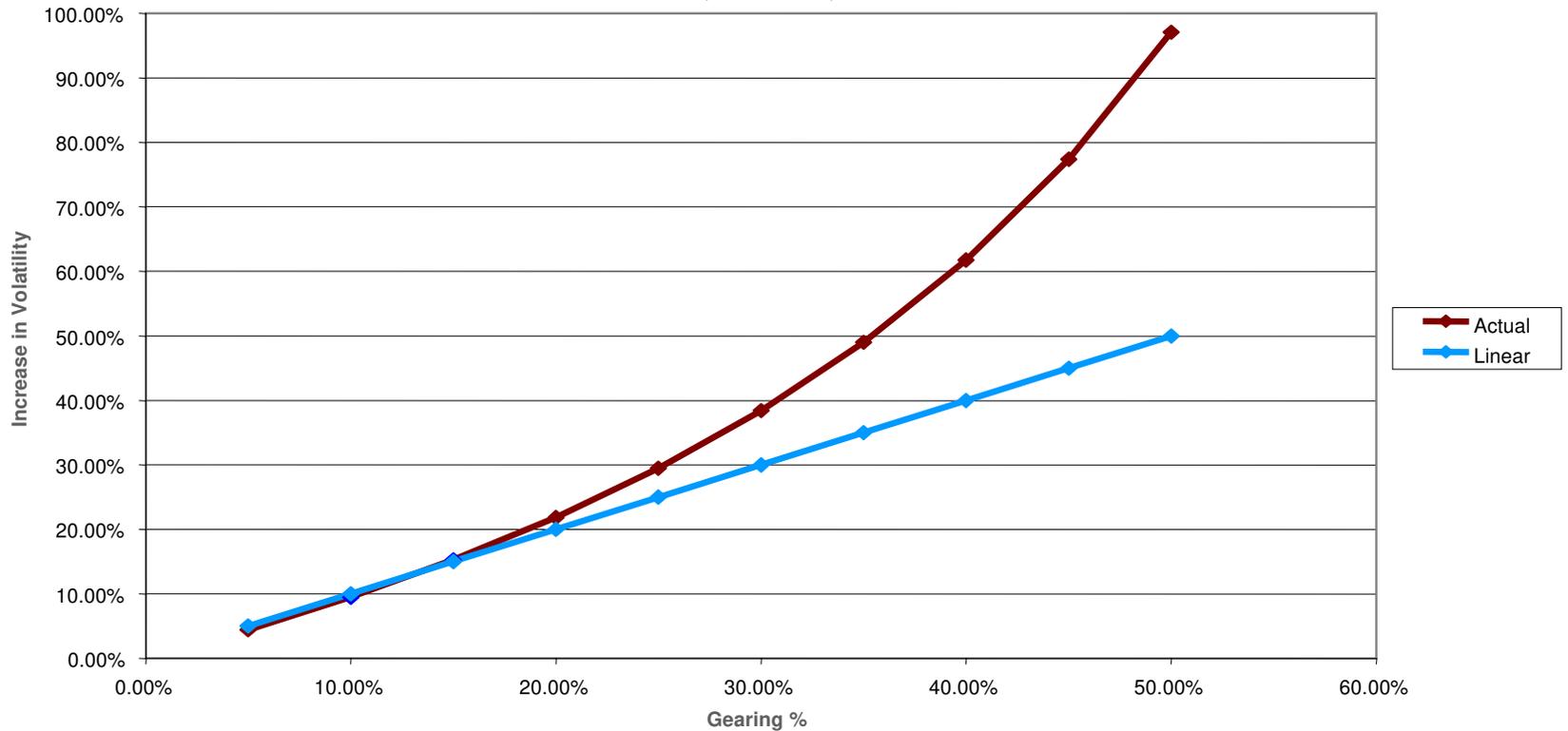
- Gearing on rise
  - Results in increased volatility - investors moving up the risk curve
  - Gearing/volatility - not linear relationship



# Gearing adds volatility

Impact of Gearing vs Volatility

(1993 - 2004)

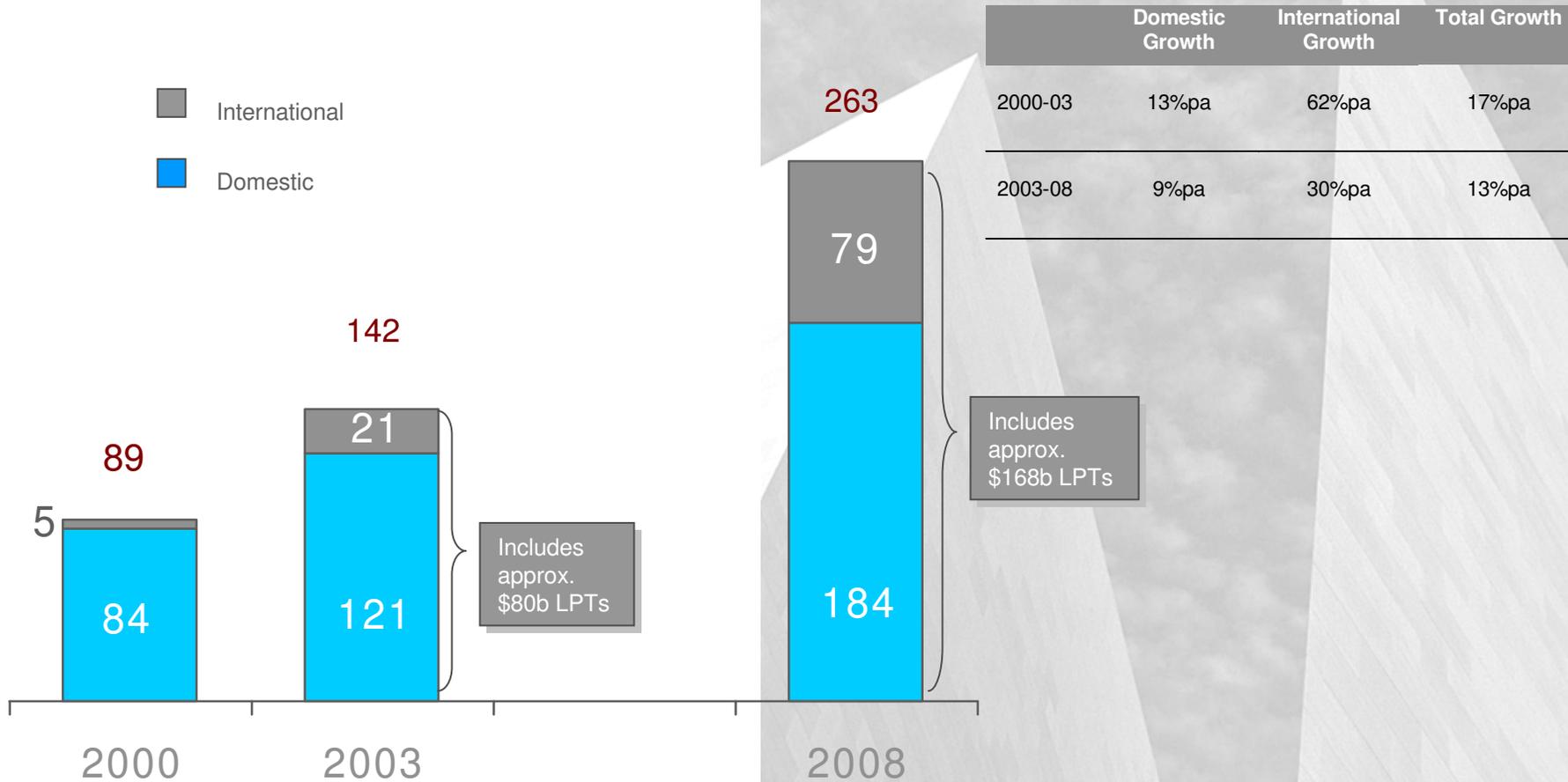


# Opportunities and implications

- International
  - More offshore investment by wholesale funds - diversification argument
  - Asia - interest has increased in short period
  - Debt levels need to be watched at portfolio level
- Retail
  - 75%+ of retail product now sold through platforms
  - Appetite for direct/hybrid product
  - Appetite for global product
- New sectors
  - Over 55s
  - Hybrid yield funds
  - Blurring of boundaries between property/infrastructure/private equity

# Future offshore investment levels

Estimated growth in international real estate investment from Australia



Source: PIR; Project Team Estimates

# Risks

Biggest risk remains increased interest rates both domestically and globally



# Outlook for 2010

- Assume Bond yields remain in similar range
  - Weightings to property will increase globally
  - IRRs will reach 7-7.5% for prime
  - 50% of insto portfolios offshore
  - Substantial gains still possible in Australian market
  - Increasing takeover activity



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