PRRES Industry Day 2006

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)

Increase in Volatility

Gearing %

Actual
Linear

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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

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Growth</th>
<th>International Growth</th>
<th>Total Growth</th>
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<tbody>
<tr>
<td>2000-03</td>
<td>13%pa</td>
<td>62%pa</td>
<td>17%pa</td>
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<tr>
<td>2003-08</td>
<td>9%pa</td>
<td>30%pa</td>
<td>13%pa</td>
</tr>
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Includes approx. $80 billion LPTs

Includes approx. $168 billion LPTs
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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