

TOPPING THE LIST

Bouwinvest to double listed real estate assets by 2017 and sees sector as effective tool to diversify holdings for consistent returns, explains MD Stephen Tross.

Bouwinvest is planning to double its investments in listed property companies by 2017 to about EUR 650 million, a reflection of how comfortable we have become with deploying capital directly into the sector since starting two years ago.

Investing directly in real estate stocks has become an integral part of the strategy for the international investment portfolio, which accounts for about one third of the approx. EUR 6 billion of assets that we manage for our largest client and founding father, the Dutch Construction Workers' Pension Fund, bpfBouw.

Beforehand, our listed real estate exposure was through general funds, which gave us a market-tracking performance. For historical reasons, Bouwinvest's focus has been on the domestic market, but this new approach to listed property stocks gives us an effective tool as we now seek to diversify our portfolio internationally to achieve a better overall balance.

For the international portfolio, Bouwinvest targets mainly developed economies where the real estate markets are transparent and liquid. As a manager of pension fund assets, we aim to generate stable and regular annual returns of 6.5%-7% to hedge our clients' long-term liabilities. Delivering consistent returns, therefore, is the primary driver of our strategy after which we are constantly seeking smarter ways to optimise these returns over the long term.

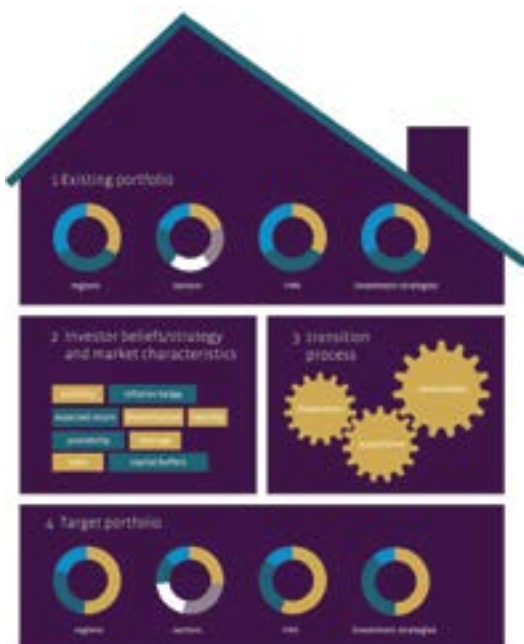
Our new approach to the listed sector originated in 2012, when we were looking to fill certain gaps in the international investment portfolio by deploying capital to sectors that offered interesting investment opportunities. We found that the best way was via targeted investments in the listed sector. A prime example of this is the US regional shopping-mall market, which we identified as a winner in the retail sector.

It became clear that we could not achieve the kind of exposure that we wanted through direct ownership or unlisted funds because this sub-market is dominated by specialist REITs with good track-records and management teams. Working with our two external real estate securities managers, we shortlisted 15 companies and then selected five in which they invested on our behalf. We have taken a similar route for other investment themes, such as Chinese residential development, exposure to the Canadian and Nordic markets and large shopping centres in Europe.

Crossing borders

Bouwinvest's international portfolio is made up of indirect investments, in contrast with the direct ownership of all the domestic assets that we manage for our clients. Listed real estate represented about 15% of the international portfolio last year, with the balance in unlisted funds. Based on the successes of the strategy so far, Bouwinvest's objective is to increase the international portfolio's allocation to listed real

Roadmap towards global real estate portfolio



Source: Bouwinvest Research



Stephen Tross joined Bouwinvest as COO International Investments in 2009. In January 2010 he was appointed Managing Director International Investments and subsequently joined the Management Board of Bouwinvest. He has over 20 years of experience in the international real estate industry. Previously, he was a Director at KPMG responsible for KPMG's real estate audit practice in The Netherlands and held several positions with PricewaterhouseCoopers in The Netherlands, the UK and the US. Tross also serves on the Supervisory Board of a services company and on the Management Board of ANREV, the Asian Association for Investors in non-listed real estate vehicles. He is a certified public accountant in the Netherlands and a professional member of The Royal Institution of Chartered Surveyors.
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estate to 25% as part of its three-year investment plan. A rebalancing of the overall real estate portfolio that we manage means that we are looking to deploy about EUR 1 billion this year, of which about half will be in non-Dutch assets.

There are several reasons why the listed sector is a good fit for our investment strategy, aside from the ability to invest in sectors where REITs or listed property companies are the dominant players. First among these is the liquidity that the listed sector offers, allowing us to be nimble when we anticipate that a market is about to turn or where we want to increase our exposure. The liquidity that property stocks offer also provides an opportunity to arbitrage between the listed and unlisted property sectors. Looking at both helps us gain a better understanding of the real estate market as a whole, especially since pricing of listed property companies often runs ahead of the unlisted sector.

The international portfolio produces higher returns than our domestic portfolio because of the inclusion of leverage through its exposure to the listed sector, which is an added attraction. We have

grown comfortable with the short-term volatility that listed real estate brings, recognising that in a medium to long-term horizon the sector has a high correlation to the performance of the underlying real estate. This is borne out by tomes of research. We set aside the concerns over volatility

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because the benefits outweighed the negatives and the composition of our portfolios balanced out the short-term equity market influence.

It is unlikely that Bouwinvest will turn to the listed property sector for its investments in the home market of the Netherlands because it is a direct investor in housing, offices, retail and hotels there and the Dutch listed sector is too narrow. Direct ownership or joint-venture partnerships give us distinct advantages in informing and shaping our investment strategy because our investment managers gain

first-hand market knowledge on tenant behaviour and prospects for rents. The listed property sector is, however, an important tool in implementing Bouwinvest's indirect real estate investment strategy outside the Netherlands and we estimate that an allocation of around 25% is

about the optimal portfolio weighting in terms of the risk/return profile for our funds.

In the next three years Bouwinvest anticipates strong growth in the assets that it manages, powered by increased inflows from pension fund consolidation, the current liability profile for our clients' funds and the appeal of real estate assets. Bouwinvest's new approach to the listed sector has worked very well, which is why we shall be using it increasingly to diversify our pension fund clients' real estate holdings swiftly to achieve a better balance. 🏡