



Dare to Dream:
Constructing a Large Fund Real Estate Portfolio
for a Smaller Fund

David G. Mather, Executive Vice President
Integrated Asset Management

November 7, 2013



Real Estate Focus

	EQUITY	DEBT
PRIVATE	Equity Ownership of Commercial Real Estate Retail Office Industrial Residential	Real Estate Related Mortgages Construction Loans Mezzanine Loans Convertible/Preferred Non-Performing Loans
PUBLIC	Real Estate Securities REITS REOC (Real Estate Operating Companies) Real Estate Development Companies Index ETFs	Mortgage-Backed CMBS -Yield -Total Return -Interest Only CDO

Trophy Assets Gone

<u>City</u>	<u>Property</u>	<u>Owner</u>
Toronto	TD Canada Trust Tower	50% PSP / 50% OMERS
Montreal	Place Ville Marie	CDP 50% / AIMco 50%
Toronto	Toronto Eaton Centre	Ontario Teachers
Toronto	Telus Building	HOOPP
Calgary	Bow Valley Square	50% AIMco / 50% OMERS
Montreal	Le Carrefour Laval	Ontario Teachers
Toronto	One Queen East	OPB
Toronto	Royal Bank Plaza	CPP 50% / OMERS 50%
Ottawa	Place de Ville	CPP
Vancouver	Pacific Centre	Ontario Teachers

3

Real Estate Allocation & Returns (December 31, 2012)

Fund	AUM (\$ Bn)	RE %	1YR (%)	4YR (%)
CPPIB (31/3/13)	183	12.0	9.2	
CDP	176	11.4	12.4	5.4
Ontario Teachers	129	13.1	19.4	15.3
AIMCO	69	11.5	15.5	9.6
PSP (31/3/13)	76	12.4	11.5	9.8
OMERS	61	13.2	16.9	
HOOPP	47	12.0	18.3	
OPB	15	14.6	19.2	
OpTrust	15	14.6	17.9	
IPD All Property			14.1	
bciMC (31/3/13)	103	14.7	11.8	
Cdn Pooled RE (Open)			15.9	8.7

Source: Annual Reports, RBC, REALpac / IPD

4

Relative Returns (June 30, 2013)

	1YR	3YR	5YR	10YR
IPD All Property	13.3	13.7	8.7	11.7
S&P TSX Capped REIT Index	-1.0	16.1	10.9	11.8
Global RE Index	18.3	16.4	5.4	
S&P TSX	7.9	5.4	-0.5	8.4
DEX	-0.2	4.6	5.5	5.3
S&P 500 (CAD)	24.8	18.2	7.8	4.6
MSCI World (CAD)	22.7	13.4	3.5	4.6
Citigroup WGBI (CAD)	-1.2	2.5	3.8	2.1

Source: RBC, REALpac / IPD, Bloomberg

5

Investor Intentions (Real Estate exposure)

Allocation	Next 12 Months	Long-term
Decrease	13%	8%
Maintain	58%	52%
Increase	29%	40%

Strategy

Opportunistic	54%
Value-add	51%
Core	47%
Core-plus	20%
Distressed	13%

Regional Targets

(N.A. Investors)	North America	69%
	Europe	19%
	Asia	7%
	Global	36%

Source: Prequin

6

Access – Separate Accounts

	Public Pension Fund	Private Sector Pension Fund	Insurance Co.	Endowment	Foundation
Will Invest	30%	20%	11%	8%	9%
Will Consider	13%	11%	20%	14%	11%

Structure	Funds <\$1bn	Funds \$1bn - \$10bn	Funds >\$10bn
Co-Invest	23%	33%	57%
Joint Venture	21%	28%	67%
Separate Account	20%	33%	62%

Source: Preqin

7

Smaller Investor Objectives

Construct a Real Estate Portfolio Diversified by

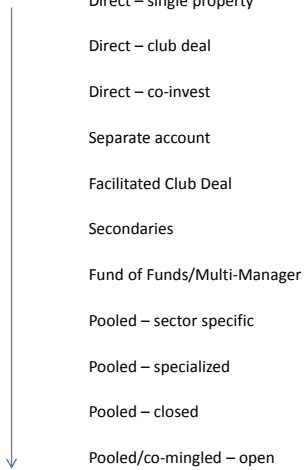
- Strategy
- Vintage Year
- Property type
- Size
- Liquidity
- Country
- Region
- Sector
- Income / cash flow
- Risk
- Return

8

Structural Hierarchy

Investment Size

Concentration



9

Canada – A Good Place to Invest

Global Return Comparison
(to December 31, 2012)
Total Return %
1YR

Annualized Total Returns %
Local Currency
5YR 10YR

	EUR	USD	GBP	Local	5YR	10YR
Canada	14.9	16.7	11.5	14.1	8.7	11.7
Australia	9.1	10.8	6.0	9.4	5.2	10.5
Germany	4.4	6.0	1.4	4.4	3.7	3.0
France	6.3	7.9	3.2	6.3	4.3	9.3
Japan	-9.1	-7.7	-11.7	3.8	0.2	4.7
Netherlands	1.2	2.8	-1.7	1.2	2.5	6.1
Spain	-2.1	-0.5	-4.9	-2.1	-1.6	5.4
United Kingdom	6.5	8.2	3.4	3.4	0.7	6.3
United States	9.0	10.7	5.8	10.7	1.5	7.8
Global	4.7	6.3	1.7	7.3	2.4	6.8

Source: REALpac / IPD

10

Canadian Sector Returns

(to June 30, 2013)

Sector	1YR	3YR	5YR	10YR	Income Contribution (%)
All Property	13.3	13.7	8.7	11.7	43
Retail	14.6	14.7	10.0	12.7	37
Office	12.7	14.0	8.5	11.7	48
Industrial	11.0	11.5	6.3	10.3	58
Residential	15.3	12.5	8.8	10.0	34

(to December, 2012)

Sector	1YR	3YR	5YR	10YR	
All Property	14.1	13.6	8.7	11.7	45
Retail	13.5	15.1	9.6	12.7	41
Office	15.9	13.5	8.9	11.7	40
Industrial	11.8	11.1	6.0	10.4	55
Residential	16.2	11.8	8.7	9.8	35

Source: REALpac / IPD, Income Contribution last 12 months

11

Large Fund - Sector Allocation (%) as at December 31, 2012

	Office	Retail	Industrial	Retirement	Residential	Hotel
Ontario Teachers	26	56				
AIMco	41	31	8			
CPPIB	23	41	11		2	
PSP	31	7	6	31		7
CDP	31	40			7	7
OMERS	46	26	6		9	8
bclMC	48	9	13		22	
IPD Index	38	42	10		6	

Source: Annual Reports, Offering Documents

12

Global Market Composition (December 31, 2012)

	Retail	Office	Industrial	Residential
Canada	42.3	37.9	9.5	6.0
Germany	28.0	46.6	6.3	11.9
France	26.9	51.3	7.0	12.4
Netherlands	31.6	16.6	3.5	45.7
Japan	17.0	53.1	5.1	19.3
Sweden	19.8	61.8	1.6	12.4
Switzerland	18.5	29.7	2.3	47.1
UK	48.8	26.5	15.3	3.5
US	20.0	37.8	15.1	22.3
Global	32.3	40.6	9.1	13.0

Source: REALpac / IPD

13

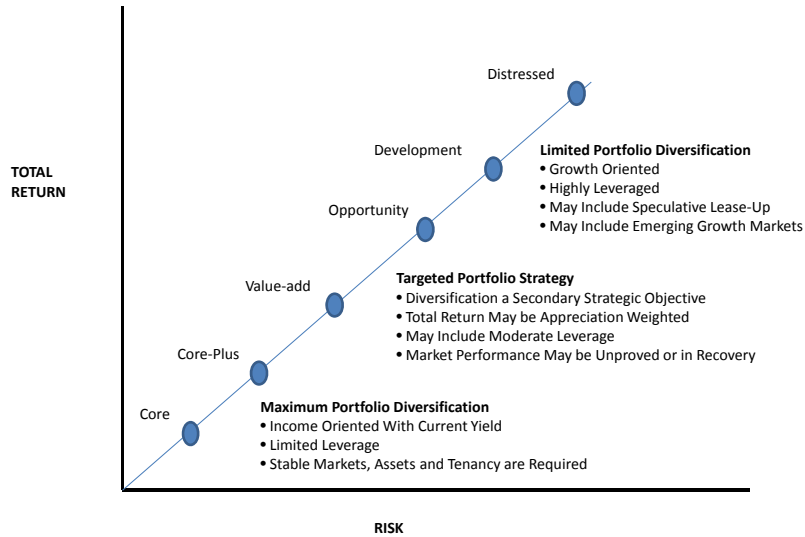
Distant Horizons Beckon

Big Funds focusing abroad

CPP (Int. 77%)	US, France, Germany, UK, Australia, Brazil, Sweden, Turkey, China, Hong-Kong, Japan + 54 Fund/Joint Venture Relationships
Ontario Teachers (Int. 9%)	US, UK, Brazil
AIMCO (Int. 15%)	US, UK, Europe, Latin America + 6 Specialty Funds & 3 Global Funds
PSP (Int. 62%)	US, Asia, Australia, UK, France, Sweden, Mexico, Brazil
OMERS (Int. 23%)	UK, US
CDP (Int. 51%)	US, Western Europe, Emerging Markets, Developed Asia

14

Strategy - Risk/Return Spectrum



15

Funding Status & Maturity Considerations

Mature Plan	Less Mature
<ul style="list-style-type: none"> • need current cash flow • lower risk appetite • core, income producing assets, stable properties in strong market • more liquidity • bias to open funds 	<ul style="list-style-type: none"> • less demand for cash flow • can take more risk • value – added, opportunistic • development • renovate/reposition • raw land • limited need for liquidity • closed-end acceptable

16

The Anchor - Canadian Open-end Funds

Principal Characteristics

Strategy	Core/Core-plus
Normal leverage (portfolio)	20% - 30%
Leverage (single property)	~ 50 %
Cash	~ 10 - 20 %
Liquidity	Quarterly / Monthly
Country	Canada
Regions	Primarily major markets
Minimum Investment	\$1 / \$5 million
Fees	
Management	53 bp – 90 bp
Acquisition	50 bp – 150 bp
Disposition	0 bp – 150 bp
Incentive	None
Sectors	
	Retail
	Industrial
	Office
	Multi-unit residential
	Hospitality

17

Canadian Pooled Funds – Sector Allocation (June 30, 2013)

Fund	Retail (%)	Office (%)	Industrial (%)	Residential (%)	Other (%)
A	35	12	20		18 ¹
B	32	39	23		2 ²
C	0	64	36		
D	18	25	42		15
E	37	23	40		
F	19	2	23	6	
G	9	48	12	23	6 ³
H	10	54	12	23	

Source: Quarterly and Annual Reports

¹Storage, ²land, ³hospitality

18

Canadian Pooled RE Returns (to June 30, 2013)

	1YR	3YR	5YR	10YR
Average	11.9	12.5	7.1	10.7
IPD All Property	13.3	13.7	8.7	11.7
S&P/TSX Capped REIT Index	-1.0	16.1	10.9	11.8
Global RE Index	15.2	10.9	6.1	

Source: RBC Dexia, TSX, REALpac / IPD

19

Implementation - 5 Step Program

		<u>Funds Added</u>
Year 1	2 large, domestic, core open-end funds 1 Global RE Index ETF	2

20

Implementation - 5 Step Program

		<u>Funds Added</u>
Year 1	2 large, domestic, core open-end funds 1 Global RE Index ETF	2
Year 2	1 / 2 closed-end value-add 1 open global fund	2/3

21

Implementation - 5 Step Program

		<u>Funds Added</u>
Year 1	2 large, domestic, core open-end funds 1 Global RE Index ETF	2
Year 2	1 / 2 closed-end value-add 1 open global fund	2/3
Year 3	0/1 closed-end value-add 1 / 2 closed-end opportunistic 1 global	2/3

22

Implementation -5 Step Program

		<u>Funds Added</u>
Year 1	2 large, domestic, core open-end funds 1 Global Re Index ETF	2
Year 2	1 / 2 closed-end value-add 1 open global fund	2/3
Year 3	0/1 closed-end value-add 1 / 2 closed-end opportunistic 1 global	2/3
Year 4	0/1 closed-end opportunistic 1 emerging markets 1 development or specialty	2/3

23

Implementation - 5 Step Program

		<u>Funds Added</u>
Year 1	2 large, domestic, core open-end funds 1 Global Re Index ETF	2
Year 2	1 / 2 closed-end value-add 1 open global fund	2/3
Year 3	0/1 closed-end value-add 1 / 2 closed-end opportunistic 1 global	2/3
Year 4	0/1 closed-end opportunistic 1 emerging markets 1 development or specialty	2/3
Year 5	1 emerging markets 1 development or specialty	2

24

End Year 5 - Target Portfolio

<u>% of Portfolio</u>	<u>Allocation</u>	<u>Number of Funds</u>
50	large domestic open-end core	2
10	closed-end value add	2
10	closed-end opportunistic	2
20	global core/core plus	2
5	emerging markets	2
5	development/specialty	2

25

Conclusions

- Large fund strategy can be replicated
- Know why you want real estate
- Define risk and return expectations
- Establish horizon to build portfolio
- Understand cash flow and liquidity needs
- Establish cash flow requirements
- Start at home (Canada)
- Larger, open-end funds first (two should suffice)
- Move up risk/return slope
- Build international position

26