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Real Estate Securities Funds Monitor

Period End: August 2013

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September 2013

Summary

This month we have divided the report into the following sections:

1) A summary of August performance by fund mandate and size (p3)

A poor month across the board for all fund mandates, with the US (-6.2%) the most affected, and Japanese Funds (-0.9%) the least affected. In terms of global asset classes, Global REITs (-5.7%) were the worst performers, whilst Infrastructure Funds were 3.2% down on average, and real assets -1.2%. .

2) A summary of YTD performance by fund mandate and size (p4)

Looking at the returns YTD it is only the Japanese and European real estate mandates that are in positive territory (+5.6%) and +0.8% respectively) , alongside Infrastructure +3.3% , although real assets are -4.0%.

3) The performance impact of adding listed real estate to unlisted real estate funds (p.5)

Following on from the results of our EPRA survey (see below), and the decision to by NEST to implement its 20% real estate allocation via a 70% UK unlisted/ 30% Global listed vehicle we undertook a brief analysis of the performance impact of adding listed to unlisted. The key finding in this study is the extent to which unlisted real estate portfolio returns are enhanced by adding listed real estate. At the most basic level, over the 10 year period studied, adding 30% global listed exposure to UK unlisted funds would have added 30% in absolute terms and 50% in relative terms to the performance of unlisted funds in isolation.

In terms of breaking down these returns into different periods of the cycle, the addition of a 30% listed allocation would have equated, in absolute terms, to an additional 22% portfolio return in 2003-07, and an extra 13% in the period of QE led recovery 2009-2013. Whilst this was to be expected during the property driven bull market due to the gearing, and predictive power of listed real estate what we believe will surprise many is: i) the consistency of return enhancement in positive or stable market conditions, and ii) the fact that during the GFC the inclusion of a 30% listed real estate weighting led to only a marginal (-2.2% over a two year period) diminution in returns. This represents an extremely small cost when taken against the dramatic improvement in liquidity as a result of the listed weighting.

4) Is listed real estate treated as part of the real estate allocation? (p.10)

We recently published (with Property Funds Research) the results of a survey we undertook for EPRA into institutional attitudes towards listed real estate. Our starting point was as follows. If there is a strong rational case for including more listed real estate in multi-asset or real estate portfolios, and if there is little evidence that this is happening, then there may be an explanation which is to do with the organisational structures or investment processes employed by investors or sub-contracting asset managers.

We found that only eight of 56 interviewees, or 14% of our sample, claimed to have an internally integrated approach to the management of listed and direct/unlisted real estate. Behind this headline, we find another surprising result. Only a bare majority of interviewees (30 against 26) regard listed real estate as part of their allocations to this asset class. For the majority, this was a result of historic decision rather than a conscious review. We did, however, find evidence to suggest that the use of listed in real estate allocation strategies is increasing.

5) ***Detailed performance statistics by region (p14-20)***

We show the dispersion of returns by Fund AuM, benchmark, average, maximum and minimum returns, and the best performing funds by size, for each mandate. As always, for consistency, all returns are rebased in US$.

Finally, it is important to note that there will be no recommendations or investment advice in this publication, and that it is not intended for retail investors. This report represents only a very small summary of the outputs of our database, and the bespoke research and advisory service work we undertake for clients. For further details of our work please contact us.

August 2013 performance summary

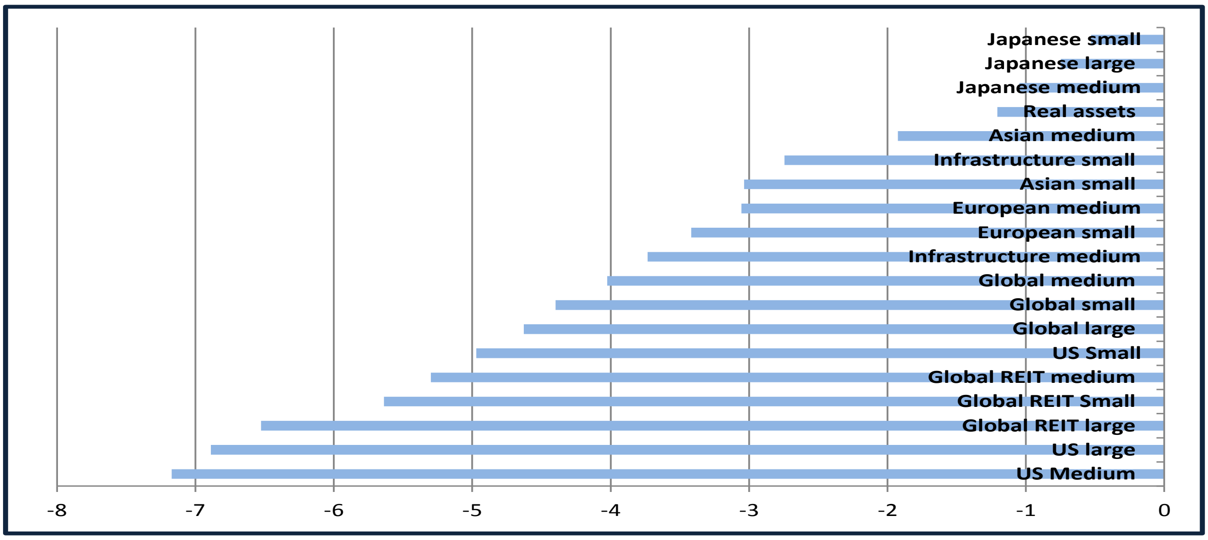
Firstly we show how each region has performed relative to the benchmarks and other listed real estate markets (Figure 1). Secondly, the differences in performance of each mandate classified by size of Fund (Figure 2) and thirdly we are interested in seeing the performance of global listed real estate as an asset class relative to competing asset classes such as Global Infrastructure and Real Assets (Figure 3).

Figure 1 Regional real estate performance August 2013

	Asia	Average	Max	Minimum
Funds	Asian Funds	-1.99	7.60	-12.45
	Japanese Funds	-0.90	5.01	-4.64
Benchmark	EPRA NAREIT Asia Total Rtrn Index USD	-0.55		
	Europe	Average	Max	Minimum
Funds	European Funds	-3.14	2.27	-5.31
Benchmark	FTSE EPRA/NAREIT Dev'd Europe Index	-3.77		
	US	Average	Max	Minimum
Funds	US Funds	-6.21	22.29	-20.10
Benchmark	Dow Jones US Select REIT Index	-6.86		

Source: Consilia Capital, Bloomberg

Figure 2 August performance by mandate and fund size



Source: Consilia Capital, Bloomberg

Figure 3 Global Asset Class performance August 2013

Global	Average	Max	Minimum
Global Funds	-4.20	2.35	-11.03
FTSE EPRA/NAREIT Developed Index	-4.30		
Global REITs	Average	Max	Minimum
Global REIT Funds	-5.67	-2.07	-10.22
S&P Global REIT Index	-5.61		
Infrastructure	Average	Max	Minimum
Global Infrastructure Funds	-3.19	0.60	-10.34
D Jones Brookfield Global Infra Tot Rtn	-3.66		
Real Assets Funds	-1.21	0.62	-2.67

Source: Consilia Capital, Bloomberg

YTD 2013 performance summary

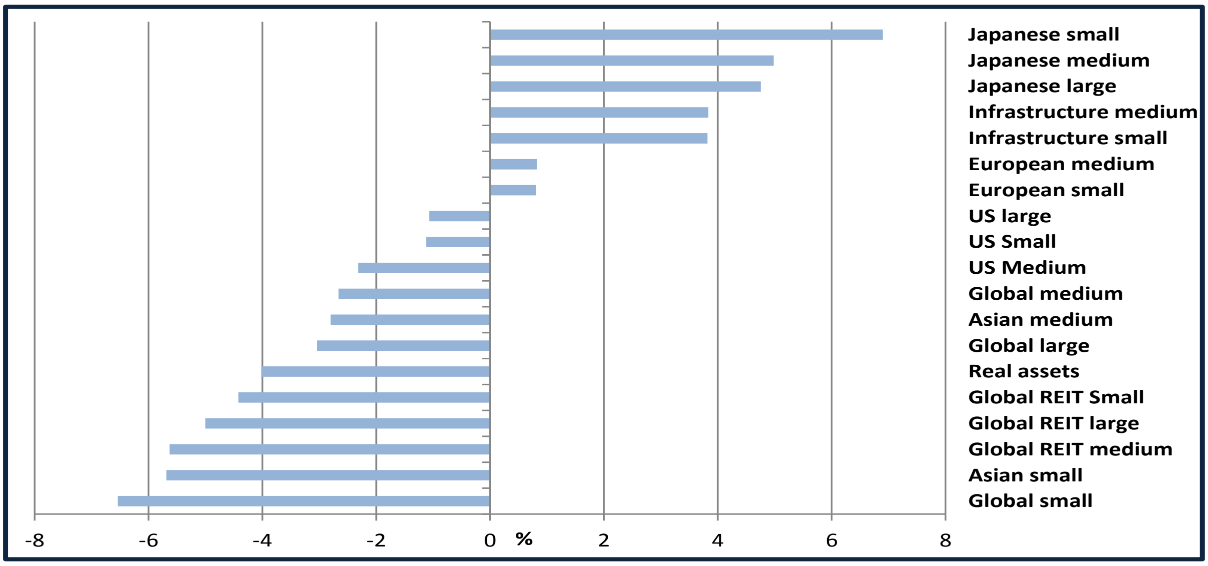
As with the monthly figures, we firstly show how each region has performed relative to the benchmarks and other listed real estate markets (Figure 4). Secondly, the differences in performance of each region classified by size of Fund (Figure 5) and thirdly the performance of global listed real estate as an asset class relative to competing asset classes such as Global Infrastructure and Real Assets (Figure 6).

Figure 4 Regional real estate performance YTD 2013

Asia	Average	Max	Minimum
Asian Funds	-4.94	4.67	-29.29
Japanese Funds	5.64	23.57	-17.80
EPRA NAREIT Asia Total Rtrn Index USD	-0.76		
Europe	**Average**	**Max**	**Minimum**
European Funds	0.79	15.25	-8.62
FTSE EPRA/NAREIT Dev'd Europe Index	1.53		
US	**Average**	**Max**	**Minimum**
US Funds	-1.54	17.89	-15.41
Dow Jones US Select REIT Index	-0.84		

Source: Consilia Capital, Bloomberg

Figure 5 YTD 2013 performance by mandate and fund size



Source: Consilia Capital, Bloomberg

Figure 6 Global Asset Class performance YTD 2013

Global	Average	Max	Minimum
Global Funds	-4.59	10.96	-48.64
FTSE EPRA/NAREIT Developed Index	-0.81		
Global REITs	**Average**	**Max**	**Minimum**
Global REIT Funds	-4.99	7.65	-15.49
S&P Global REIT Index	-1.54		
Infrastructure	**Average**	**Max**	**Minimum**
Global Infrastructure Funds	3.27	16.98	-10.89
D Jones Brookfield Global Infra Tot Rtn	5.01		
Real Assets Funds	-4.02	-0.27	-12.74

Source: Consilia Capital, Bloomberg

The performance impact of adding listed real estate to unlisted funds

Background and reasons for this study

Recent evidence suggests that there is a reluctance by a number of institutions to incorporate listed real estate into their real estate allocation (Moss and Baum 2013).

This is despite the significant amount of work undertaken by both practitioners and academics on the beneficial impact of adding listed real estate to a portfolio. It has been shown that REITs can act as both a return enhancer and diversifier in a mixed asset portfolio (Lee, 2012), and adding listed real estate to an unlisted portfolio can enhance returns as well as liquidity (NAREIT, 2011). REITs are seen to produce real estate returns over the medium (3 year) term (Hoesli and Oikarinen, 2012), as well as having useful predictive properties (Cohen & Steers 2009).

We are interested in discovering the performance implications for investors who choose to combine listed with unlisted. Does the portfolio return improve over all stages of the cycle, and is the increased portfolio volatility more than compensated for by both superior returns and enhanced liquidity?

There are a number of reasons why this is particularly topical and relevant, and which suggest that there will be an increase in interest in using listed real estate in asset allocation. These include, but are not limited to the following:

1) Most recently, and of most relevance to investors, the decision by the UK's National Employment Savings Trust ("NEST") to include a 20% allocation to real estate in its DC fund, and for that 20% allocation to be executed via a hybrid vehicle (managed by Legal and General) which comprises a 70% weighting to UK direct property via their unlisted fund, and a 30% weighting to listed real estate via a Global REIT tracker fund.
2) An increase in the emphasis placed by investors and consultants on liquidity post the GFC. This clearly is an advantage for listed real estate.
3) A critical focus on costs at the asset management level, which suits listed real estate at the expense of direct real estate.
4) Significant growth in "real asset "allocations (i.e. real estate, commodities, and infrastructure). A number of commentators (Towers Watson, JP Morgan, Brookfield et al.) have suggested that this real asset allocation could increase to 20% of portfolio weightings.
5) Greater use of alternative risk measures to standard deviation (volatility), such as maximum drawdown. Volatility has always been seen by non-users of listed real estate as a major disadvantage.

Prima facie, a simple, cost effective, and mechanistic approach to combining listed and unlisted real estate should satisfy the criteria outlined above. To assess whether this is the case we need to examine in detail the risk and return implications of adding (global) listed real estate to an (UK) unlisted real estate portfolio.

I am grateful to Kieran Farrelley of the Townsend Group for providing the data on UK fund performance as well as comments on this paper.

Summary of findings

The key finding in this study is the extent to which unlisted real estate portfolio returns are enhanced by adding listed real estate. At the most basic level, over the 10 year period studied, adding 30% global listed exposure to UK unlisted funds would have added 30% in absolute terms and 50% in relative terms to the performance of unlisted funds in isolation.

Period	Total returns (%) UK Unlisted Funds	Global listed funds	70% unlisted 30% listed
June 03-June 2013	60.98	160.95	90.97

In terms of breaking down these returns into different periods of the cycle, the addition of a 30% listed allocation would have equated, in absolute terms, to an additional 22% portfolio return in 2003-07, and an extra 13% in the period of QE led recovery 2009-2013. Whilst this was to be expected during the property driven bull market due to the gearing, and predictive power of listed real estate what we believe will surprise many is:

i) the consistency of return enhancement in positive or stable market conditions, and

ii) the fact that during the GFC the inclusion of a 30% listed real estate weighting led to only a marginal (-2.2% over a two year period) diminution in returns . This represents an extremely small cost when taken against the dramatic improvement in liquidity as a result of the listed weighting.

The table below quantifies the return enhancement of adding (30% and then 50%) listed real estate to an unlisted portfolio over the cycle. We have modelled this by using actual fund data for returns rather than indices.

Market type	Period	Return enhancement 30% listed %	Return enhancement 50% listed %
Rising property values	June 03-June 07	22.00	36.67
Global Financial Crisis	July 07 -June 09	-2.20	-3.87
QE Led recovery	August 09 - June 13	12.98	20.61

Differences from previous studies

We believe that there a number of reasons why this brief paper is different from previous studies, and adds to the current thinking on asset allocation in real estate.
Firstly, we have taken actual fund data rather than index data. A number of previous studies have used the IPD Index as a proxy for direct real estate and an EPRA Index as a proxy for listed real estate. The sample we have used in this study comprises UK unlisted real estate funds, and Global listed real estate funds. The reason for using funds data is that we are interested in the investor level returns, and capturing tracking error from a benchmark. For the single series of returns we use an unweighted average of the fund returns.

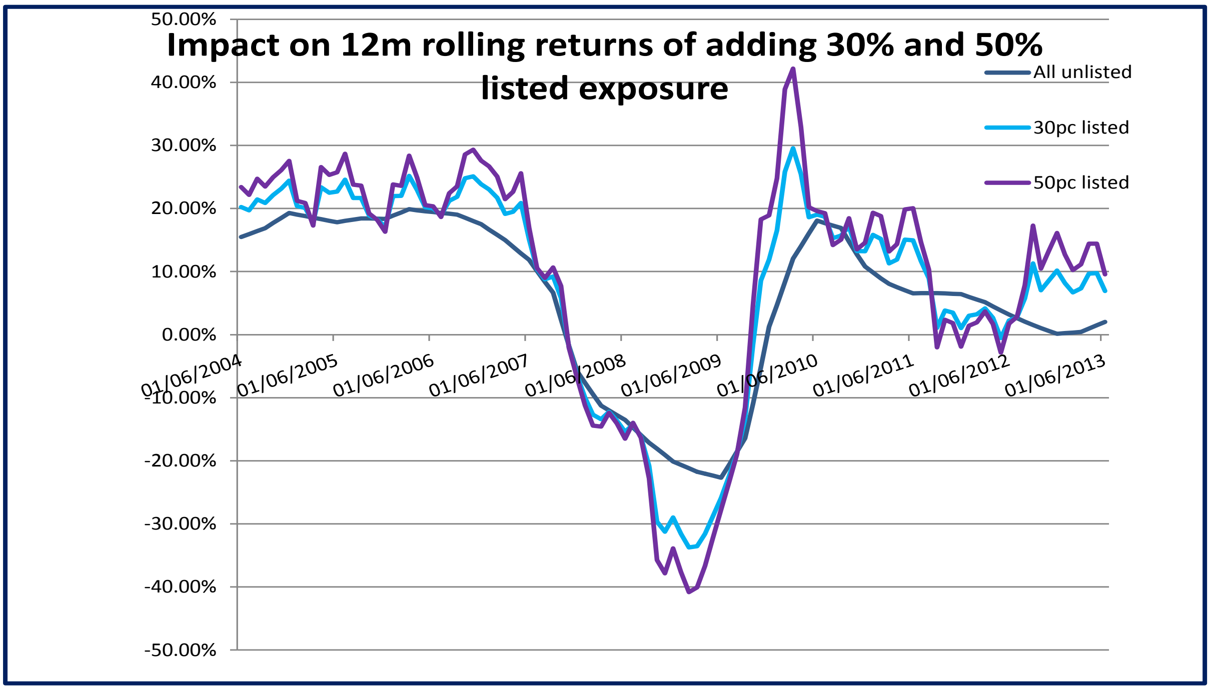
The sample comprises five of the largest unlisted UK property funds, and four of the leading global real estate securities funds. We have chosen global listed funds for reasons of liquidity, diversification, fund availability, and the Legal & General / NEST precedent.

Secondly, rather than use a single period, or peak to trough periods, we have broken down the ten year period (2003-2013) into three distinct stages of the cycle. We believe that this allows asset allocators to assess how listed and unlisted perform at times when real estate criteria is a key driver , as well as times when macro themes are the most significant determinant of returns . This will allow allocators to alter weightings of the listed/unlisted balance according to the stage of the cycle.

Thirdly we have shown the impact of three different thresholds of listed real estate on portfolio performance (0%. 30%, and 50%), which are maintained throughout the period. We have not used any portfolio optimisation techniques to determine weightings.

The study findings

Firstly, we examine the impact on returns. We have used 12month rolling returns, with monthly frequency for valuations. Our data starts from June 2003, so the first data point is June 2004. We believe that showing the results on a rolling monthly basis shows a far better impression of the dynamics and quantum of the results.
The pattern is as we would expect, given the gearing, predictive nature, and equity market characteristics in the listed sector, namely that when direct real estate values are rising steadily (2003-2007) listed real estate enhances unlisted returns, when real estate values are falling (2007-2009) they detract from performance (but only marginally), and when capital values are steady (+/- 2% p.a.) the result will be more dependent upon non real estate influences.
However, what is noticeable about the graph below is the consistency of the return enhancement form adding listed. Of the 109 months in the period listed real estate enhanced returns in 72 (i.e. 66% of them).



Source: Consilia Capital. Townsend, Bloomberg

The next question to be asked is regarding the cumulative impact of these gains, and what strategies could be used to minimise the maximum drawdown seen from 2007-2009. To do this we need to divide the study into three clearly identifiable periods:

i) Rising property values – June 2003 to June 2007
ii) The global financial crisis – July 2007 to June 2009
iii) The QE led recovery September 2009 to June 2013

As can be seen from the table below, the results are a compelling case for incorporating listed into an unlisted portfolio.
At a time of rising property values, returns from listed (in this case global) funds were almost double that of UK unlisted funds. Perhaps surprisingly at a time of financial distress and dislocation, returns on the listed funds were only marginally worse (-44% vs. -33%) than for unlisted. At a time of market recovery and stabilisation of values returns from listed funds were more than double those of unlisted funds.

Market type	Period	Number of months	Total Unlisted return %	Total Listed return %
Rising property values	June 03-June 07	48	81.79	155.12
Global Financial Crisis	July 07 -June 09	24	-33.13	-44.31
QE Led recovery	August 09 - June 13	48	31.32	68.22

However, we need to dig a little deeper to discover the stability and distribution profile of these returns, as they could be distorted by one or two months' data. One of the most common refrains from managers not using listed is the volatility of returns and the fear of getting the market timing wrong. We show below the average monthly changes in each of the periods, which highlight the consistency of listed real estate return enhancement in times of improving or stable real estate values and only marginally inferior returns at times of severe market dislocation.

Market type	Period	Average Unlisted Monthly return	Average Listed Monthly return
Rising property values	June 03-June 07	1.25%	2.03%
Global Financial Crisis	July 07 -June 09	-1.66%	-1.91%
QE Led recovery	August 09 - June 13	0.59%	1.40%

The next stage is to see the impact on portfolio returns of adding listed real estate in different weightings. The table below shows the difference in total returns in each period of adding first 30% and then 50% listed real estate exposure to an unlisted real estate portfolio. This demonstrates an extremely compelling case for listed real estate. Adding 30% listed real estate weighting improves returns by 22% at a time of rising property values, reduced them only marginally (-2.2%) at a time of severe market dislocation, and has enhanced them by 13% thus far in the QE led recovery.

Market type	Period	Return enhancement 30% listed %	Return enhancement 50% listed %
Rising property values	June 03-June 07	22.00	36.67
Global Financial Crisis	July 07 -June 09	-2.20	-3.87
QE Led recovery	August 09 - June 13	12.98	20.61

The table above shows the total return differences over the period. We now break this down further, and below we have shown the return enhancement on a monthly basis.

Market type	Period	Return enhancement 30% listed %	Return enhancement 50% listed %
Rising property values	June 03-June 07	0.25%	0.41%
Global Financial Crisis	July 07 -June 09	-0.21%	-0.28%
QE Led recovery	August 09 - June 13	0.27%	0.44%

Volatility

Having looked at the impact on returns we now turn to the impact on volatility, using a similar approach to that taken with returns. As before we have used 12month rolling volatility, with monthly frequency for valuations. Our data starts from June 2003, so the first data point is June 2004. Again the pattern is broadly as would be expected, with the portfolio volatility increasing with the percentage of listed added. However, we would point out that the returns data we have taken for the unlisted funds is based on stated NAV, and takes no account of secondary pricing. If we were to take account of this (which broadly mirrors the NAV based pricing in the listed sector) then the difference between the volatility of listed and unlisted would be far smaller

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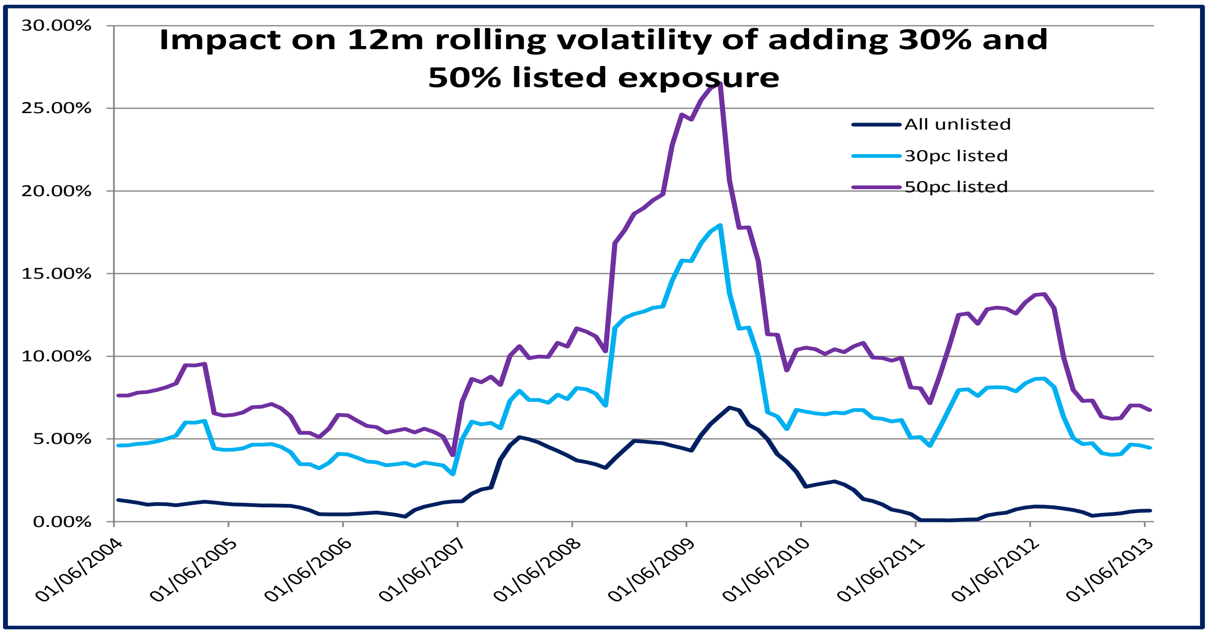


Source: Consilia Capital. Townsend, Bloomberg

Looking at the breakdown of volatility by period we can see that taking fund NAVs rather than secondary pricing volatility has reduced post GFC whilst the price of liquidity in listed funds is reflected in the maintained higher level of volatility post GFC.

Market type	Period	Average Unlisted Volatility	Average Listed Volatility
Rising property values	June 03-June 07	0.88%	11.73%
Global Financial Crisis	July 07 -June 09	4.02%	23.93%
QE Led recovery	August 09 - June 13	1.85%	21.24%

Conclusions

A number of funds have the ability to include listed real estate in their portfolio but choose not to do so. Similarly a number of investors do not regard listed real estate as part of their real estate allocation. These results demonstrate very clearly how the returns of a portfolio of UK unlisted real estate funds can be enhanced by the addition of (global) listed real estate funds in a very simple and straightforward manner. This was shown without altering initial weightings. In our next paper we will explore strategies for enhancing returns even further by incorporating certain rules based allocation strategies.

References

Baum, A and Moss, A, (2013) *The use of listed real estate securities in asset management*, EPRA

Baum, A and Moss, A (2013) *Are listed real estate stocks managed as part of the real estate allocation? A survey report for EPRA*

Cohen & Steers, (2009): *Listed Property Performance as a Predictor of Direct Real Estate Performance*

Hoesli, M. and Oikarinen, E (2012) *Are REITs real estate? Evidence from international sector level data,* Swiss Finance Institute Research Paper Series Number 12-15

Lee, S.L (2010) *The Changing Benefit of REITs to the Mixed-Asset Portfolio*, Journal of Real Estate Portfolio Management, Volume 16, Number 3, 201-215

NAREIT, (2011): *Optimising Risk and Return in Pension Fund Real Estate: REITs, Private Equity Real Estate and the Blended Portfolio Advantage*

Is Listed real estate managed as part of the real estate allocation? Results of a survey undertaken by Property Funds Research and Consilia Capital for EPRA.

Background and reasons for this survey

There has been a significant amount of research in recent years, produced by both academics and practitioners, which has focussed in particular on two areas. First, much attention has been paid to the investment merits of listed real estate as part of a mixed-asset portfolio; second, academics and investment firms have explored the relationship between the performance of the listed sector and both direct real estate and unlisted real estate funds.

The conclusions of the research are broadly consistent, as follows.

First, REITs can act as both a return enhancer and diversifier in a mixed asset portfolio (Lee, 2012), and adding listed real estate to an unlisted portfolio can enhance returns as well as liquidity (NAREIT, 2011).Second, while listed real estate returns do not reflect direct or unlisted real estate returns in the short run (one to two years), listed real estate and direct real estate are more correlated or co-integrated over the medium to longer term (three and more: see, for example, Hoesli and Oikarinen, 2012). Third, listed real estate performance appears to lead direct market indicators by around 6 months (Cohen and Steers 2009), although whether this lag is capable of being exploited to deliver abnormal or excess returns is questionable (Baum and Hartzell, 2012).

The first and second of these findings suggests that listed real estate should be attractive to investors, especially pension funds interested in the longer term. The global financial crisis of 2007-9 and the associated price and liquidity collapse of illiquid real estate assets over that period should arguably have led to an increase in listed real estate allocations at the expense of privately held assets. However, no significant change in behaviour has been observed. There may be many reasons for this, some of which are likely to be behavioural, or institutional, rather than purely based on rational economics.

Until now, however, there has been little work published regarding done the behavioural or institutional aspects of incorporating listed real estate into an investment strategy. To rectify this gap we have undertaken two pieces of research for EPRA. The first, published in March 2013 (*The use of listed real estate securities in asset management),* examined both the different strategies and the various fund types available to investors who are prepared to use listed real estate, citing a number of examples, and how listed real estate is or may be combined with other types of real estate and real assets. These other assets include internal and external unlisted funds (the product of the investor or a third party asset manager), derivatives, property debt, direct property, and real assets such as infrastructure and commodities in their various forms.

This second piece of work is a logical extension of the first paper, and concentrates on survey evidence examining whether or not listed real estate is managed as part of the overall institutional real estate allocation. Our starting point is as follows. ***If there is a strong rational case for including more listed real estate in multi-asset or real estate portfolios, and if there is little evidence that this is happening, then there may be an explanation which is to do with the organisational structures or investment processes employed by investors or sub-contracting asset managers***. Hence, whilst we might recognise the apparent benefits of listed real estate noted above, it is important to understand and capture the organisational processes that determine whether European investors do include listed real estate in their real estate portfolios - and, if not, we would like to know why not. To the extent to which investors do utilise listed real estate, we would like to understand what (if anything) limits the weight they place on listed real estate.

Structure of the survey

As a precursor to this study, the EPRA Research Committee designed a pilot survey with the following objectives: (i) to identify potential organisational issues limiting the exposure of European institutions to listed forms of real estate; (ii) to support the development of some hypotheses that can be properly tested; and (iii) to generally support the design of a comprehensive research study of this issue.

The research was designed, and semi-structured interviews were undertaken, by Alex Moss, Andrew Baum, Fraser Hughes and Karen Sieracki on behalf of the EPRA research committee.

Following on from this pilot study, which was undertaken in Autumn 2012, a further, more extensive study was undertaken in Spring 2013. This increased the number of respondents from 20 to 56, and also took care to distinguish three categories of respondent: investor, asset manager, and investment consultant. The rationale for dividing the respondents in this way was to determine if there was a significant difference in approach and strategy between performance-driven investors and consultants on the one hand and fee or profit-driven asset managers on the other. To this end, different questionnaires were designed for the three different categories. .

We held interviews with individuals representing 56 organisations. 16 of these were pure investors self-managed pension funds, sovereign wealth funds and endowments, not apparently motivated by fees or profit) or consultants, while 40 were asset managers. .

Survey questions

While the questionnaires used were different, the main questions we asked were common to all three groups. These were as follows.

Are listed real estate stocks managed as part of the real estate allocation?

If the answer to this question was Yes, participants were asked to respond to a series of supplementary questions.

Are they managed by: (i) an integrated team within real estate group; (ii) a separate team within the real estate group; (iii) a team outside the real estate group; (iv) an external manager; (v) your equities team

What process led to the inclusion of listed securities in the allocation? To what extent is this a product of history, or of a conscious review?

Is this part likely to grow or shrink in future as a proportion of the allocation?

What difficulties does the inclusion of listed securities create?

Do you use ETF trackers, or REIT fund, or pursue an active policy?

If the respondents' answer was No, they were asked to answer the following supplementary questions, which seek to understand why listed real estate securities did not form part of the real estate allocation.

Would using listed securities be a problem for you?

To what extent is this a product of history, or of a conscious review?

Is this decision driven by investors, the manager or by consultants?

Do you believe that future mandates are more likely to include listed real estate securities, and if so why?

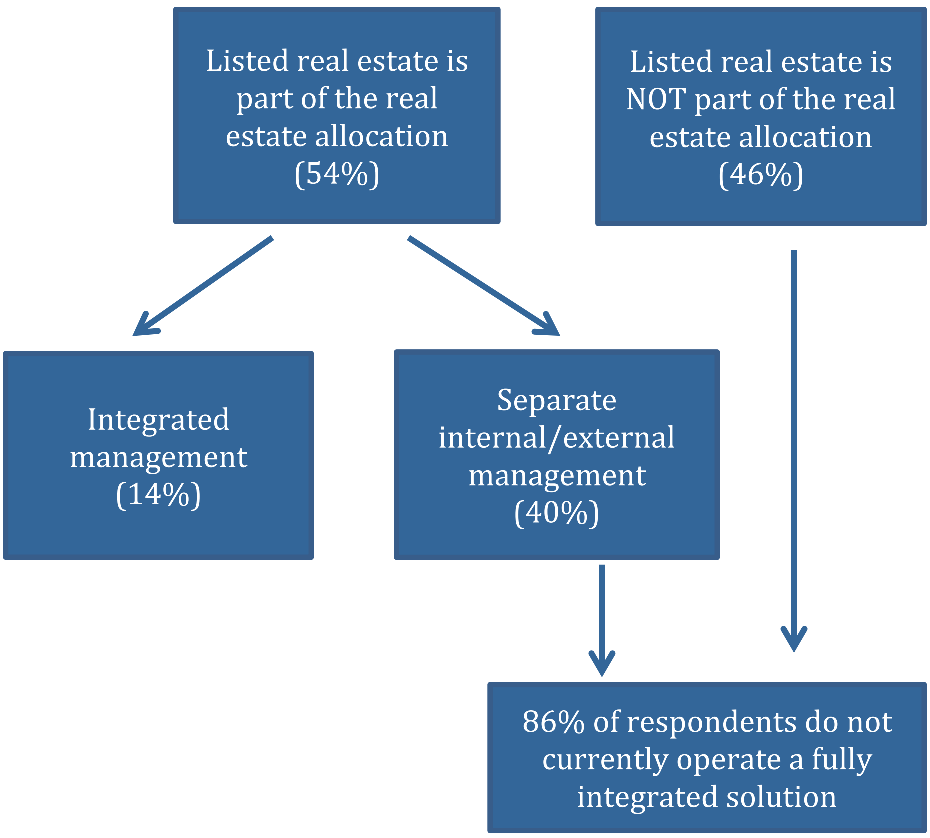
The survey findings

For the investors and asset managers we interviewed, we were told simply whether listed real estate stocks are managed as part of the real estate allocation. Consultants were asked whether this was an approach they recommended. Combining all three interviewee types, we found that only eight of 56 interviewees, or 14% of our sample, claimed to have an internally integrated approach to the management of listed and direct/unlisted real estate. It is profoundly disappointing that 86% of our sample has failed to develop or recommend the integration that the performance evidence we summarise in the introduction and background seems to support.

Behind this headline, we find another surprising result. Only a bare majority of interviewees (30 against 26) regard listed real estate as part of their allocations to this asset class.

Within the 30 who do, only eight have an internally integrated approach. 22 either sub-contract the management of the listed real estate allocation to another manager, or use a different team within their broader organisation. Combining the 22 who sub-contract with the 26 who do not include listed real estate as part of their real estate allocation, 48 or 86% do not have an integrated approach to building a real estate portfolio including listed and unlisted or direct forms of real estate.

Figure 1: Results



We have broken down the results by respondent type. As can be seen there is a small majority who regard listed real estate as part of the real estate allocation, and this is consistent across the respondent types. However, it should be noted that this preponderance of inclusive mandates may or may not be representative of the European investor universe.

For some European investors and managers, listed real estate is clearly part of the equity allocation. For others, there is some evidence that pension funds and consultants regard (or would like to regard) listed real estate as part of the real estate allocation. However, there is strong evidence to suggest that asset managers (with their greater experience of execution as well as a propensity for business unit separation) may not have developed a satisfactory integrated investment process.

Conclusions

Even though our sample of 56 institutions may not be representative of the full universe of investors, it is disappointing that 86% of our sample has failed to develop or recommend an integrated approach. Change is in the air, however, and the key drivers of sentiment that we uncovered appear to be as follows.

Compliance and risk regulation. Compliance related Issues can limit the appeal of the securities markets to a private real estate manager. Changes to solvency and other investment management regulations could have positive or negative effects on the attractiveness of listed real estate as the relative importance of volatility risk and liquidity play out.

Globalisation is an apparently irreversible trend. While we may see more investors confining themselves to domestic (and private) real estate, the majority are likely to continue to seek exposure to global markets. While the lack of control afforded by a listed exposure is a real problem for many larger investors, access to global markets is probably a bigger factor. Coupling this factor with the much smaller lot sizes available through listed markets suggests a strong positive drive towards the listed sector.

Education and skills (or a lack thereof) currently inhibit the use of listed real estate. Traditional real estate teams are not familiar with the different performance characteristics of listed companies and how to use real estate market research to choose between listed securities and private assets.

Peer group pressure. As hybrid schemes combining unlisted funds with listed portfolios gain Assets under Management it seems likely that more asset managers will seek to develop and offer similar solutions.

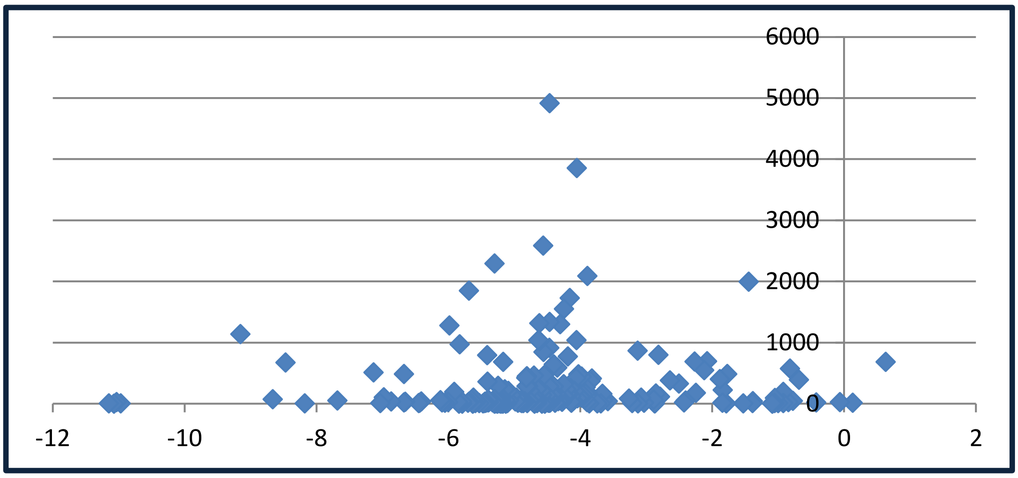
There is clear confusion regarding the importance of ***volatility*** and the relevance of the *investor's* ***investment horizon****.* In theory, most institutional investors have a long term investing horizon, so the annual volatility of listed real estate securities (and their short term correlation with other equities) should not matter - but it does, because performance is reported annually. It is by no means clear that this problem will go away.

Finally, ***liquidity*** is another positive for listed real estate. The trend toward defined contribution pension funds form defined benefit schemes requires more liquid and daily priced assets, promoting listed real estate over its private equivalent.

On balance, the wind is behind the increased popularity and use of listed real estate as part of an investor's real estate allocation.

Global Funds Performance

August 2013



Vertical axis Aum US $m

Horizontal axis monthly total return rebased in US$

Source: Consilia Capital, Bloomberg

Popular Benchmarks

Benchmark Index	Aug return %	Volatility %
FTSE EPRA/NAREIT Developed Index	-4.30	11.59

By Fund size

Fund	Average	Maximum	Minimum
Global large	-4.63	-1.45	-9.15
Global medium	-4.02	0.63	-8.47
Global small	-4.40	0.14	-11.03

Best Performing Funds

Global Large Funds > US $ 750m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Third Avenue Real Estate Value Fund	-1.45	2.23	9.25	1,992	Open-End
Vanguard Global exU.S. Real Estate ETF	-2.81	0.66	16.20	796	ETF
Morgan Stanley Global Property Fund	-3.13	0.78	13.29	866	SICAV
Morgan Stanley Global Real Estate	-3.89	0.60	13.31	2,087	Open-End
Dow Jones Int'l Real Estate ETF	-4.05	0.53	15.26	3,854	ETF

Global Medium Funds US $75m to US$750m Aum

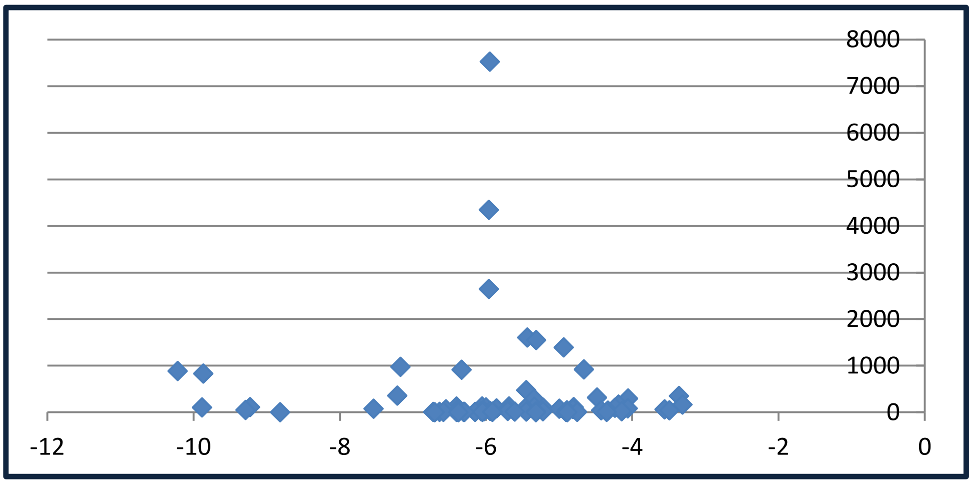
Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Standard Life Select Property Unit Trust	0.63	0.12	9.70	683	Unit Trust
Swiss Life Geschaeftsimmobilien Schwe	0.05	3.98	1.67	616	Open-End
IAM-Immo Securities Fund	-0.68	-0.43	7.04	391	FCP
DWS Sachwerte	-0.82	0.03	6.47	574	Open-End
Allianz Flexi Immo	-0.92	-4.38	2.12	192	Open-End

Global Small < US$ 75 Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Kenanga Global Real Estate Fund	0.14	1.02	9.37	12	Open-End
AllianceBernstein - Real Asset Portfolio	-0.06	-0.15	10.68	24	SICAV
Strategiefonds Sachwerte Global	-0.42	0.43	1.74	20	Open-End
RP Global Real Estate	-0.78	-4.14	1.43	44	Open-End
Strategiefonds Sachwerte Global	-0.84	0.14	3.28	22	Open-End

Global REIT Funds Performance

August 2013



Vertical axis Aum US $m

Horizontal axis monthly total return rebased in US$

Source: Consilia Capital, Bloomberg

Popular Benchmarks

Benchmark Index	Aug return %	Volatility %
S&P Global REIT Index	-5.61	11.67

By Fund size

Fund	Average	Maximum	Minimum
Global REIT large	-6.53	-4.66	-10.22
Global REIT Medium	-5.58	-3.31	-9.89
Global REIT Small	-5.21	-3.49	-6.29

Best Performing Funds

Global REIT Large Funds > US750m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Nomura Global REIT Open	-4.66	1.31	14.98	917	Fund of Funds
DLIBJ DIAM World REIT Income Open	-4.94	1.29	15.96	1,392	Fund of Funds
Sumitomo Mitsui Global REIT Open	-5.31	1.24	16.23	1,545	Fund of Funds
Daiwa Global REIT Open Fund	-5.43	1.33	16.73	1,605	Fund of Funds
Nikko LaSalle Global REIT Fund	-5.95	1.30	17.09	7,521	Fund of Funds

Global REIT Medium Funds US$75m to US$750m Aum

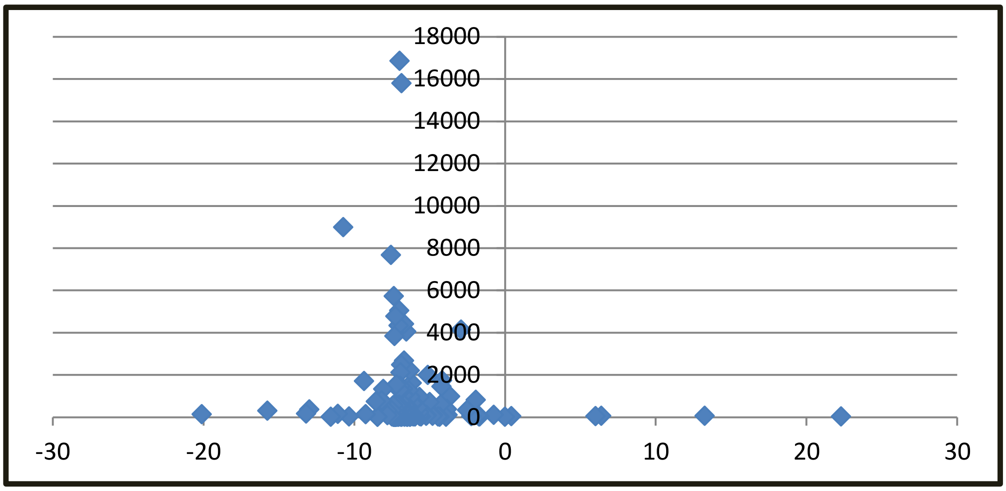
Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Hana UBS Global REITs Fund of Funds	-3.31	0.81	10.88	164	Fund of Funds
LGT Select REITS	-3.36	0.75	11.85	347	Open-End
Yuanta Polaris Global REITs Fund	-4.06	1.36	11.23	292	Unit Trust
JPMorgan Global Real Estate Master	-4.06	0.30	11.64	80	Fund of Funds
Daiwa Developed Market REIT Alpha	-4.24	1.23	13.51	96	Open-End

Global REIT Small Funds <US$75m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Capital Global REIT Balanced Fund	-3.49	0.26	8.76	21	Unit Trust
Mitsubishi UFJ REIT Fund	-3.56	1.53	17.79	29	Fund of Funds
FSITC Global REITs Fund	-4.33	0.54	12.14	25	Unit Trust
Samsung Global REITs Real Estate	-4.35	0.57	10.60	56	Fund of Funds
ING Global REITs Fund	-4.42	0.29	11.41	25	Unit Trust

US Funds Performance

August 2013



Vertical axis Aum US $m

Horizontal axis monthly total return rebased in US$

Source: Consilia Capital, Bloomberg

Most Popular Benchmarks

Benchmark Index	Aug return %	Volatility %
Dow Jones US Select REIT Index	-6.86	14.68

By Fund size

Fund	Average	Maximum	Minimum
US Large	-6.89	-4.16	-10.72
US medium	-7.17	-0.74	-20.10
US small	-4.97	22.29	-10.33

Best Performing Funds

US Large Funds - Over US $1bn Aum

Fund	Aug return %	Sharpe Ratio	Volatility%	AUM US$	Type
Fidelity Real Estate Income Fund	-2.90	0.93	5.52	4,122	Open-End
Forward Select Income Fund	-4.20	0.90	6.61	1,439	Open-End
SPDR S&P Homebuilders ETF	-5.12	1.43	23.67	1,987	ETF
CGM Realty Fund	-6.18	-0.24	16.06	1,600	Open-End
Invesco Real Estate Fund	-6.31	-0.03	15.49	2,202	Open-End

US Medium Funds US$100bn to US$1bn Aum

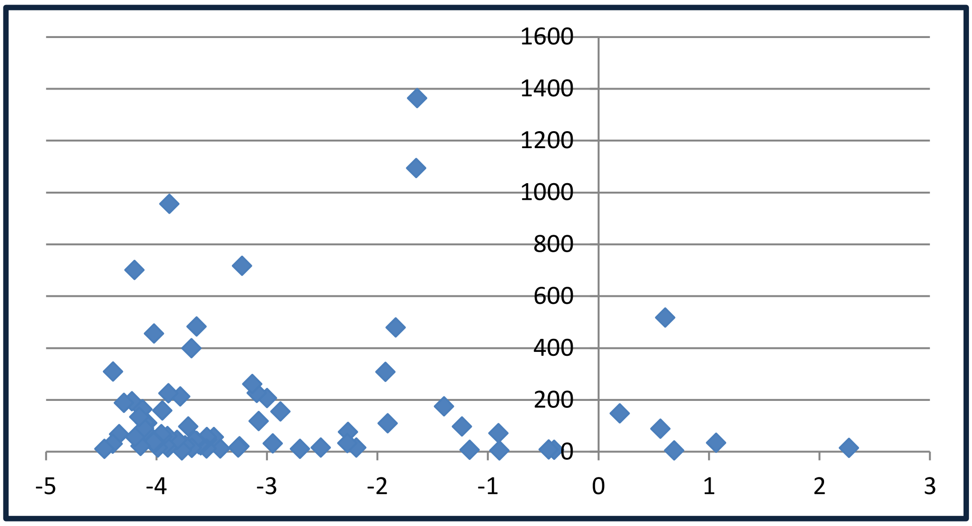
Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Fidelity Series Real Estate Income Fund	-1.93	1.32	3.32	806	Open-End
iShares Mortgage Real Estate Cap ETF	-3.63	-0.43	19.34	972	ETF
CBRE Clarion Long/Short Fund	-4.24	-0.31	8.12	591	Open-End
Nomura Nichibei REIT Fund	-5.00	1.42	17.43	704	Fund of Funds
Neuberger Berman Real Estate Fund	-5.68	-0.16	13.62	945	Open-End

US Small <Under US$100m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Direxion Daily Real Estate Bear 3x Shar	22.29	-0.20	42.44	15	ETF
ProShares UltraShort Real Estate	13.25	-0.12	28.11	57	ETF
ProFunds Short Real Estate ProFund	6.38	-0.22	14.33	53	Open-End
ProShares Short Real Estate	6.00	-0.15	14.33	39	ETF
Cole Real Estate Income Strategy Daily N	0.42	#N/A N/A	#N/A N/A	44	Open-End

European Funds Performance

August 2013



Vertical axis Aum US$m

Horizontal axis monthly total return rebased in US$

Source: Consilia Capital, Bloomberg

Most Popular Benchmarks

Benchmark Index	Aug return	Volatility %
FTSE EPRA/NAREIT Dev'd Europe Index	-3.77	12.47

By Fund size

Fund	Average	Maximum	Minimum
Europe medium	-3.05	0.61	-5.31
Europe small	-3.42	2.27	-5.25

Best Performing Funds

European Medium Funds > US$ 75m Aum

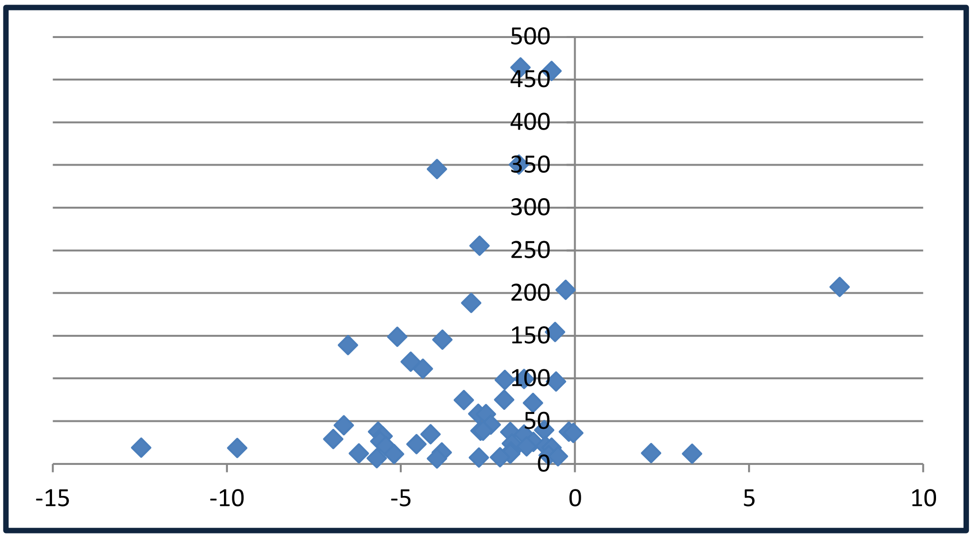
Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
UBS CH Institutional Fund -	0.61	-0.29	7.77	517	Open-End
F&C Property Growth & Income Fund	0.56	0.53	7.54	88	Open-End
Mi-Fonds CH - SwissImmo	0.19	-0.48	6.72	147	Open-End
Insinger de Beaufort Umbrella Fund	-1.24	0.99	7.40	97	Hedge Fund
DJE Real Estate	-1.40	-5.18	2.08	175	FCP

European Small Funds <US$75m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
F&C Longstone Fund Ltd	2.27	n/a	4.26	14	Hedge Fund
Fima Proprius Inc	1.06	n/a	41.57	34	Closed-End
SVA-Swiss-Invest	0.69	-0.82	4.99	5	Open-End
Baring Multi-Manager Funds PLC -	-0.40	0.82	10.53	7	Open-End
UBS ETF CH-SXI Real Estate CHF	-0.45	-0.78	6.63	8	ETF

Asian Funds Performance

August 2013



Vertical axis Aum US$m

Horizontal axis monthly total return rebased in US$

Source: Consilia Capital, Bloomberg

Most Popular Benchmarks

Benchmark Index	Aug return %	Volatility %
EPRA NAREIT Asia Total Rtrn Index USD	-0.55	15.76

By Fund size

Fund	Average	Maximum	Minimum
Asian medium	-1.93	7.60	-6.52
Asian small	-3.04	3.37	-12.45

Best Performing Funds

Asian Medium funds >US$75m Aum

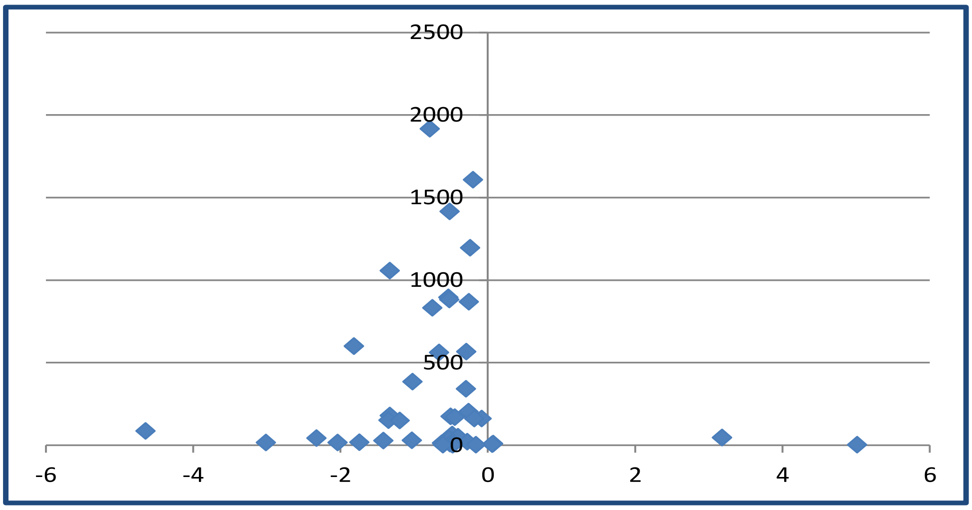
Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
UBS SDIC SHSZ300 Finance Real Estate	7.60	0.45	31.55	207	Open-End
Australian Unity Property Income Fund	-0.54	1.73	3.92	96	Unit Trust
CSIF Asia Real Estate Index D	-0.57	0.85	16.83	154	Open-End
Morgan Stanley Asian Property Fund	-0.67	0.96	17.03	460	SICAV
Henderson Horizon - Asia-Pacific	-1.57	1.05	17.09	464	Open-End

Asian Small funds < US$75m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
db x-trackers CSI300 REAL ESTATE	3.37	0.92	29.36	11	ETF
Lippo Select HK & Mainland Property	2.19	n/a	n/a	12	ETF
Guggenheim China Real Estate ETF	-0.05	0.82	19.46	36	ETF
Avadis Anlagestiftung - Immob Asien	-0.17	0.66	17.65	37	Open-End
BOCHK Investment Funds - Asia Pacific	-0.20	0.98	14.21	1	Unit Trust

Japanese Funds

August 2013 Performance



Vertical axis Aum US$m

Horizontal axis monthly total return rebased in US$

Source: Consilia Capital, Bloomberg

Most Popular Benchmarks

Benchmark Index	Aug return %	Volatility %
Tokyo Stock Exchange REIT Index	-0.46	23.88

By Fund size

Fund	Average	Maximum	Minimum
Japanese large	-0.75	-0.20	-1.82
Japanese medium	-0.98	-0.08	-4.64
Japanese small	0.36	5.01	-0.48

Best Performing Funds

Japanese Large funds > US$500m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Nissay J-REIT Fund - Monthly Dividend	-0.20	1.18	25.53	1,607	Fund of Funds
Nomura Japan Real Estate Fund	-0.24	1.27	25.40	1,196	Open-End
Shinkin J REIT Open - Monthly Dividend	-0.26	1.16	25.15	869	Fund of Funds
MHAM Mizuho J-REIT Fund	-0.29	1.19	25.61	567	Fund of Funds
Shinko J-REIT Open	-0.52	1.16	24.55	1,416	Fund of Funds

Japanese Medium funds<US$500m >US$75m Aum

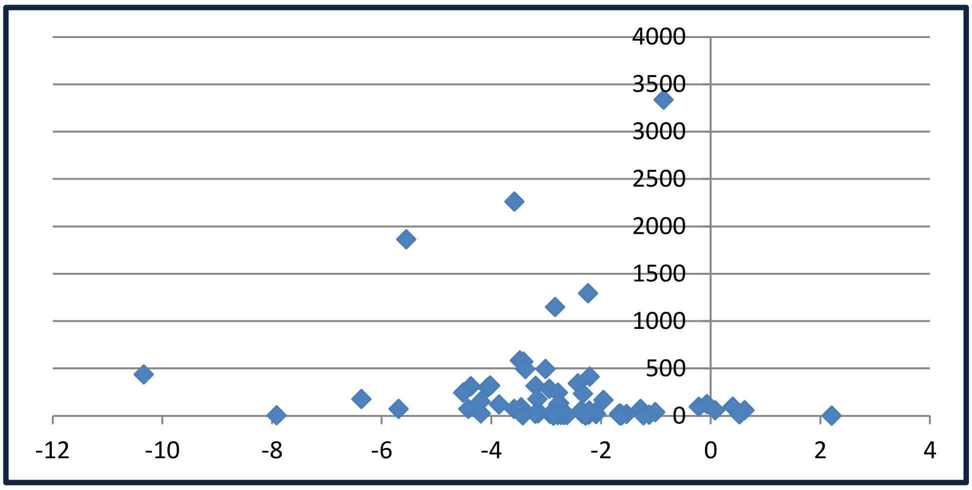
Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Nomura J-REIT Open	-0.08	1.23	25.08	162	Fund of Funds
Nissay J REIT Open	-0.18	1.18	25.55	162	Open-End
Okasan J REIT Open	-0.26	1.16	24.20	203	Fund of Funds
MHAM J-REIT Active Open	-0.30	1.20	25.51	342	Fund of Funds
Daiwa Fund Wrap J-REIT Select	-0.44	1.19	24.70	169	Open-End

Japanese Small funds < US$75m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Daiwa ETF TOPIX-17 Real Estate	5.01	n/a	n/a	3	ETF
Nomura NEXT FUNDS TOPIX-17	3.18	2.08	39.84	46	ETF
Meiji Yasuda JREIT Strategy Fund	0.07	1.45	22.20	10	Open-End
J-REIT + Strategy Fund/JAAM	0.06	0.87	12.89	6	UIT
Daiwa SB SMBC Fund Wrap J-REIT	-0.16	1.13	25.02	3	Fund of Funds

Infrastructure and Real Asset Funds

August 2013 Performance



Vertical axis Aum US$m

Horizontal axis monthly total return rebased in US$

Source: Consilia Capital, Bloomberg

Most Popular Benchmarks

Benchmark Index	Aug return %	Volatility %
D Jones Brookfield Global Infra Tot Rtn	-3.66	10.36

By Fund size

Fund	Average	Maximum	Minimum
Global infrastructure medium	-3.73	-1.95	-10.34
Global infrastructure small	-2.74	0.53	-5.69
Real assets	-1.21	0.62	-2.67

Global Infrastructure Medium >US$150m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Robeco Capital Growth - Infrastructure	-1.95	1.15	13.96	167	SICAV
Macquarie International Infrastructure	-2.21	1.94	8.54	412	Unit Trust
First State Global Listed Infrastructure	-2.23	1.12	10.68	1,293	OEIC
Shinko Global Infrastructure	-2.33	1.46	9.53	232	Open-End
BlackRock Utility and Infrastructure	-2.42	-0.22	13.83	342	Closed-End

Global Infrastructure Small < US$150m Aum

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Hua Nan Global Infrastructure Fund	0.53	0.81	12.89	13	Unit Trust
Hana UBS Global Infra Securities	0.09	1.15	6.74	57	Fund of Funds
UBS Lux Equity Fund - Infrastructure	-1.01	1.84	11.36	37	FCP
KDB S&P Global Infra Securities	-1.22	0.66	8.97	4	Unit Trust
Exemplar Global Infrastructure Fund	-1.54	2.10	14.29	18	Open-End

Real Assets Funds

Fund	Aug return %	Sharpe ratio	Volatility %	AUM US$m	Type
Real Assets Investimento	2.21	0.08	14.46	1	Fund of Funds
Ofi MultiSelect - Lynx Real Assets	0.62	-0.50	10.24	57	SICAV
Huntington Real Strategies Fund	0.41	0.19	12.09	95	Open-End
IM Russell ICVC - Real Assets Fund	-0.07	0.14	6.95	122	Open-End
Cohen & Steers Real Assets Funds Inc	-0.21	-0.53	9.11	96	Open-End

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