The Actuarial Profession
making financial sense of the future

Future trends and influences on property investment

Simon Jones

From where we were…

- Property was historically used as a diversifier by pension schemes, but diversification benefits reduced
- Loss of liquidity between 2007 and 2010 caused concern to investors
- Highlighted that what investors wanted was diversification but with control
- Transparency of investment also important

Focus on de-risking?

De-risking or planning the route to the end-game is being increasingly considered., but the time horizon is likely to be decades for many schemes.

But investors have sought to use long-lease property as a bond substitute…
…could property form part of a de-risked strategy?

Trustees of closed DB schemes should investigate de-risking quickly
MetLife Assurance, 14/09/10

Increased demand for pension scheme buyouts
Employeebenefits.co.uk, 20/09/10

Rubenstein urges schemes to de-risk more quickly
Professional Pensions, 30/09/10

The rise of fiduciary management

Investment governance is of ever increasing importance and the focus for many is on ensuring decisions are taken effectively.

Fiduciary management may not be a panacea, but it is an attractive option

Fiduciary management serious option for many schemes
NAPF Conference, 2010

MNOPF appoints Towers Watson to delegated CIO role following review
Professional Pensions, 04/10/10

Fiduciary management outperformed during financial crisis, says P-Solve
IPE, 23/09/10

Cookson hires BlackRock for all-in pensions management
Financial News, 04/10/10

Fiduciary management - No longer niche
Professional Pensions, 01/04/10

The future is DC

Concepts born in DB pension provision – diversification, rotation, hedging – are relevant to the DC strategy of tomorrow

Multi-asset funds are likely to become the default strategy for DC. Property specific options are still likely to exist, but what do individuals want?

Members now realise that equities are much more volatile than previously thought and, because retirement dates are no longer set in stone, staying invested in high-risk strategies is a gamble.
Professional Pensions, 30/09/10

…there is an implicit assumption that someone is looking after them [lifestyle funds] when markets go bad…Diversified growth or absolute return funds fit that mind set.
Professional Pensions, 30/09/10

Asset managers responding to a survey recommended dynamic asset allocation solutions, advice so far ignored by most defined contribution pension schemes.
FT.com, 03/10/10

Beyond the trends

- Focus on more active asset allocation
- Increasing delegation of investment decisions
- Fewer, more expert, decision makers
- Product providers will need, more than ever, to understand the needs of their institutional customers

Implications for property investment

- Property held through a multi-asset framework
- Investors more specific in their requirements
- Differing methods of access to property
  - Synthetic; Bricks and Mortar; REITs
- Specialism in mandate design/portfolio structure
  - Sectors; Geographies; Structures
- How important is liquidity?

The new property mandate?

- Investors want liquidity and the ability to control market exposure
- Delegate asset allocation responsibility to the property manager within the mandate
- Broaden the range of “property-like” assets that can be held

	Allocation
Property (Bricks & Mortar)	50-70%
Property Equity	0-30%
Property bonds	0-20%
Cash/synthetics	0-30%

Through the looking glass

Property managers back derivatives fund launch
Investment Week, 04/10/10

L&G annuities arm gets first real estate exposure
IPE Real Estate, 04/10/10

Former pension fund adviser to run 'liquid' global real estate fund
IPE Real Estate, 27/09/10

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.