

REAL ESTATE CAPITAL

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Monthly intelligence
for the real estate
finance markets

Companies in this issue

Aberdeen Property Investors	14
Aegon Asset Management	6
Anglo Irish Bank	10
Aviva	12
AXA REIM	12-14
Barclays	18-20
Blackrock	3
Castlemore Securities	10-11
CB Richard Ellis Investors	13-14
CBRE-GFI	3
CMSA	5, 28
Delancey	10-11
Deutsche Bank	8
DTZ	8-9
Fitch Ratings	5
Goodman	5
ICAP	15, 16
Invista Real Estate	8
HSBC	3
ING	6, 14
IPD	12-14, 16-17
Knight Frank	4
Land Securities	5
Legal & General	3, 12-14, 15
Liberty	5
Moorfield	5
Morgan Stanley	12
NAMA	5
Propinvest	10-11
PRUPIM	12-15, 16-17
Royal Bank of Scotland	10-11, 12
Rugby REIT	6
Schroders	4
SWIP	13-14
Terrace Hill	6
Three Delta	3
Valad Property Group	9
WestImmo	4

Three investors back derivatives fund that aims to track IPD returns, amid signs that more fund managers are warming to synthetic market

Major fund managers back InProp derivatives vehicle

InProp Capital has secured three cornerstone investors for a commercial property fund that will use the synthetic market to track IPD.

InProp Capital partner Paul Ogden said three “major real estate investment management firms” are in the final stages of due diligence to invest a total of more than £50m.

“The launch size is not terribly relevant because the fund is completely scaleable,” Ogden said.

Ogden has developed the ungeared, open-ended InProp UK Commercial Property Fund over 18 months with two other partners who were the core of Bank of America’s property derivatives desk.

It will invest in property index futures and gilts to provide returns with a better property tracking error and lower volatility than REITs, and greater liquidity and lower costs than property unit trusts.

The investors’ principal will be held in gilts and access to property gained via futures contracts. Liquidity will be monthly with no bid-ask spread, a tradeable net asset value and no subscription or redemption fee.

Ogden said: “It is a good product for investors such as hedge funds, which are used to dealing across asset classes. It could have a wide audience.”

Richard White, co-head of Knight Frank Investors, said he had clients who were interested in going into the fund. “For IPD benchmarked funds, IPD is hard to beat because of the frictional costs,” he said. “InProp Capital aims to track IPD with a 2% tolerance, and at times to outperform. It will be a good, liquid way to access commercial property, giving investors correlation benefits.”

The fund’s launch could be another step

towards making property derivatives more mainstream. Volumes in the most frequently traded synthetic product, over the counter IPD All Property swaps, declined last year.

But there are signs that more property fund managers are showing interest. Aviva Investors and CBRE Investors aim to set up platforms by Q3.

Head of strategy David Skinner said Aviva has used property derivatives at asset allocation level “mainly for life funds, but we are working to enable open-ended, closed-ended and some pension fund mandates to use them. Uses could include cash and liquidity management and efficient portfolio management.”

Another recent innovation was the £100m IPD sub-sectors trade carried out between PRUPIM and Royal Bank of Scotland. RBS used its own balance sheet to take on all the risk. “It was cracking open that sub-sector area where trades have been few and far between,” said Phil Ljubic, RBS’s head of property derivatives.

He said the bank had traded on two £5m-plus positions since and hopes “to take new risk positions as well as offset these”.

See special feature on derivatives, pp12-17



Ogden: derivatives fund “is a good product for investors such as hedge funds, which are used to dealing across asset classes. It could have a wide audience”

Analysis Bridging the gap

New equity is needed for a quarter of debt set for refinancing by 2011 *page 8*

Special report Synthetic engineering

Fund managers gear up to use property derivatives *page 12*

Derivatives

Special report

Also in this section:

Game on 15

LGP uses trading game to get staff up to speed on property derivatives

Shifting the balance 16

PRUPIM deal pioneered use of sub-sector trades to rebalance fund

More fund managers say they are gearing up to embrace property derivatives, reports *Jane Roberts*

Slowed derivatives market needs reboot from big funds

Last year was a difficult one for banks and brokers operating in property derivatives, as they made clear at IPD's property derivatives conference in London on 22 March. "It wasn't a great year and goodness knows, 2010 hasn't been either," said Tradition Property broker Peter Sceats.

IPD UK swap trading volumes fell from £7bn in 2008 to £2.7bn in 2009. Q1 2009 was the low point, at £554m, and the market had recovered to £907m by Q4 09, but Q1 2010 is not expected to be hugely up on this when the figures are released on 1 May.

Banks' financial problems took their toll on the property derivatives market. A few, including Deutsche Bank, Royal Bank of Scotland and Santander, are committed and busy. But US banks such as Merrill Lynch, Morgan Stanley and Goldman Sachs, which were active in the market from 2006 to 2007, pulled out or cut back in 2008.

Bank of America and ING infamously hired teams in 2008 only to fire them soon afterwards.

So it was encouraging to hear Benoit Pinguet, Morgan Stanley's head of property derivatives trading, tell IPD's conference that bank liquidity is available and Morgan Stanley has the capacity to warehouse risk. Like other bankers and brokers at the conference, he pleaded for more property investors to use the market.

"I'd like to defend the banks," he said. "There is over-capacity for trading property derivatives, which is not being used. Banks have the ability to take risks and they have knowledge of people who aren't trading, because they think there is no one on the opposite side. There is capacity – so use it."

The comments of Sceats, Pinguet and



Barrie:
"Property derivatives are a core part of our strategy [at Legal & General]. We see this as the future for open-ended funds"

others reflected disappointment at lower-than-expected take up of derivatives by property investors and others carrying property risk.

Opening speaker Rawle Parris of the Investment Property Forum's Property Derivatives Interest Group (PDIG) summed up who is, or ought to be, in the market. "The obvious buyers are unit-linked funds, private banks giving private clients access to property, or property companies using it in a tactical way," he said.

The likely sellers, either because they want less property return on their books, or do not want to give up ownership of assets, include banks, retailers and insurers.

Big disappointment

Perhaps the biggest disappointment has been how slow property fund managers have been to embrace the synthetic market. "If there's one point to make, it's that end users need to become more active," Sceats said. "Like Kevin Costner in [the film] *Field of Dreams*, we thought: 'If you build it, they will come'.

"That's what we thought in 2006, when we held the Hermes trading game [to explain how derivatives work] and there were 630 people in the room. We did build

it, but not quite enough people came."

Fund managers are interested in the market's possibilities and the range of strategies derivatives can be used for (see table, p13), but in terms of active trading, they appear to fall into several different camps.

Some property fund managers are part of large investment management houses with access to derivative expertise from their parent group. Generally these houses had the infrastructure to trade swaps as well as structured notes early in the development of property derivatives, and several did.

This group included Aviva (Morley Fund Management, as it was then), Prudential and Standard Life, which traded swaps at an asset allocation level in 2006-07. They sold hundreds of millions of pounds of UK property exposure each, at favourable pricing, before values started to crash.

Since then, they have been less active, although Prudential has continued to develop its use of property derivatives. Pru's property investment management business, PRUPIM, led by head of property research Paul McNamara, developed its expertise at property fund level, used different strategies for several funds and last year appointed Will Robson to director of property derivatives.

PRUPIM's latest innovation was a £100m swap deal with RBS involving paired sub-sector trades, which it hopes will help to kick-start sub-sector trading, while adding value to the fund that traded (see pp16-17).

Other big houses have been less active. Anne Breen, head of property research at Standard Life, said the fund manager had the internal processes to trade at property fund level but hadn't traded at all since

2008. She cited unfavourable pricing as the main reason, but added: "In future we might use derivatives for sub-sector trades."

David Skinner, head of strategy at Aviva Investors, said so far only the Aviva life funds had traded derivatives, but the intention is to be ready for more funds to be able to trade very soon (see news).

AXA Real Estate Investment Managers is strong in France, where, in 2006, it hedged the office market for three years in a €100m derivatives deal for one client.

Laurent Jacquemin of the corporate finance team admitted at the conference that they have been quiet since then, but Andrew Long has just been appointed to AXA's UK research team to draw up a derivatives strategy. Long is not in a position to comment yet, but aims to publish a strategy by the end of May.

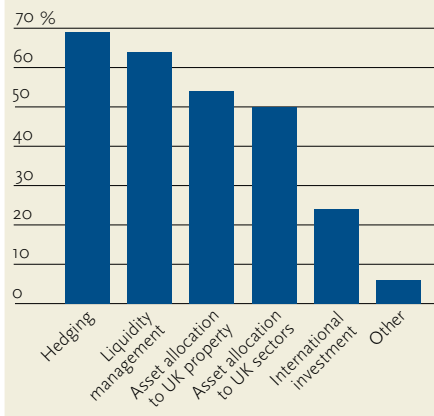
Legal & General Property (LGP) is a late entrant to the synthetic market compared with its peer group, but since launching a capability to use property derivatives last June it has traded more than £300m across several funds, for short-term liquidity management and long-term hedging.

The fund manager missed the chance to go short in early 2007, but did benefit from going long in mid 2009.

At the IPD conference, LGP director Michael Barrie said that even with plenty of support from parent Legal & General Investment Management, the set-up time and "the operational aspects of derivatives cannot be understated" – particularly putting in place the International Swaps and Derivatives Association agreements and processes needed to trade, monitor

Future uses for derivatives

Most delegates rated hedging and liquidity management as the top uses for derivatives



SOURCE: IPD CONFERENCE VOTE

and value swaps and counter parties.

Part of the process at LGP involved setting up a trading game for staff (see p15).

"We can now debate a trade and make the decision the same day," he says. "Property derivatives are a core part of our strategy. We see this as the future for open-ended funds and if you don't have this capability, you could be at risk in terms of liquidity management and performance."

Opportunities are fleeting

Ben Hyams from broker CBRE-GFI said at the conference that fund managers like PRUPIM and LGP were still unusual: "You need specialist people in-house, because the opportunities come up quite fleetingly and you need to be ready when they do."

Specialist property fund managers such as CBRE Investors face additional challenges.

Kieran Farrelly of the multi-manager team says: "PRUPIM and LGP have derivatives trading infrastructure in-house for other asset classes. We have had to build the operational structure specifically for real estate derivatives."

CRBEi has traded £90m or so in property derivatives through structured notes, including one PIC (Property Income Certificate), plus one swap.

But Farrelly says CRBEi is "getting ready from Q3 this year to make greater use of property derivatives across various mandates" should the right opportunities arise. "We see three main uses: long-only exposure as an alternative to unlisted funds if a derivative is cheaper; hedging market exposure if we anticipate market falls; and for short-term liquidity management."

He adds: "We wanted to be clear about how the market was going to price, settle down and function. Now we have got our perspective on how these instruments should be priced."

"We don't believe in an implied forecast in the pricing; a REIT trades at a discount or a premium to net asset value and a derivative market price at the short-end of the curve should reflect something similar, with NAV being the most recent IPD index valuation. Longer-term pricing should probably be at a premium to Libor, which reflects the round-trip costs associated with direct property investment."

More fund managers have used structured notes than swaps, including Scottish Widows Investment Partnership, which bought a PIC in 2005 to help reduce the 20% cash drag on its main unit-linked property fund. ▶

Property derivative trading strategies

Derivatives offer a range of strategies for fund managers, but most have yet to embrace all these possibilities

Strategy	Application	Product
Risk management	Limit downside potential	Over-the-counter (OTC) swaps, structured notes, futures and options on REITs and indices
Diversification	Property returns have a low correlation to equities and bonds, and act as a good portfolio diversifier	OTC swaps, structured notes, Eurex IPD UK All Property Futures
Trading the value gap	Trade the yield differential between property types due to time lag	OTC swaps, structured notes, Eurex IPD UK All Property Futures
Inflation hedging	Real estate acts as a partial long-term hedge to inflation – especially residential	OTC swaps, structured notes, residential forwards, Eurex IPD UK All Property Futures
Residential exposure	Gives exposure without the management burden	Structured notes, residential forwards
Timing: market entry/exit	Instantaneously get into/out of market, so you can avoid cash drag, manage redemptions and take advantage of pricing discrepancies	OTC swaps, structured notes, futures and options on REITs and indices, Eurex IPD All Property Futures
Asset allocation/reallocation	Adjust sector and geographic weightings	OTC swaps, structured notes, futures and options on REITs and indices, Eurex IPD UK All Property Futures
Retention of trophy assets	Retain key assets in the direct market by selling exposure through a derivative product	OTC swaps, structured notes, Eurex IPD UK All Property Futures
Hedging	Managing portfolio positions	OTC swaps, structured notes

SOURCE: CUSHMAN & WAKEFIELD, BGC

SWIP, led by Stewart Cowe, is also in a transition period regarding derivatives and is preparing to trade swaps, partly as another tool for managing liquidity. Gerry Ferguson, manager of the £1.9bn SWIP Property Unit Trust, who attended the IPD conference, recently won consent from the trust's investors to trade derivatives.

Aberdeen Property Investors has also used structured notes a number of times, but has no open positions and has yet to trade swaps. Morgan Angus, a fund manager in the separate account mandates team, says: "This is due to a lack of client demand for those products, but its certainly something we will continue to look at."

Aberdeen was interested in PRUPIM's sub-sector trade and Angus thinks using derivatives to rebalance portfolios "will be a big area for us. Long-only fund managers would use this strategy the most for direct portfolios, as it is a perfect way to rebalance a portfolio quickly and easily without all the issues of the direct market. We are in a position for a number of clients to do it, but just haven't found the right trade yet."

In the early days of property derivatives, Angus says banks and brokers under-estimated how long it took to present a proposed trade to pension fund clients. "It could take



Angus: derivatives are "a perfect way to rebalance a portfolio quickly and easily without all the issues of the direct market"

six months, and by then it is not the same proposition. You need to get into the position where you don't have to do that."

However, CBRE's Farrelly says clients' views on property derivatives have changed a lot. "We have been getting in new clients with permission to use derivatives, rather than including derivatives in the investment restrictions."

Local authorities look to derivatives

Richard White, a director of Knight Frank Investment Management, adds: "Local authority pension fund clients, for example, have very strict rules about how their funds can use derivatives. But over the past six months, in every pitch we've done to local authorities, they have made provision for using derivatives."

IPD conference delegates said they were most likely to use derivatives for liquidity management or hedging (see chart, p13).

Charles Ostroumoff, a trader at bgc, which has a property derivatives joint venture with Cushman & Wakefield, says: "You can't just be long-only in these uncertain times. Views in the market now are far from unanimous.

"The other big issue for fund managers is that they've been given all this money to invest and there is no product, so they have cash drag. One way to get the money invested is via a derivative."

With these trends, it seems likely that more specialist real estate managers will become active. But there is a third category who either haven't used derivatives or who preferred not to say anything publicly about their capabilities (see table below).

Tony Yu of ING UK Select, ING's UK fund of funds business, who has also been involved with PDIG, says: "Derivatives are still not actively used by property fund managers, but managers that can harness all property instruments will have an advantage.

"People will change their minds if we go into another downturn, values fall again and managers find they are 10%-20% down. Those who have hedged property risk will then find themselves outperforming."

Property fund managers' derivatives use

PRUPIM and LGP have been active lately, but other managers have retreated from the market after initial bursts of activity in 2007-2008

Fund manager	Contact	Used structured notes	Traded swaps	Comments
Aberdeen Property Investors	Morgan Angus	Yes	No	Has no open positions and hasn't traded swaps. But it is looking at swaps trading and following sub-sector pricing
Aviva Investors	David Skinner	Yes	Yes	Life funds have traded swaps and notes; plans to widen range of funds using derivatives by Q3
AXA Investment	Andrew Long		Yes	AXA sold €100m of exposure to French offices via a three-year swap in December 2006. Long joined last month and will publish new strategy at the end of May
CBRE Investors	Kieran Farrelly	Yes	Yes	CBREi has bought two notes and inherited a swap worth around £90m. Plans to be ready to trade swaps by Q3
F&C REIT	Paul Herrington	No	No	Not active. Not set up to trade
Hermes	Chris Matthew		Yes	Thought to have traded at asset allocation level, but not at the property fund level
ING REIM	Tony Yu	Yes	No	Bought around £100m of notes in past five years, but not using swaps yet
Invista	Mark Long			Not trading, but looking at setting up ability to trade
LaSalle IM	David Baskeyfield	n.a	n.a	Does not wish to comment
Legal & General Prop.	Phil Bayliss	Yes	Yes	Made trades worth £300m since setting up derivatives platform last June
PRUPIM	Will Robson	Yes	Yes	Active user since Jan 2007 when hedged 10% of life fund. In 2008 bought note to improve one fund's income return; rolled swap to smooth return in an open-ended fund; £100m sub-sector paired trades in Dec 2009
Scottish Widows	Stewart Cowe	Yes	No	Bought three notes for £1.1bn Unitised Fund; last one expired in March. Gearing up for more flexibility to trade, including for £1.9bn SWIP PUT
Standard Life	Anne Breen	Yes	Yes	Active in 2007-08 for main life fund; £400m hedge using swaps in 2007 and £50m long in 2008. Used swap to increase French exposure in 2007. Hasn't traded since 2008

SOURCE: REAL ESTATE CAPITAL

A six-month trading simulation has got Legal & General managers up to speed on derivatives

LGP's managers hone their skills in the derivatives game

"We took a big chunk of 2009 to get everything in place," says Mike Barrie, director of balanced property funds at Legal & General Property, recalling the months of preparation before the launch of LGP's flexible platform for trading property derivatives, including swaps.

He says challenging aspects included "the risk management structures, acceptable levels of margins, how to analyse trades, and considering different strategies".

As one of two FSA-approved senior staff (head of property Bill Hughes is the other), Barrie had a lot of input to the project, but much of the leg-work was co-ordinated by Phil Bayliss, who joined LGP's finance team in 2008 as a business analyst but is now its point of contact for all derivatives matters.

With input from Paul Rostas and David Hunt at broker ICAP, Hughes, Barrie and Bayliss set up a game to teach colleagues about IPD All-Property swaps trading.

Nineteen fund managers and asset managers from LGP's 60-strong property fund management team took part in the exercise from July to December 2009.

Each player had a notional £200m to trade. Bayliss sent them weekly sheets with LGP's house view on returns, plus updated derivatives pricing, checked for credibility by L&G's front office operation. The sheets included space for players' views about investment returns, to compare with the derivatives market pricing to see whether contracts were a buy or sell.

Each participant could trade once a week

Derivatives learning curve offers long and short lessons

The players in LGP's trading game were also ranked by sharpe ratios, to monitor how much risk they were taking – a key lesson, as managers can generally only increase returns if they don't increase risk profiles.

LGP predicted a sharp rally in the short end of the derivatives curve and, says LGP director of balanced property funds Mike Barrie, "proved to have a very good grasp

of value in the market". The fund managers' skills and knowledge of real estate "directly translated to profitable trading in the short end of the curve".

The long end of the curve is far more strategic and less driven by day-to-day market events. The spreads in pricing were quite big at the long end, "so even that was teaching people the difference between short and longer-term pricing" he says.

and go long or short on contracts from 2009 to 2014, with all contracts assumed to incorporate pricing from December 2008. A weekly league table was circulated.

"Not everyone traded all £200m but there was a rush towards the end, as players tried to improve their positions," Barrie says.

Winner Charlie Tweddle made £35m going long on 2009 and 2010, while 17 of the 19 players finished in profit. The average profit per player was £15m. The worst performer was -12% down at the December 2009 closing date. Barrie admits, somewhat sheepishly, to finishing the game in a respectable sixth place.

Conviction needed

One lesson the game players learned was the need for conviction and to act decisively: the scale of trades needs to have a sufficient impact on the portfolio and positions must

be actively managed – those who monitored their positions closely performed best.

Barrie says this has been borne out in the real trades LGP began last year (see previous feature). The first real swaps trade occurred two weeks before the game started, when Barrie went long £10m on the IPD All-Property index, at a price of -13.57%, for LGP's open-ended property unit trust. Two weeks later the price had moved to -11.3%, showing the importance of moving quickly with the courage of your convictions.

"I was betting against our house view, which at the time was -17%," Barrie admits.

But he adds that whether a trade is short or long-term "if you believe something is happening, you need to make rapid decisions and get them authorised. We have debated and made decisions on the same day. Significant trading opportunities exist if a fund has the flexibility to capture them."

IPD All Property total return pricing comparison*

Indications of whether to buy or sell were worked out by considering the difference between players' views of pricing and derivatives market pricing

Year	Your view		House view		Derivatives market		Difference			
	Calendar %	Comp annual %	Calendar %	Comp annual %	Calendar %	Comp annual %	Calendar %	Buy/Sell	Calendar %	Buy/Sell
2009	-1.00	-1.00	-7.70	-7.70	-4.40	-4.40	3.40	Buy	3.40	Buy
2010	10.00	4.36	7.00	-0.62	9.36	2.25	0.64	Buy	2.11	Buy
2011	4.00	4.24	1.50	0.08	9.15	4.50	-5.15	Sell	-0.26	Sell
2012	9.00	5.41	7.90	1.98	8.97	5.60	0.03	Buy	-0.19	Sell
2013	8.00	5.92	10.70	3.67	8.89	6.25	-0.89	Sell	-0.33	Sell
2014	10.00	6.59	11.20	4.89	9.29	6.75	0.71	Buy	-0.16	Sell

SOURCE: LEGAL & GENERAL * The numbers used in this example are fictional

A £100m PRUPIM deal in December showed how funds can be rebalanced via sub-sector trades

PRUPIM shifts the balance in a sub-sector breakthrough

PRUPIM's £100m series of matched sub-sector property derivative trades last December was hailed as a breakthrough, because there had been hardly any sector or sub-sector activity in the synthetic market.

So there was great interest in hearing about the strategy behind the trades when Will Robson, PRUPIM's director of property derivatives, made a presentation called 'Rebalancing segment exposure' at the IPD derivatives conference on 22 March.

PRUPIM has not revealed which fund was being rebalanced, or which sub-sectors the fund manager went long or short in. Equally, PRUPIM hasn't revealed the pricing or the term of the swaps – all the figures used in Robson's examples are fictitious.

But PRUPIM and its counterparty have revealed that all the trades were with Royal Bank of Scotland, which used its balance sheet and warehoused the risk, with a view to selling on positions subsequently. Paul Rostas of broker ICAP advised on the deals.

Robson said that the starting point was a desire to improve relative performance by adjusting one key aspect of the fund's return – sub-sector weightings – and to consider doing it without trading assets. He said the key to being able to trade an illiquid product like sub-sector swaps was PRUPIM's readiness to be a 'price-maker' and put out the prices they were prepared to trade at.

Analysing performance

PRUPIM started by breaking down the elements of the fund's absolute performance, focusing on sub-sector weightings and relative returns, using IPD's standard attribution analysis for measuring performance (see 'fund property score' chart).

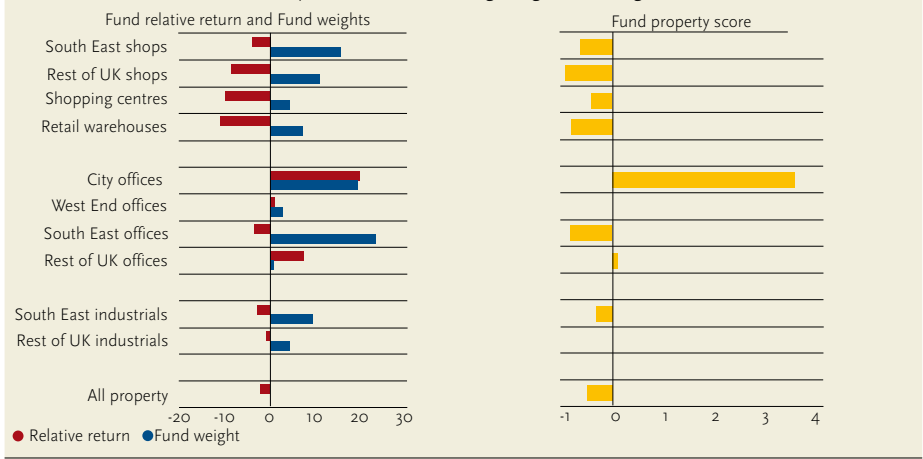
In Robson's example, retail is a drag on performance and City offices are a boost.

The fund structure scores for each sub-sector are subtracted from IPD weightings to get the weighting differences. These figures were compared to IPD returns for these sub-sectors to get an optimal fund structure score (see 'structure score' chart).

Then PRUPIM looked forward, using the

Fund property score

PRUPIM broke down the fund's performance and weighting, attributing scores to each sub-sector



SOURCE: IPD/PRUPIM

same process and its own sector performance forecasts, to forecast the relative return of the various sub-sectors and get a forward-looking structure score. This gives a potential strategy by identifying the target sub-sectors (see 'potential strategy' chart, opposite).

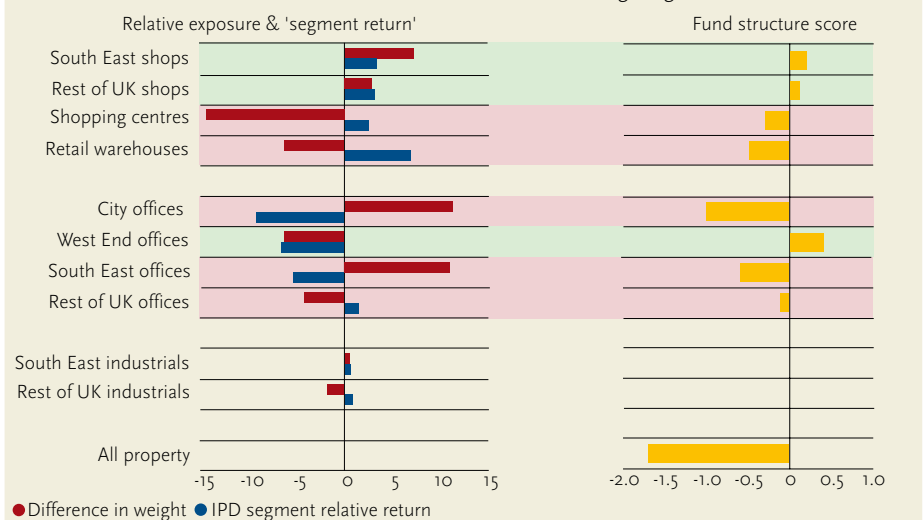
The chart's pink bars show opportunities to pair up negative and positive bets: retail warehouses versus City offices and South

East offices versus other UK offices.

Justifying the reasons for using derivatives, rather than direct market buying and/or selling to rebalance the portfolio, Robson said: "You would obviously like all the capital allocated to be contributing positive returns. But you can't always move your market bets too frequently and it costs to trade, so trading too frequently, even for the optimal

Structure score

The fund's sub-sector scores were balanced with IPD returns and weightings



SOURCE: IPD/PRUPIM

allocation of capital, can harm performance.

“You might want to keep assets that you think will come good because they are hard to come by when the market turns positive again, for example, good City offices. This is another reason why portfolios don’t always look as they should.” In other words, asset specifics often override market calls.

Having decided to consider derivatives, the pricing was clearly key. “Our forecasts are based on physical property valuations, but derivatives pricing is likely to be different,” Robson said. “Property derivatives look forward and sentiment over short-term performance may already be in the pricing, so the value of the trade may be diminished straight away.” Brokers fees as well as the pricing will also erode the value of the trade (see ‘pricing considerations 1’ chart).

Shorter trades more attractive

“But you shouldn’t forget what would happen if you did the same thing in a physical market strategy,” he said, adding that funds don’t usually analyse ‘buy’ and ‘sell’ strategy effects at the same time, and shorter trades look more attractive for derivatives than for bricks and mortar, as there are lower entry and exit costs to amortise.

“Then we looked at the maximum and minimum spreads we would consider,” Robson said (see ‘pricing considerations 2’). The guide PRUPIM used was that if there was a physical trade it would consider, the derivative pricing had to be better, but if there wasn’t a direct property trade option, “we might just bring it down to the required minimum return – which gives you the pricing to go to the market with”.

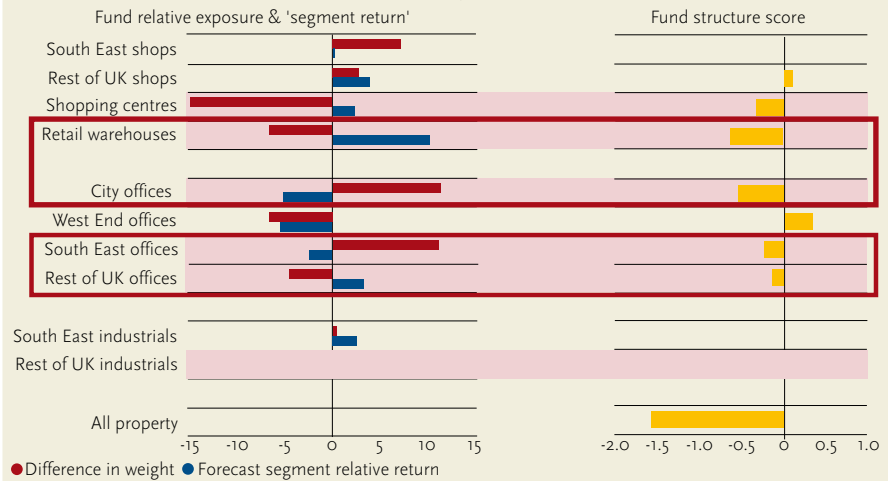
Robson added that defining a minimum acceptable spread between the two trades is more important than the individual prices. They drew up a pricing matrix, which showed the possible combinations of each long and short paired trade that would deliver this acceptable return.

The required return is an extra layer, derived from switching exposure, ie, the difference between the sub-sector forecasts and the price paid to make the switch. “It might look small compared with a property investment, but that’s not the right comparison,” he told delegates.

Robson pointed out that sector trading is a derivatives strategy that can be used all through the cycle. “There’s lots of money to be made by using property derivatives simply to buy the market when it is cheap and sell when it’s expensive, but that is very cycle-specific and could conflict with what your

Potential strategy

The pink bars represent opportunities to pair up negative and positive bets



SOURCE: IPD/PRUPIM

asset allocators have asked for,” he said.

“And how many funds had ready cash to allocate in early 2009 to buy in at -22%? Also, if you buy in without cash backing, you are introducing gearing to the fund.”

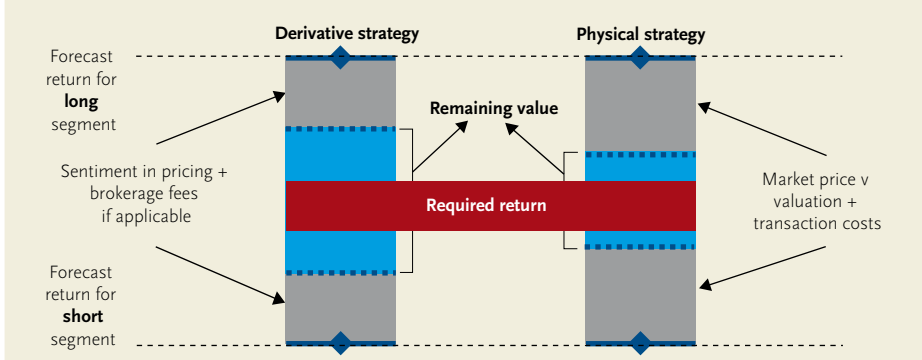
But he added: “We believe relative value between segments appears all through the cycle,” while derivatives trades also offer the potential added benefit of leaving the property allocation unchanged.

Robson argued that managing market exposure risk this way also “allows greater focus on driving value from held assets”, as well as greater freedom to source more assets from sectors where the fund management team has the strongest experience and contacts, and hence a competitive edge, rather than “being driven by market views”.

In short, using offsetting swap contracts allows managers to play to their strengths.

Pricing considerations 1

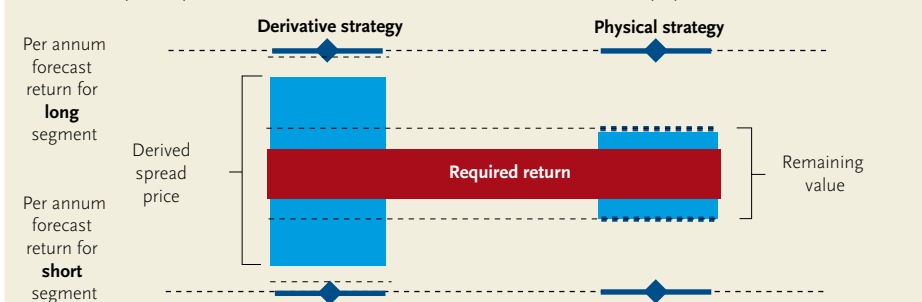
Pricing considerations affect value less with a derivatives strategy than a physical market strategy



SOURCE: PRUPIM

Pricing considerations 2

PRUPIM set price spreads for derivatives that had to be better than in the physical market



SOURCE: PRUPIM