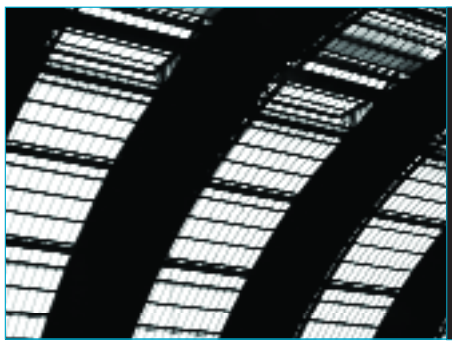

MLC Global Property Fund

Retail and institutional investors looking for high conviction global real estate opportunities but backed by one of Australia's investment powerhouses should have a good look inside the MLC Global Property Fund. MLC Investment's global real estate and securities analyst, JASON HAZELL, explains how it works.

Deciding to invest into global property is the easy part especially as it's been on the radar screen of most astute investors for a while now. The hard part is choosing a manager with the experience and track record good enough to make it work.

One solution is to use a proven expert who knows all the managers and who already has more experience at choosing them than the rest of us are likely to gain in a lifetime. This is why the MLC Global Property Fund has attracted so much interest since its launch in May this year.

With close to $100 billion in assets under management and more than $3.5 billion in property, not only are they are one of Australia's most experienced managers, they are one of the biggest when it comes to choosing other investment managers.

Their global property strategy also has experience on its side given it has been operating for more than two years and already has $1.5 billion under its belt which helps explain why they've achieved annualised returns of 21.9 per cent in these two years compared to the benchmark which achieved only 15.6 per cent.

Making it work

Achieving outperformance of 5 to 6 per cent in markets that are increasingly volatile and complex isn't an easy task and so MLC has had to research a rapidly growing market to develop a new strategy that was consistent with their process.

This includes first recognising that choosing reliable managers for global investing is tougher than finding one just for Australia, and secondly, knowing how to identify their competitive advantages over their peers.

Jason Hazell

Case in point, Hazell said, is that many of the local property trusts have changed so dramatically in recent years that they may no longer meet the needs of investors in the way they once did.

For example, the market is increasingly concentrated, gearing levels have risen significantly and the income characteristics have changed tremendously. But broadening your scope to global real estate with ten times the opportunities can be an easy way to respond to these challenges, said Hazell.

However it has to be done cautiously and strategically. "When we first started looking into global listed property in 2001, it was a new thing. You'd invest into the US and maybe into Northern Europe. But not all managers could bring it all together. Plus, with the more recent growing focus upon Asia means we have to be even more discerning."

Hazell said they seize these opportunities by using managers who can operate in an unconstrained environment. But not using just any manager, as only the best can work this way. "They have to generally be exceptional managers to start with. They have to be naturally sharp and not bound by benchmarks and comfortable working across multiple countries and sectors."

To satisfy these criterion, MLC have selected managers like LaSalle Investment Management, Morgan Stanley Investment Management and the Sydney-based Resolution Capital to drive their property securities portfolio, while State Street runs their currency management.

More than just performance

Illustrating what MLC means by 'unconstrained', Hazell said even though the current benchmark weighting for Australian real estate inside a global portfolio is 14 per cent, in the MLC Global Property Fund they only have 5 per cent allocated.

But what really gives the MLC approach its edge is not just finding quality managers but finding managers they believe can be pushed even further, said Hazell. "We look for higher conviction managers and use that as their starting point. With the scale MLC has available we can seed a new strategy and often the manager can even start a new product with this approach we develop. You can't do that with just say $20 million but we can."

"We can find these managers because as researchers we really understand the managers out there, who they are and what they do. The extensive travel to see these managers in their home markets gives us a significant edge as well."

There is also more to reviewing a manager than just looking at their past returns. "When we go out to look for managers, we try not to focus on performance. We spend a lot of time understanding a manager's processes and this should be a pretty good guide to their performance. It is then a matter of ensuring that the process and the performance outcomes are consistent," said Hazell.

And the definition also extends to lack of geographical barriers. "A lot of managers can be regional specialists but we need global managers who can be totally unconstrained. They've got to be able to invest significantly anywhere in the world."

Who is it for?

Hazell said the MLC Global Property Fund is aimed at retail investors who use platforms and who want a robust property investment that gives them access to global real estate markets.

MLC also doesn't want to choose managers just because they've ridden the property cycle as when markets are strong it can be more difficult to separate luck from skill, he said. "While on the surface there may not appear to be a great deal of difference between managers, when volatility increases and times get tougher it becomes clearer who has the enduring edge."

And making it even more subtle, "A lot of managers can be regional specialists but we need global managers who can be totally unconstrained. They've got to be able to invest significantly anywhere in the world."

Fees are up to 0.99 per cent for investors using a non-MLC platform and up to 0.70 per cent plus administration costs for investors using MLC platforms. ∎

Table 1. Why global real estate?

	Australian	Global
Market capitalisation	$118 billion	$951 billion
Number of property securities	36	318
Top 10 stocks as % of market capitalisation	78%	24%
Number of countries	1	22
Sectoral diversification	Concentrated	Broad
% of investment grade property listed	39%	8%
Dividend yield	5%	4%
Expected earnings growth	6%	8%

Source: MLC, UBS and IRESS March 2007. Expected earnings growth 2007 sourced from Resolution Capital

Figure 1. Evolution of the global REITs market

Timeline	Country and launch year
1960-64	US (1960)
1965-69	Netherlands (1969)
1970-74	Australia (1970)
1990-94	Brazil (1993), Canada (1994), Italy (1994)
1995-99	Belgium (1995)
2000-04	Japan (2000), Korea (2001), Singapore (2002), France (2003), Hong Kong (2003), Greece (2004), Malaysia (2004), Turkey (2004)
2005-09	Bulgaria (2005), UK (2006), Germany (2007)

Source: MLC