



Media Briefing Call

The great property fund misunderstanding

Wednesday 29th November 2023





Welcome & Introduction from our Host

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**MD, Communications & Content
& PR Consultant for AREF**



Agenda

- **Moderator Welcome & Introduction**
- **Paul Richards - The Open-ended Property Funds Market**
 - **myth and reality in the open-ended property funds market**
 - **the real reasons some funds are closing - and why far more are staying open**
 - **long term risks preventing more pension investment**
 - **a way forward for both open-ended and closed-ended funds**
- **Q&A**
- **Finish by 11:40am**



(This call is being recorded)



The Open-ended Property Funds Market

Paul Richards, AREF



Open-ended real estate funds

- **Daily traded** funds primarily aimed at **retail and DC**
- **Suspensions** due to liquidity squeezes are relatively **rare**
 - 2016, 2023
 - The UK Authorised Property Unit Trusts did not suspend in 07/08 GFC
 - 2020 was due to Material Uncertainty, not liquidity issues
- Long term savers have **little or no requirement for daily dealing**

...adding value to investors' portfolios

Delivering what they set out to do for savers

Asset class	Three Years %	Five Years %	Ten Years %
IA UK Direct Property	-1.8	-6.7	25.2
IA £ Corporate Bonds	-14.2	-2.5	18.2
IA UK Index-linked	-39.1	-28.6	4.3
IA UK Gilts	-31.1	-19.3	0.1
IA UK All Companies	23.5	11.7	44.4

Source: The IA/Morningstar, as at 31 October 2023

- Sound long term returns
- Solid income streams
- Lower correlation to other asset classes
- Lower volatility



Regulatory uncertainty has not helped

- Liquidity management tools could be enhanced
- Daily traded retail funds lack the tools institutional funds have
 - Gating / notice periods / deferrals
- Still waiting on the FCA
- Platforms would need to adapt their systems to cope with mooted changes

...and neither have the platforms

There's a much larger cohort of open-ended real estate funds...

- **Successfully servicing the institutional market since the 1970s**
- Typically deal monthly or quarterly
- Better equipped to manage liquidity
- Predominantly **backed by mature DB pensions**

**38 AREF members are open-ended institutional funds
~£40bn NAV**

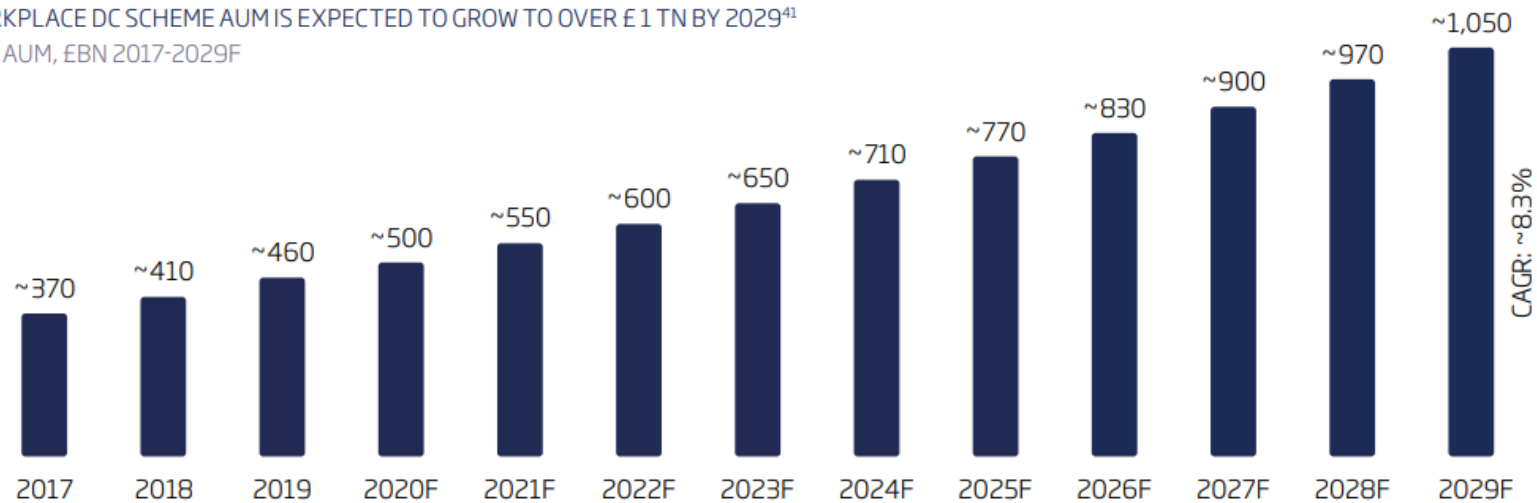


Forecast growth in DC savings

FIGURE 1

TOTAL WORKPLACE DC SCHEME AUM IS EXPECTED TO GROW TO OVER £ 1 TN BY 2029⁴¹

DC SCHEME AUM, £BN 2017-2029F



Source: British Business Bank/Oliver Wyman, The Future of Defined Contribution Pensions, September 2019

...a trillion-pound opportunity

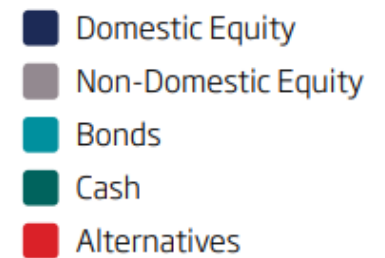
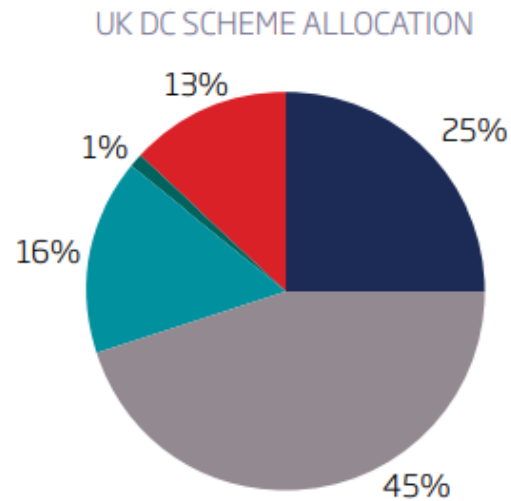
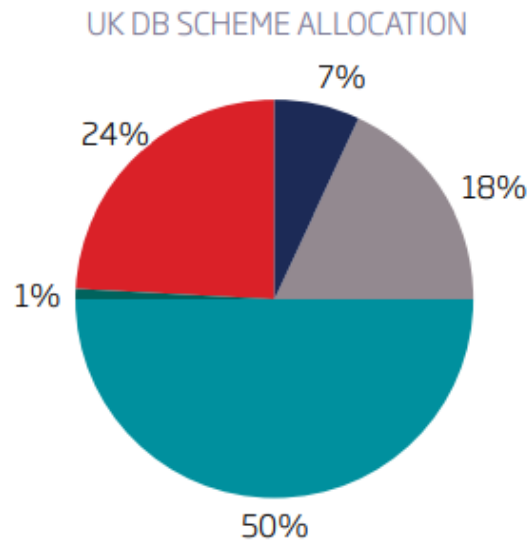


The big challenge

- DC money is not replacing the decline in DB investment
- Pensions and savings products tend to be accessed via platforms
- Most platforms can only operate with daily-traded funds
- Funds with notice periods or deferrals are not able to be distributed across these platforms

...platforms need to adapt their systems and processes

Pension fund asset allocations



Source: British Business Bank/Oliver Wyman, The Future of Defined Contribution Pensions, September 2019

...the great pension opportunity cost

A more significant issue for the UK

- It's not just about the **reduced choice for British savers** and the detrimental effect that would have on their risk/return levels
- **DC capital could:**
 - Assist **financing of the levelling up** agenda
 - **Address the housing shortage**
 - Substantially **contribute to net-zero**, financing retrofitting of our built environment

...we need to facilitate DC investment in UK real estate

UK DC pension funds are the most important source of investment in productive assets in the UK

- **Constantly growing** due to compulsory auto-enrolment
- A **long term investment** horizon
- Willing to **invest in regions of the UK** international investors are unlikely to go
- A **lower cost of capital** than overseas investors

...DC investment into illiquid assets must be unlocked



Q&A

(Please click to raise a hand, then unmute to ask a question or alternatively ask a question in the chat box)



Thank you for joining us.

