

Investment in Dutch Real Estate

The Pension Fund Perspective

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Overview

- Introduction
- Investment Policy and Framework
- Lessons Learned & (Re)considerations
- Responsible Investment

Introduction

Introduction to APG

- Established on 1 March 2008: All Pensions Group
- Builds on a long tradition of pension fund management
- One of the largest independent pension administrators in the Netherlands and one of the largest managers of pension assets in the world
- Promotes the pension interests of 4 million Dutch individuals and 20,000 employers
- Advocate of collective pension schemes
- APG has a long-term contract with its client

About APG Asset Management

- Manages pension assets of about € 205 billion (end Q2 2009)
- Consequently one of the largest specialised managers of pension assets worldwide
- Aims to make high real long-term returns, which help the pension fund to provide attractive pensions at reasonable premiums
- Extremely low costs compared to commercial asset managers

About APG Real Estate

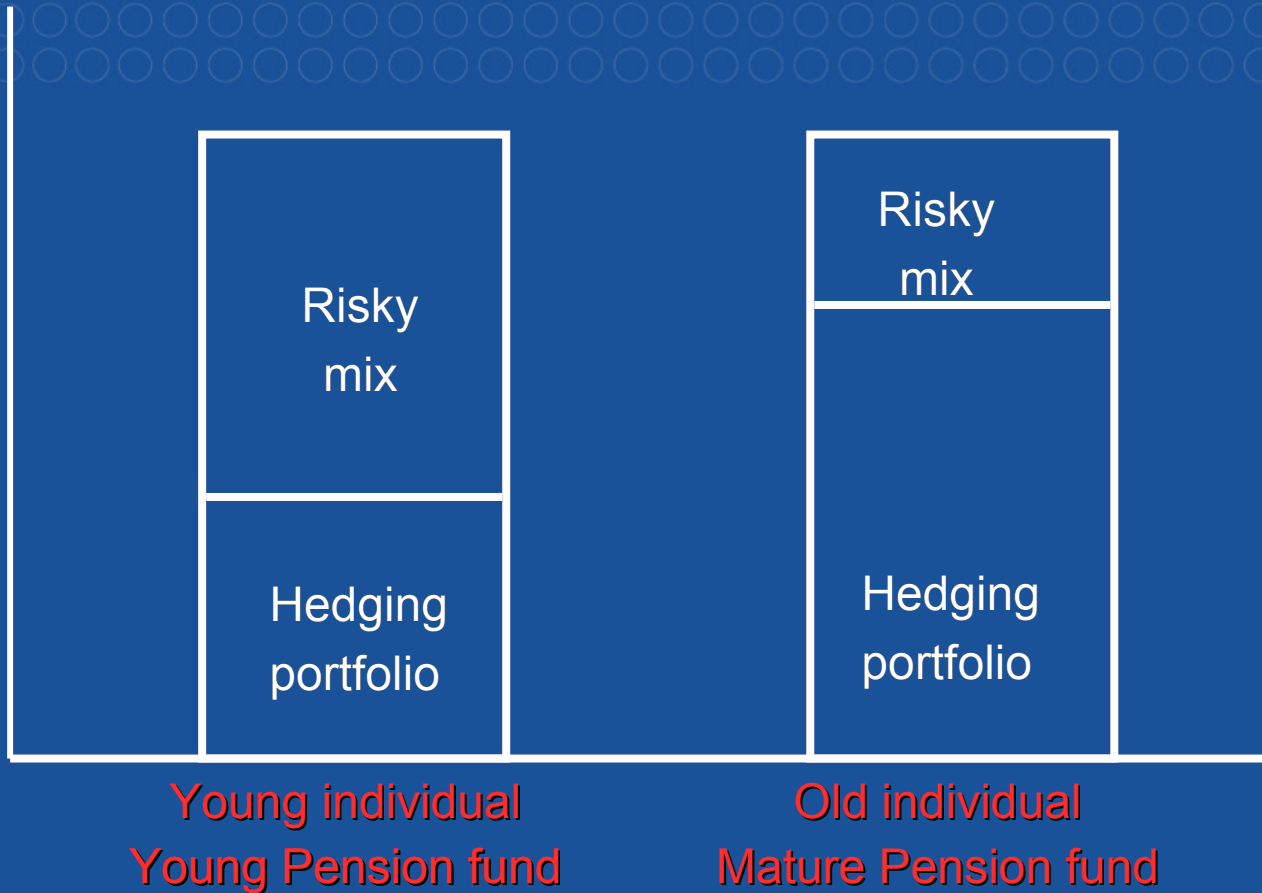
- APG first in the Netherlands to place its direct real estate investments at arm's length
- APG structures 3 funds in 1995
 - Retail Fund, Residential Fund and Office Fund
 - Reduce its interests to minority share
- APG started to invest international as soon as government regulations allowed (1994)
- Management of Real Estate investments from regional offices in Amsterdam (1995), New York (1996) and Hong Kong (2006)

Investment Philosophy and Framework

Developing a New Investment Framework

- Explicitly acknowledging the two core functions of pension investing:
 - Hedging liabilities (controlling risk)
 - Using the long-term horizon to generate high real returns
- More focus => better execution, more innovative strategies
- Split investment portfolio into two:
 - Liability-Hedging Portfolio - 'Income Portfolio'
 - Risk-Optimizing Portfolio - 'Growth Portfolio'

Optimal Mix for Long-Term Pension Funds



Liability Hedging Portfolio

- Aim is to construct a portfolio with low (minimal) real mismatch risk vis-à-vis the liabilities
- Looking to approximate the (non-existent!) risk-free asset: index-linked bond + real wage growth
- In practical terms we model the liabilities as a long-term Euro index-linked bond + 100 bp

Alternative Investment Opportunities for RE

- Assets that move in the same direction as the liabilities (“hedges”) have low mismatch risk (in real terms!)
- Examples:
 - Inflation-linked debt (instantaneous hedge) – Corio € 200 mln ILB
 - Real assets paying high-quality real cash flows (medium term):
 - retail & residential property – Vesteda
 - mature infrastructure (toll roads, hospitals, schools)
 - ground leases
- These assets/strategies stabilize the funding status of the IP

Return Optimizing Portfolio

- Aim is to construct a portfolio to achieve as high as possible long-term risk-adjusted real returns
- Exploit the pension fund's long-term horizon and scale and APG's skill sets and expertise of long term investor
- Return-generating portfolio for a cheaper and/or higher pension

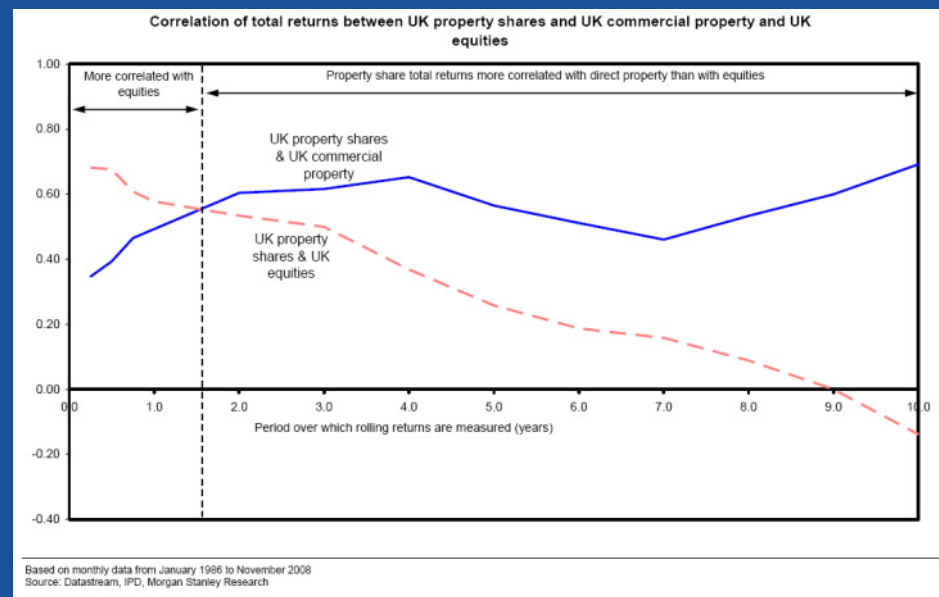
Global RE Investment Framework

Opportunities to improve the long term real risk adjusted return:

- Long term investment horizon provides advantage to capitalise on RE market inefficiencies: RE securities show strong correlation to non-listed/direct RE for all but the shortest term investors (>1.5 yrs)
- Liberate from relative thinking - Short term relative return benchmarks provide us undesired exposure
- Our scale provides us effectiveness in implementing and exercising shareholding powers
- Flexibility to adjust to changing market opportunities

Listed versus non-listed real estate

- Single-asset class:
 - Academic studies show that average returns and volatilities are similar after adjustments for appraisals and leverage
 - Listed RE returns track direct/non-listed RE, but not in the short term



Global RE Investment Framework

Strategic Investments

- Integrated approach towards listed and non-listed real estate investments
 - Strategic portfolio comprises non-listed RE and 'listed participations'
 - Absolute return target and long term investment horizon (>3 yrs)

Tactical Investments

- Exploit alpha generation capabilities
 - Listed RE
 - Relative return target and short term investment horizon (0-3 yrs)

Top 10 Exposures as at year-end 2008

	Name	Non-listed /Listed	Sector	Region	Weight
1	Vesteda	Non-listed	Residential	Netherlands	10.3%
2	Corio	Listed	Retail	Cont. Europe	5.4%
3	Unibail-Rodamco	Listed	Retail/Office	Cont. Europe	5.0%
4	Steen & Strom	Non-listed	Retail	Scandinavia	2.8%
5	Simon Property Group	Listed	Retail	US	2.2%
6	Vornado Realty Trust	Listed	Office	US	1.9%
7	ING Dutch Office Fund	Non-listed	Office	Netherlands	1.8%
8	Public Storage	Listed	Storage	US	1.8%
9	Sonae Sierra	Non-listed	Retail	S. Europe	1.5%
10	Westfield Group	Listed	Retail	US, UK	1.5%
Total					34.2%

Lessons Learned and (Re)considerations

Lessons learned during the financial crisis

- Institutional investors are not all 'like minded'; know your fellow Limited Partners
- Active portfolio management will yield better returns
- Fund issues are time consuming. Many investors do not have sufficient resources
- Refinancing risk should not be taken for granted
- Continuous dialogue with managers will make them sensitive to investor concerns and fund issues

(Re)considerations RE Investments

- Nothing really new: Focused investment strategies, alignment of interest, sound governance structures, cost efficiency, investor involvement etc, but...
- As not all pension fund investors/LP's are 'like-minded'
 - Joint Ventures / Platforms – CitizenM
 - Active involvement, strong stewardship APG
- Internally managed vehicles can have many advantages
 - Acquisition Steen & Strom in Q3 2008
 - Set up of Vesteda in 2002
 - Listed RE companies
- Use of leverage in line with specific strategy

Responsible Investment

Responsible Investment Policy

The main purpose:

- Contribute to APG's risk-adjusted financial return
 - Demonstrate social responsibility
- Contribute to the integrity of financial markets

Responsible Investment Policy

- **Integrate** sustainability and governance as widely as possible across our investment portfolio
 - **Engagement** with companies
 - Active use of **shareholder rights**
 - **Invest** in high-sustainable solutions
 - Engage with **policy**-makers
 - **Join forces** and Active **communication**

Why does Sustainability matter to Real Estate?

The built environment contributes:

- 40% to total carbon emissions
- 30% of material use
- 25-30% of total solid waste generation
- 20-25% of water use
- 12% of land use

Global Environmental Real Estate Survey

Mapping the sustainable state of the property sector:

- Maastricht University commissioned by APG, PGGM and USS initiated a global (US, Europe and Asia Pacific) environmental real estate survey
- What's different from other survey efforts:
 - Complete indirect property sector: listed and non-listed
 - Covering the main sectors: retail, office, residential and industrial
 - Sound academic research (quantitative) by Maastricht University
 - Including main environmental aspects (e.g. energy, water, waste, CO₂)
 - Partnership with investors and associations (EPRA, INREV and ACSI)

Status Real Estate Surveys

Response in numbers and value:

- Listed:
 - Europe: 46 companies (>50%) representing >80% of market cap
 - US: 16 companies representing >25% of market cap
 - Australia: 8 companies representing >87% of market cap
- Non-listed (still ongoing):
 - Europe: 18 funds
 - US: 13 funds
 - Asia Pacific: 7 funds

Survey Output

- Global report (end of 2009), including environmental index
 - Listed versus non-listed
 - Regional (US, Asia Pacific and Europe) comparison
 - Sector (retail, office, industrial and residential) comparison
 - Company/Fund receives its relative environmental performance
- Dialogue/engagement
 - With companies and funds (suggestions how to improve over time)
 - With policymakers and industry initiatives (EU, GRI, EPRA, INREV)