



BOUWINVEST BACKS BLENDED PORTFOLIOS FOR BEST RETURNS AND DIVERSIFICATION

Bouwinvest, the real estate investment arm of bpfBOUW the Dutch Construction Workers Pension Fund, is the third largest institutional property investor in the Netherlands after APG and PGGM. We travelled to Amsterdam to discuss their investment model and the importance of blending listed and non-listed real estate.

When did Bouwinvest start investing in listed real estate stocks and what is the current total market cap of your international listed portfolio?

“Bouwinvest started its active approach to investing in real estate stocks on behalf of our institutional sponsor, bpfBOUW, in 2012. At the end of the first quarter this year the total listed portfolio was EUR 535 million.”

What are the benefits to Bouwinvest of investing in REITs and listed real estate generally along-

side your direct property and non-listed fund and JV investments?

“Not surprisingly, bpfBOUW has one of the highest exposures among Dutch pension funds to the industry where its pensioners come from, with about a 19% allocation to real estate in a total EUR 54 billion investment portfolio. Bouwinvest’s investment performance has served our sponsor very well in recent years as real estate has made a positive contribution to bpfBOUW’s higher coverage ratio for its liabilities, relative to the rest of the pensions sector in the Netherlands. Listed comprises about 25% of the total strategic international real estate mandate for bpfBOUW and we are a fully integrated part of the international investments portfolio.

We started our active equities strategies originally because we noticed it was difficult to access quality assets in some specific markets and sectors. By solely investing via unlisted, a significant part of the global real estate opportunity set would be neglected such as U.S. regional malls. Moreover, I’m convinced that blending listed and non-listed investments gives

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us better risk-adjusted returns and this is supported by our internal studies and several external academic research from EPRA and others. There are also other advantages, such as providing easier cost effective diversification across international markets and giving greater liquidity to the portfolio. Our real estate equities investments have achieved an average annual total return of around 12% over the last five years.

At the end of the day, listed real estate is just a different wrapper for the underlying assets."

How are your equities investments distributed?

"We are invested in three regions: Europe, North America and Asia-Pacific through 14 concentrated market/sector combinations.' Each category consists of between four to six companies that are the best-in-class in that universe, fit in our existing and strategic integrated portfolio, and which are typically difficult to access via private investments. So the self-storage sector in the U.S., for example, or access to high quality retail and office assets in Hong Kong, etcetera.

On a relative basis, Europe makes up about 35% of our listed holdings and is in line with the strategic allocation. For North America and Asia-Pacific there is more room to grow, both on an absolute and a relative level. The European portfolio is the most mature in terms of AUM, hence for this region active rebalancing and rotation in close conjunction with the unlisted portfolio plays a bigger role. Moreover, in the European listed portfolio we have been piloting a bucket we call 'special situations' where we invest in off-benchmark companies, IPOs, or companies that are in some type of corporate distress, and this has performed very well since inception in 2014 in terms of absolute return and diversification.

How do you select the companies you invest in?

"Bouwinvest has an absolute return investment approach and we really try to drill

down into the performance drivers of a stock's underlying real estate assets within each of the 14 buckets. Therefore we ask a lot of our external managers, who assist us in the execution of the strategy. They are selected on a 'bucket by bucket' basis, where the expertise of their local teams is one of the key criteria. Our proprietary risk-

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return model for stocks is the same as that used by the non-listed side of the business with obviously allowances for the liquidity and volatility differences. In our approach towards the return expectations we initially try to mimic the unlisted approach towards the underwriting to the maximum. It is only in the final steps of the investment process that we match the private market expectations with the public market expectations of the companies within the buckets."

How do you see the outlook for the listed real estate market?

"The initial reaction of the listed market to the prospect of rising interest rates was to sell off, but I think the industry is far better placed now than before the financial crisis in 2007 because the amount of leverage that companies are employing is significantly lower. Higher rates and inflation will also tend to weigh on the real estate supply pipeline and allow rents to rise on the back of more demand for space as economies improve. This will benefit those companies which already have good quality portfolios in place.

I'm also optimistic that last year's change in the GICS (Global Industry Classification Standard), to recognise real estate as a stand-alone equities investment class, will ultimately attract far more capital into the market. My biggest frustration is hearing real estate described as an 'alternative investment industry' when it's one of the largest asset class in terms of its investible universe."



Friso Berghuis
Bouwinvest

Friso Berghuis joined Bouwinvest as Analyst Strategic Investments in 2010. Since January 2014 his role was Senior Consultant Strategic Investments. As per March 1st, 2016 he was appointed Manager Global Listed Real Estate. He has over 10 years of experience in real estate investments. Previously, he worked as Real Estate Analyst and Portfolio Manager at Dutch private bank Theodoor Gilissen Bankiers. Friso holds a master degree in International Business & Economics from the University of Groningen and completed the postgraduate Investment Analysis (VBA/CEFA) program at VU University Amsterdam. Friso is a member of the Real Estate Committee at the Dutch Association of Investment Professionals (VBA).