

# Strategy enhancement

## Manager changes in MLC's global property securities strategy

Jonathan Armitage

April 2013



**Jonathan Armitage**  
Chief Investment Officer  
MLC Investment Management

“ Our global property securities strategy has delivered above-benchmark returns over more than seven years. With the new combination of active managers, we believe it can deliver higher and more reliable returns. ”

### At MLC, we actively manage our portfolios and work constantly to improve them.

That's why we're making changes to the managers of the MLC global property securities strategy.

Since December 2006, the strategy's managers have been Morgan Stanley Investment Management, Resolution Capital and LaSalle Investment Management. We're now replacing LaSalle with a new manager, Presima Inc.

### What are the manager changes?

The table shows the new target allocations for MLC's global property securities strategy.

Manager	New allocation (%)	Change (%)
Morgan Stanley	35.0	+1.6
Resolution	35.0	-3.3
LaSalle	-	-28.3
Presima	30.0	+30.0
<b>Total</b>	<b>100</b>	

### How will investors benefit?

With the new blend of managers, we believe the strategy will be able to deliver enhanced returns above the strategy's benchmark, and with more consistency.

### What are the changes?

- Presima appointed
- LaSalle removed

### Which portfolios are affected?

- MLC Global Property Fund.
- Global property securities strategies in the MLC Horizon Series of portfolios and Pre Select funds.

### Why are we changing managers?

Since our global property securities strategy began in June 2005, it's delivered 8.4% pa in the MLC Horizon Series of portfolios (at 31 December 2012, before fees and taxes). This is 1.7% above its benchmark<sup>1</sup>.

These returns were largely due to the performance of Morgan Stanley and Resolution. LaSalle's contribution to the strategy's performance has been disappointing in recent years. Although LaSalle is taking steps to address this, in Presima we've found an active manager that we believe will more consistently outperform the benchmark.

The returns from our global property securities strategy have also been more volatile than we'd like. In late 2012 we changed Morgan Stanley's mandate to include regional and stock limits. We believe this change, and the addition of Presima, should mean the strategy can generate more reliable above-benchmark returns.

<sup>1</sup> The strategy's current benchmark is the FTSE/EPRA NAREIT Global Developed Index (hedged). Until August 2011 it was the UBS Global Investors Index (hedged).

# Strategy enhancement

## Why have we chosen Presima?

Presima has managed a global property strategy since 1999. The current investment team has been largely unchanged since 2007.

The last five years have been very challenging for global property managers, with the global financial crisis and its effects creating volatile investment markets. Despite that, Presima's strategy has delivered above-benchmark returns (before fees and tax) over each of the following periods:

Period	Excess return (% pa)
1 year	2.9
3 year	1.0
5 year	1.6

**Source:** Presima Inc. Returns are for periods ending 31 December 2012.

However, when selecting a new manager we need to be confident they have the skill to generate excess returns in future.

To choose a new manager for MLC's strategy, we began by considering around 40 global property managers. Many were unsuitable because the firm was too large, their global property team was too small or unstable, or we lacked confidence in their investment approach.

We then performed indepth due diligence on a shortlist of managers. This involved investigating all aspects of their businesses, investment approaches and processes, and included meeting most members of their global property teams. Of these, we considered Presima the manager most capable of delivering more reliable above-benchmark returns.

We believe Presima will fit well with the other managers in the strategy and that the managers' different investment approaches will produce complementary investment insights.

## Who is Presima?

Presima is a boutique manager that invests solely in real estate securities. All eight members of the investment team are located in Montreal, Canada.

Originally a subsidiary of the Caisse de Depot, since 2010 Presima has been wholly owned by nabInvest, which is part of the NAB Group's global asset management business.

At 31 December 2012, Presima had funds under management of A\$500 million.

Full manager profiles for Presima and the other managers in the strategy are on [mlc.com.au](http://mlc.com.au)

## How does Presima manage money?

Presima's investment approach aims to generate similar returns to physical real estate over time by investing in mispriced listed property securities. They are an active, large-cap investor and their investments have a minimum market capitalisation of US\$500 million.

The firm prefers high quality real estate assets with strong balance sheets and good management. To find these investments, they undertake extensive due diligence, including performing detailed analysis of the company and its financial position, meeting management and visiting the underlying properties.

The investment team applies the same model to each investment idea so they can compare stocks across countries and sectors.

Presima is one of few property managers that run a global strategy from a single location. We see this as one of their main strengths, as it encourages a rigorous peer review process in which the entire team critiques every investment idea. This robust debate is a key part of Presima's investment approach.

We consider Presima's investment team skilled, experienced and careful investors. Their investment process is disciplined, robust and transparent and they may follow companies for years before deciding to invest. This means they have a deep understanding of each stock they hold.

We believe this rigorous method of stock selection should enable Presima to deliver reliable above-benchmark returns.

While Presima will have the same investment mandate as LaSalle, the managers' investment approaches are different. LaSalle's investment team members were located across the world and its portfolio consisted of 50–60 stocks. Presima will have a more concentrated portfolio of 30–40 stocks.

# Strategy enhancement

## Are there any fee implications?

There'll be a marginal decrease in fees as a result of the manager change. This will flow through to the MLC products that have variable investment fees.

Because fees frequently move up and down by negligible amounts, we let you know when a strategy change results in a significant change to fees.

Fee impacts are an important consideration in our decisions, whether they are small or large, up or down. In fact, to approve a strategy change, we must expect it to benefit clients after taking into account the impact on fees. It's part of our fiduciary duty to act in the best interests of our clients.

Investment fees are in the Fund Profile Tool on [mlc.com.au](https://mlc.com.au)

## Strategy change summary

Visit [mlc.com.au](https://mlc.com.au) for a summary of our strategy changes in the last 12 months.

Log in to the adviser page and go to **Investments/Latest news**

## Important information

This information has been provided by MLC Investments (ABN 30 002 641 661) and MLC Limited (ABN 90 000 000 402) members of the National Australia Bank group of companies, 105–153 Miller Street, North Sydney 2060.

This material was prepared for financial advisers only.

This communication contains general information and may constitute general advice. Any advice in this communication has been prepared without taking account of individual objectives, financial situation or needs. It should not be relied upon as a substitute for financial or other specialist advice. Before making any decisions on the basis of this communication, you should consider the appropriateness of its content having regard to your particular investment objectives, financial situation or individual needs. You should obtain a Product Disclosure Statement or other disclosure document relating to any financial product issued by MLC Investments Limited (ABN 30 002 641 661) and MLC Nominees Pty Ltd (ABN 93 002 814 959) as trustee of The Universal Super Scheme (ABN 44 928 361 101), and consider it before making any decision about whether to acquire or continue to hold the product. A copy of the Product Disclosure Statement or other disclosure document is available upon request by phoning the MLC call centre on 132 652 or on our website at [mlc.com.au](https://mlc.com.au). An investment in any product offered by a member company of the National Australia Bank group of companies does not represent a deposit with or a liability of the National Australia Bank Limited ABN 12 004 044 937 or other member company of the National Australia Bank group and is subject to investment risk including possible delays in repayment and loss of income and capital invested. None of the National Australia Bank Limited, MLC Limited, MLC Investments Limited or other member company in the National Australia Bank group guarantees the capital value, payment of income or performance of any financial product referred to in this publication. Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market. Please note that all performance reported is before management fees and taxes, unless otherwise stated.

The specialist investment managers are current as at the date this communication was prepared. Investment managers are regularly reviewed and may be appointed or removed at any time without prior notice to you