

PROPERTY INVESTING & PENSION FUNDS

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Conference: Botswana Pensions Society Conference

Venue: Kasane



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Property Asset Management



Bifm

CONTENT

- Background on Khumo Property Asset Management
- Property, A Global Asset Class
- Pension Funds & Property
- Real Estate Investing
- The Making of a Good Portfolio
- Performance Measurement
- Property Investment Vehicles
- Future Prospects



KHUMO PROPERTY ASSET MANAGEMENT

- Offer fully integrated property solutions
- JV between Bifm & Eris Property Group
- Synergies & Strengths enhance client servicing
- +P2 billion management, P755 million developments
- Ongoing contribution to enhancing market efficiencies
- Operations in Gaborone, Francistown & staff compliment of 30



PROPERTY, A GLOBAL ASSET CLASS

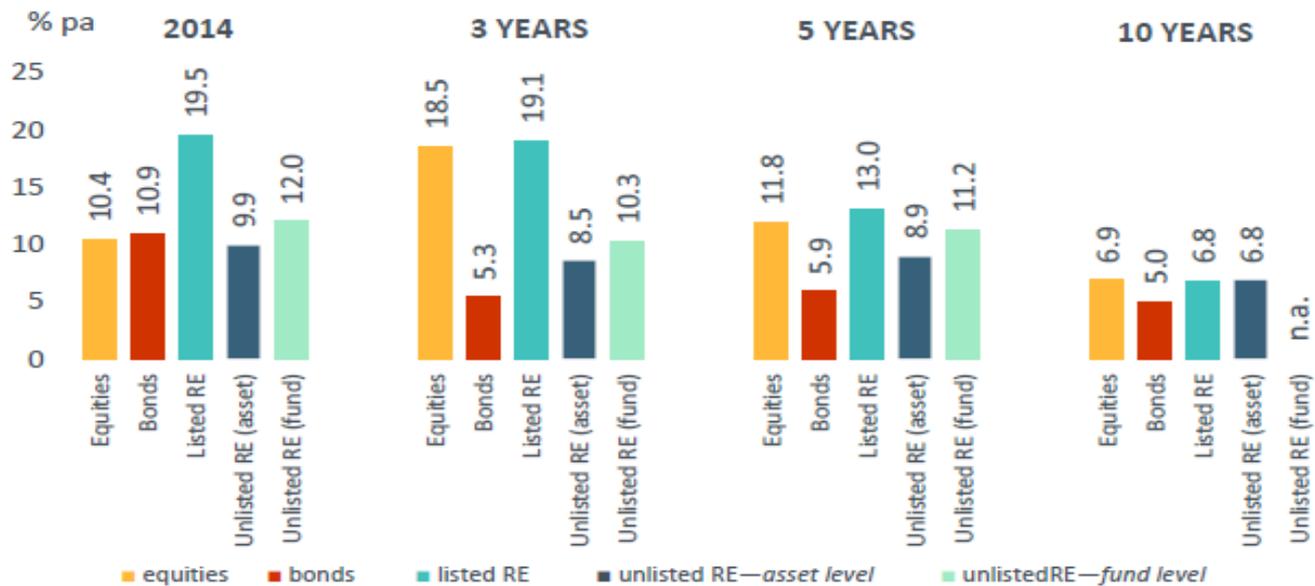
- Represents 50% of all global assets!!
- Property has been something of a Puzzle
- Risk & return History not a neat fit into MPT framework
- Reduction in Allocations (20% to 6%)
- Research & Creative product development
- Property Investments now better packaged and managed



GLOBAL PROPERTY VS FINANCIAL ASSETS

Comparative Global Property Performance across Asset Classes

Annualized results at 1, 3, 5, and 10 years

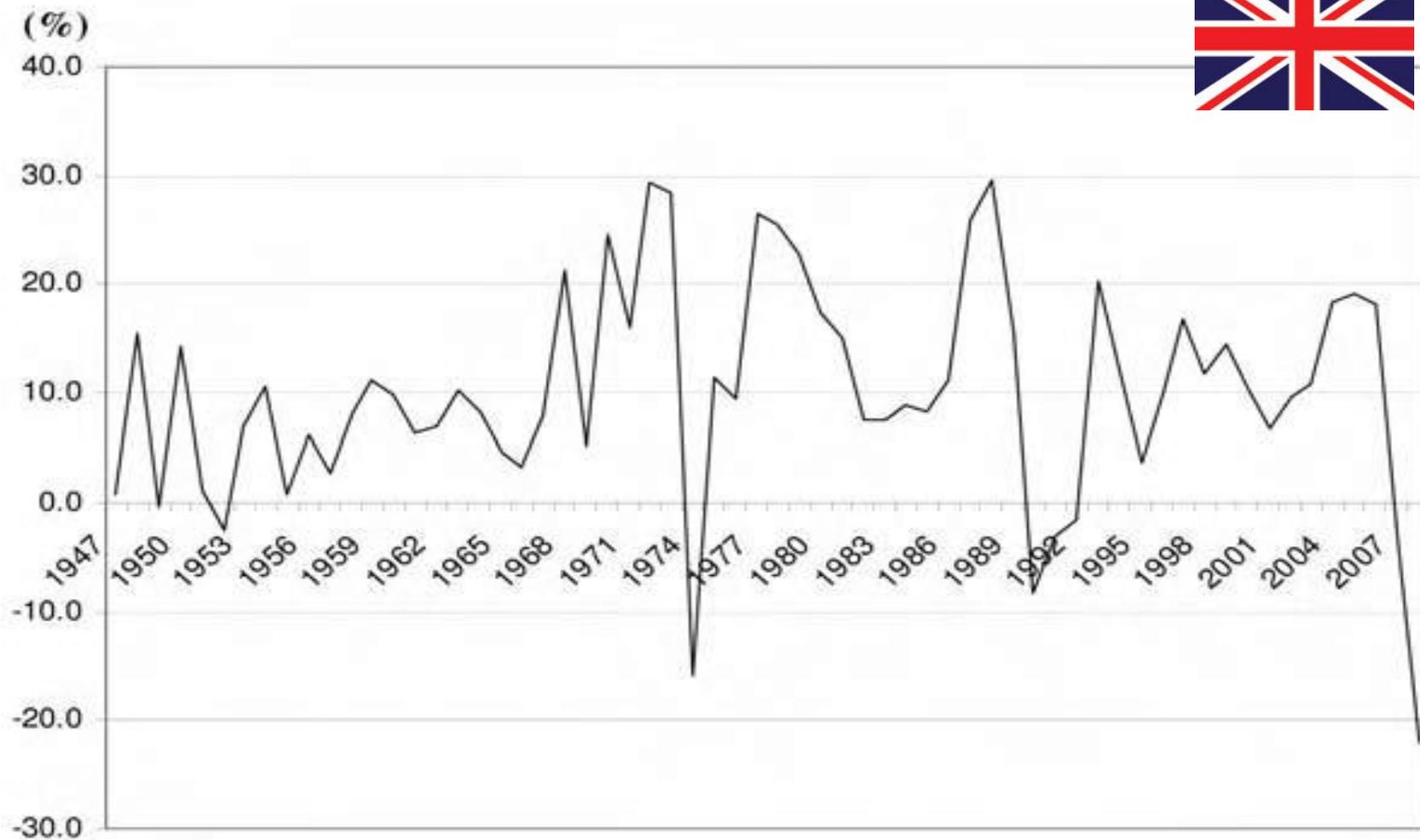


Source: MSCI World Index (EQUITIES); J.P. Morgan, GBI Global (BONDS); MSCI World Real Estate Index (LISTED PROPERTY); IPD Global Property Index (UNLISTED PROPERTY - ASSET LEVEL); IPD Global Annual Property Fund Index (UNLISTED PROPERTY - FUND LEVEL)

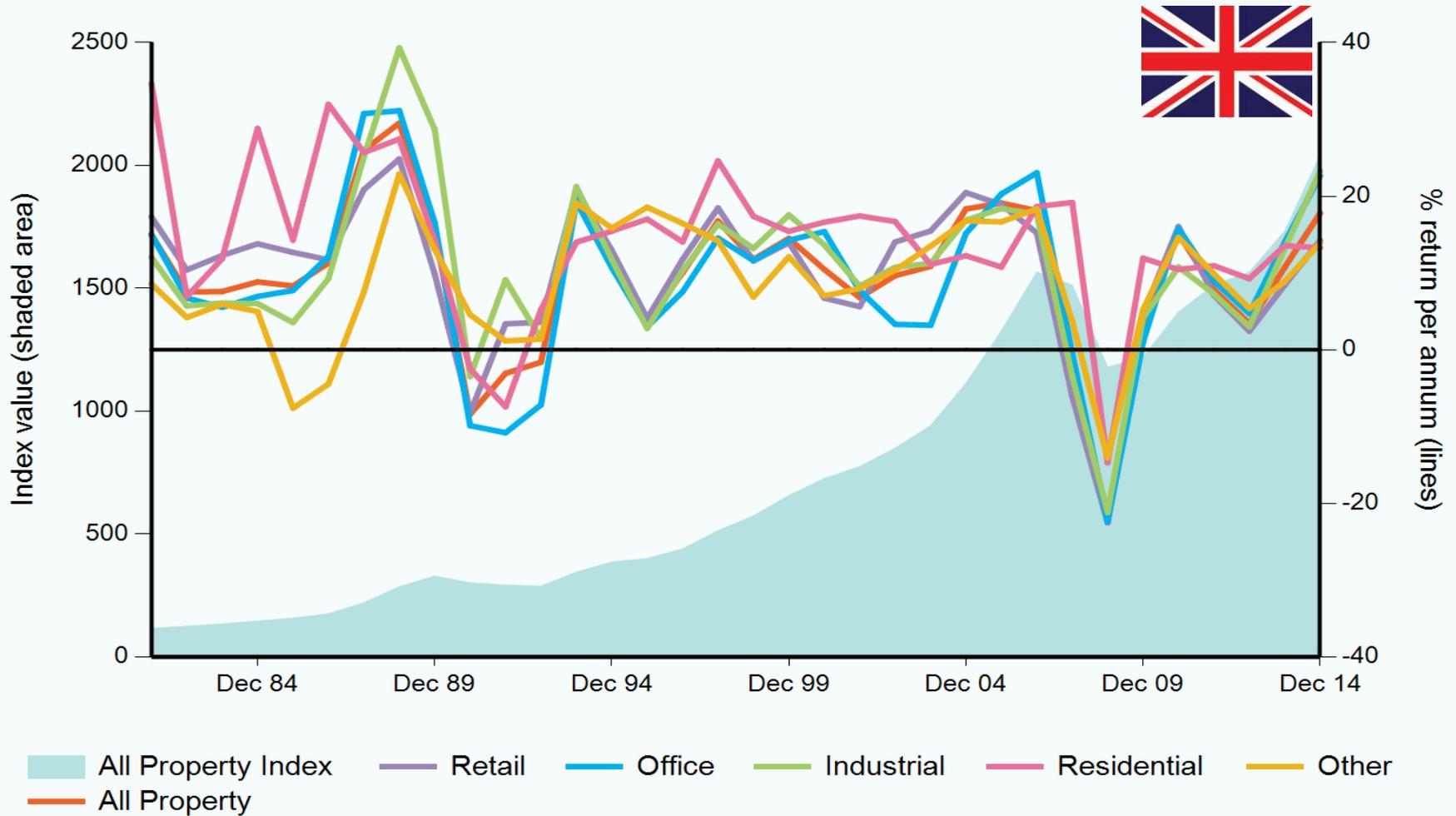
BOTSWANA PROPERTY VS FINANCIAL ASSETS



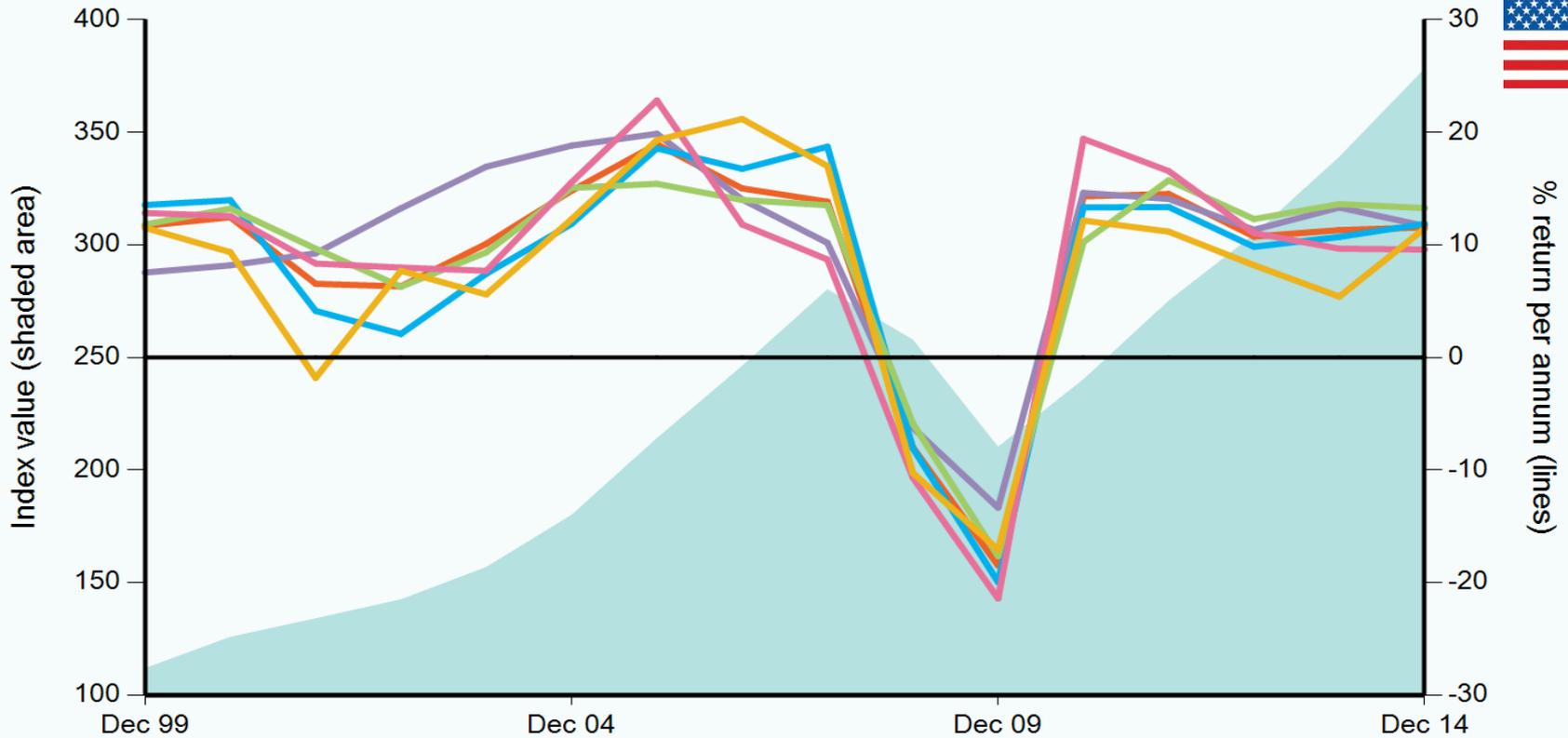
PROPERTY, A GLOBAL ASSET CLASS UK Property Returns



PROPERTY, A GLOBAL ASSET CLASS UK Property Returns



PROPERTY, A GLOBAL ASSET CLASS USA Property Returns



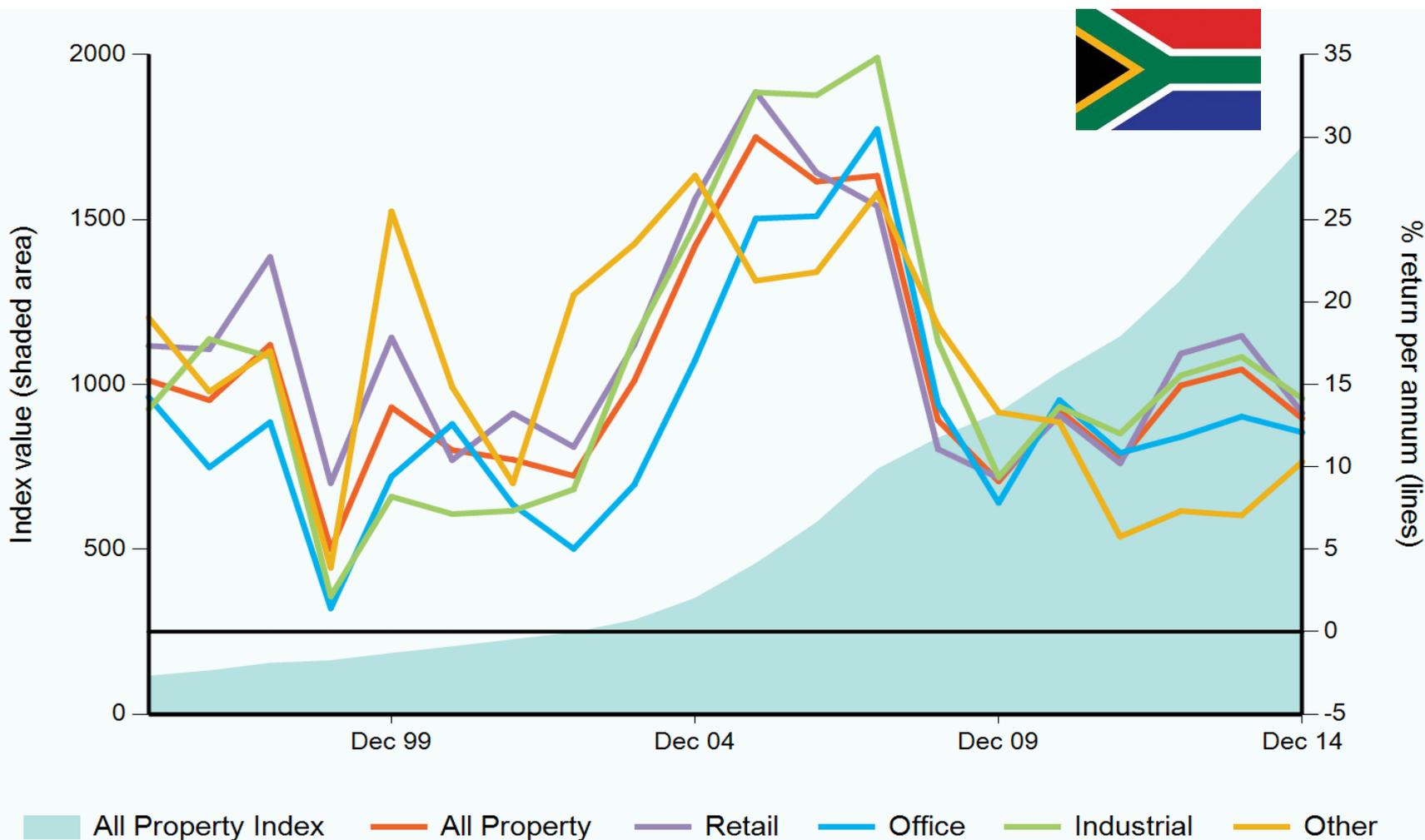
■ All Property Index
 — Retail
 — Office
 — Industrial
 — Residential
 — Other
— All Property



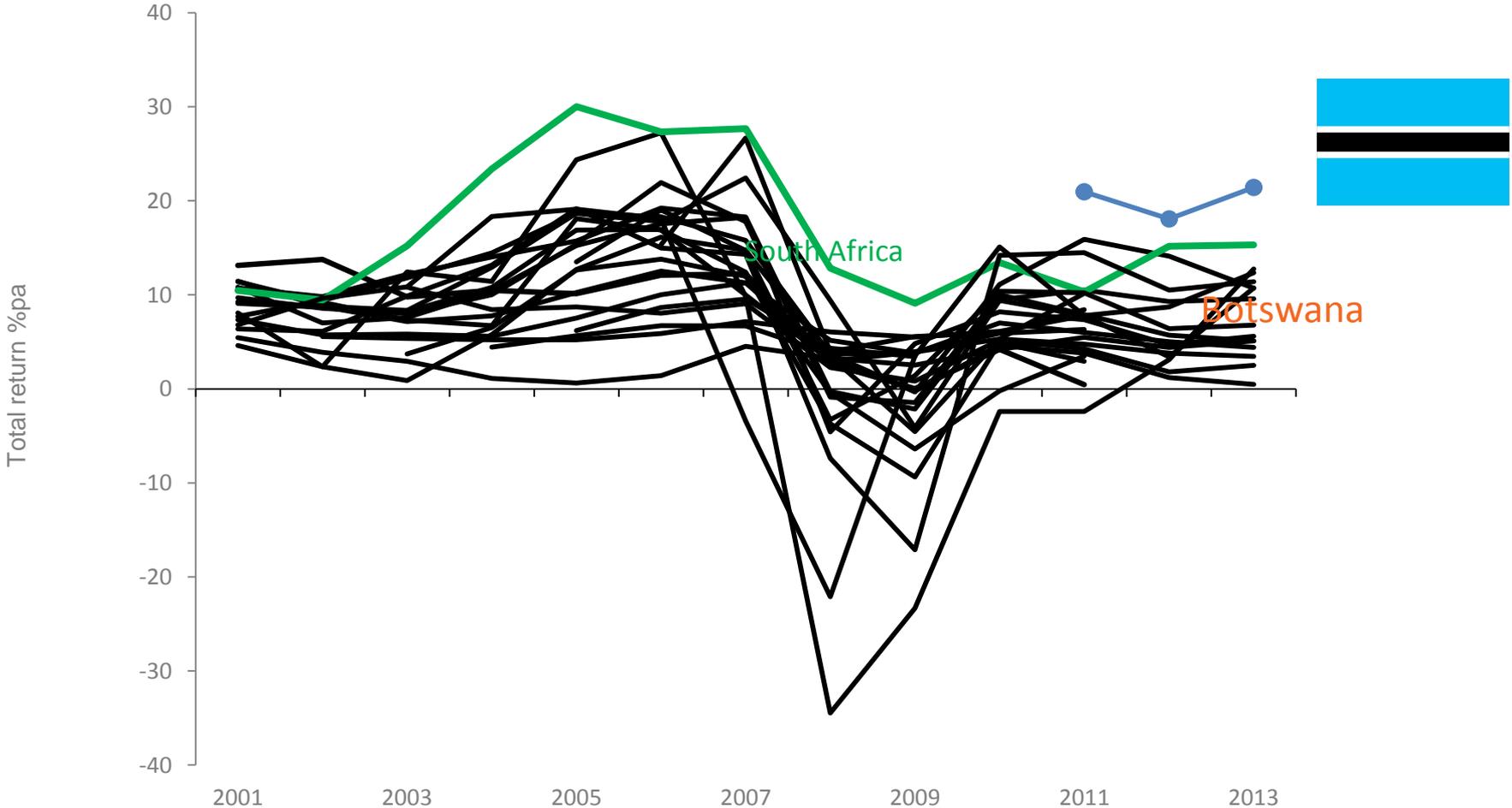
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PROPERTY, A GLOBAL ASSET CLASS South Africa Property Returns



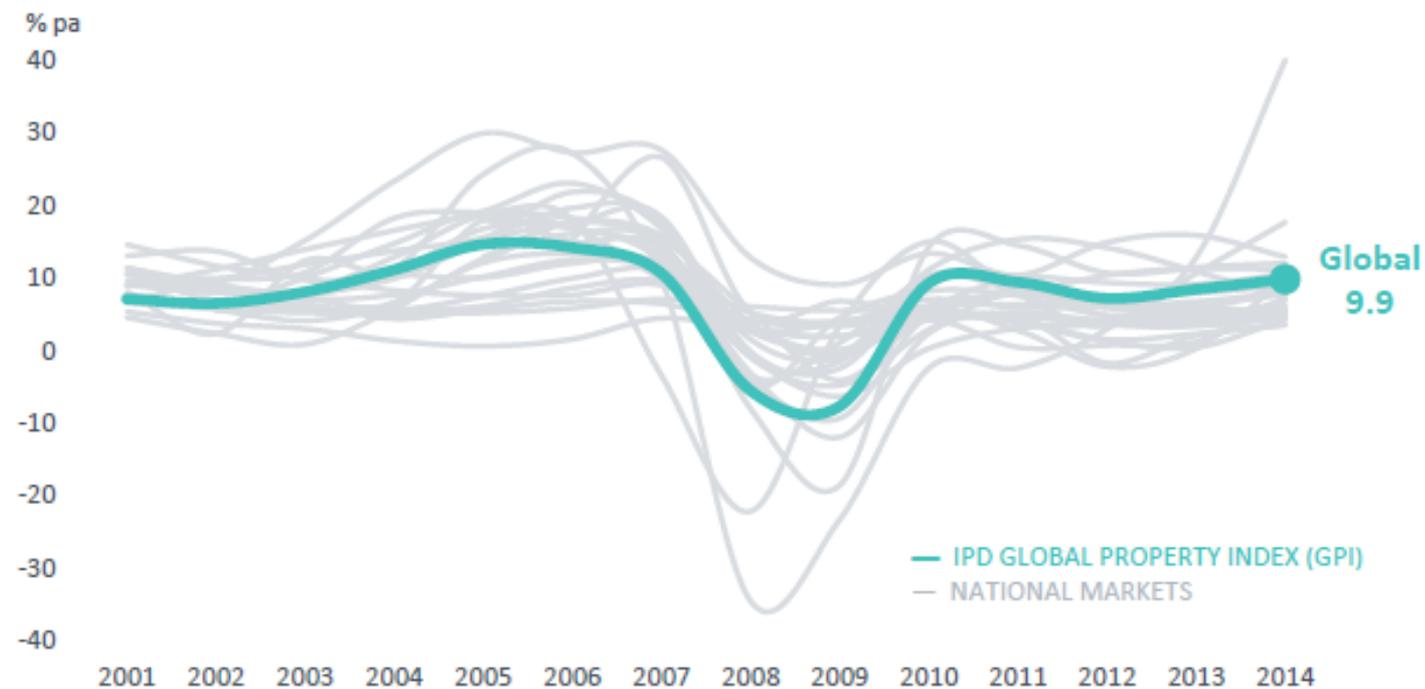
HOW DOES BOTSWANA COMPARE?



GLOBAL PROPERTY RETURNS

Total Returns to 2014 across Global Markets

All property annual returns in local currency



Source: MSCI; KTI



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PENSION FUNDS & PROPERTY

- Pension Funds important in overall investment market
- Nearly 40% of professionally managed assets
- Property, “all weather” protection
- 5-15% allocated to real estates investments
- Routes of Exposure: Public Equity markets; Unlisted Funds; Private Equity; and Direct Lending
- Transparency & Benchmarking



PENSION FUNDS & PROPERTY

- The environment

- Prudential Fund Rules 2
- Trade Act
- Population and Immigration
- Unemployment
- Economic & Property market Performance
- Benchmarks
- Players



PROPERTY INVESTMENT VEHICLES

- Chosen route depends on type of Fund
 - 1) Indirect Investments (listed)
 - Reits; Property companies; listed funds & mutual funds; exchange traded funds (etfs)
 - 2) Direct Investments
 - Limited partnerships; property unit trusts; property managed funds; funds of funds
- Diversification; inflation hedging & cash flows



PENSION FUNDS & PROPERTY

- Property Assets examples



PERFORMANCE MEASUREMENT

PORTFOLIO RETURN AS AT 31 DECEMBER 2015	
Portfolio Gross Income	177,000,000
Portfolio Net Income	138,060,000
Market Value	1,475,000,000
Portfolio Gross Yield	12.0%
Portfolio Net Yield	9.4%

Market values			Portfolio Net Yield	Portfolio CAGR	Portfolio Total Return
Yr 2012	Yr 2015				
865,000,000	1,475,000,000		9.4%	19.47%	28.83%

Cash Flow Projection,
IRR, NPV, banding,
weights, etc

Rank	Property	Total Return
1	A	27.1%
2	B	22.1%
3	C	20.2%
4	D	19.0%
5	E	17.9%
6	F	15.5%
7	G	14.8%
8	H	14.0%
9	J	12.5%
10	K	7.2%
11	L	1.8%

Indicator	Actual/Ratio	Budget	Benchmark	Variance
Net Income				
Net/Gross Income				
Expence/Gross Income				
Trading Arrears/SALES				
Utilities recovery				

REAL ESTATE INVESTING

- Income & Capital Growth
- Characteristics:- limited liquidity, capital intensive, highly cash flow dependent
- Intrinsic value holding out
- Risk (Specific and Systemic)
- Real risk



THE MAKING OF A GOOD REAL ESTATE INVESTMENT PORTFOLIO

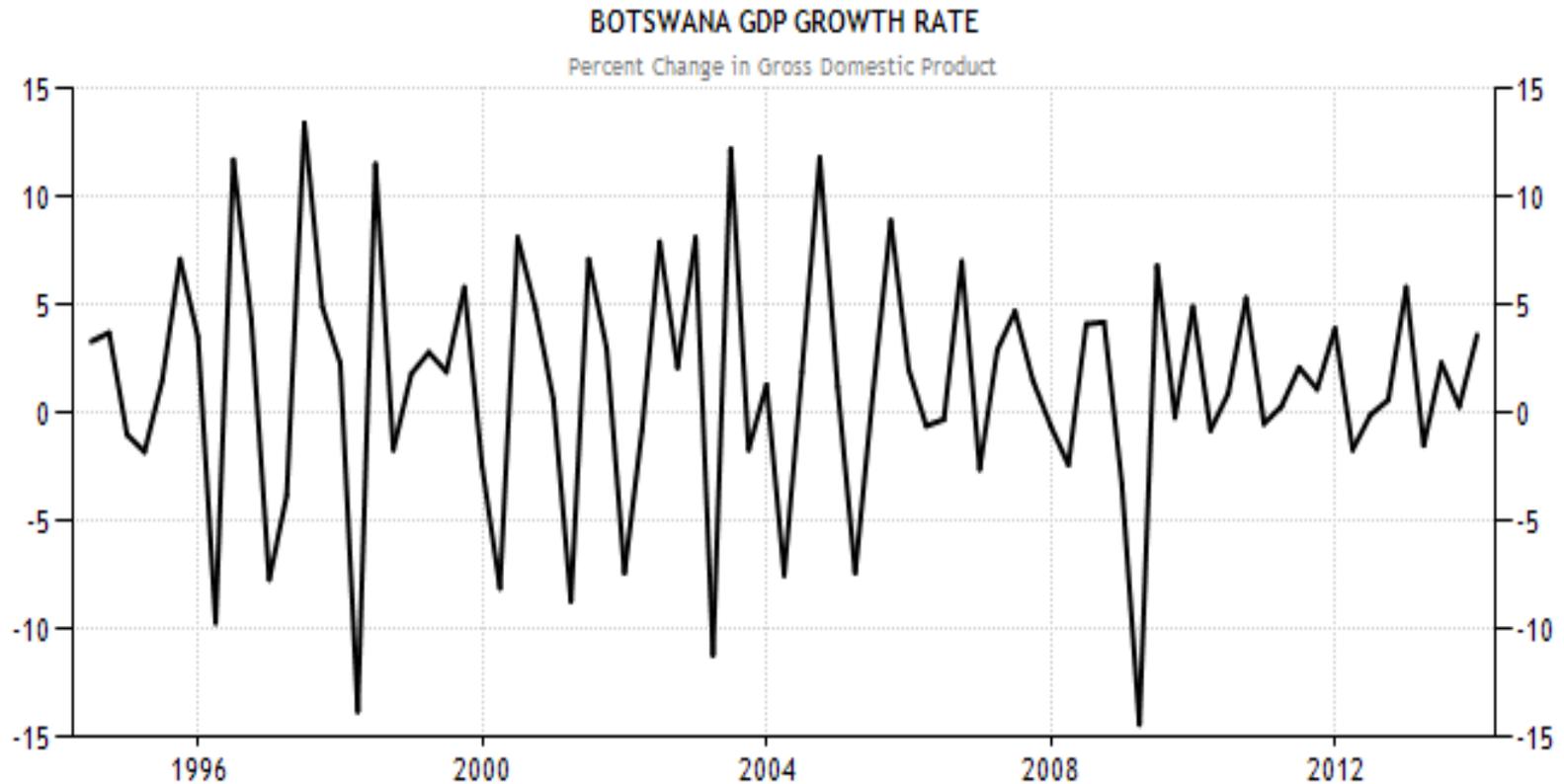
- Client Objectives: return orientated / strategy
- Portfolio Fundamentals
- Forecasting future performance far more critical
- Key considerations: Pays fair cash-on-cash return; Not too Risky; Doesn't require a lot of time managing
- Return Enhancing on existing Portfolio

SETTING PERFORMANCE OBJECTIVES FOR PROPERTY INVESTMENT

- Absolute; Match set of liabilities or Relative
- Real return = Investment return minus Inflation
- Target return= CPI plus x% rate of return
- Consideration to portfolio makeup
- Availability of market Information (IPD, Benchmark)
- Objectives should be Smart
- Better Return Objective is one relative to Benchmark
- Difficulty with property trading in inefficient market
- A 1-1.5% above median return has typically been accepted



NATIONAL ECONOMY



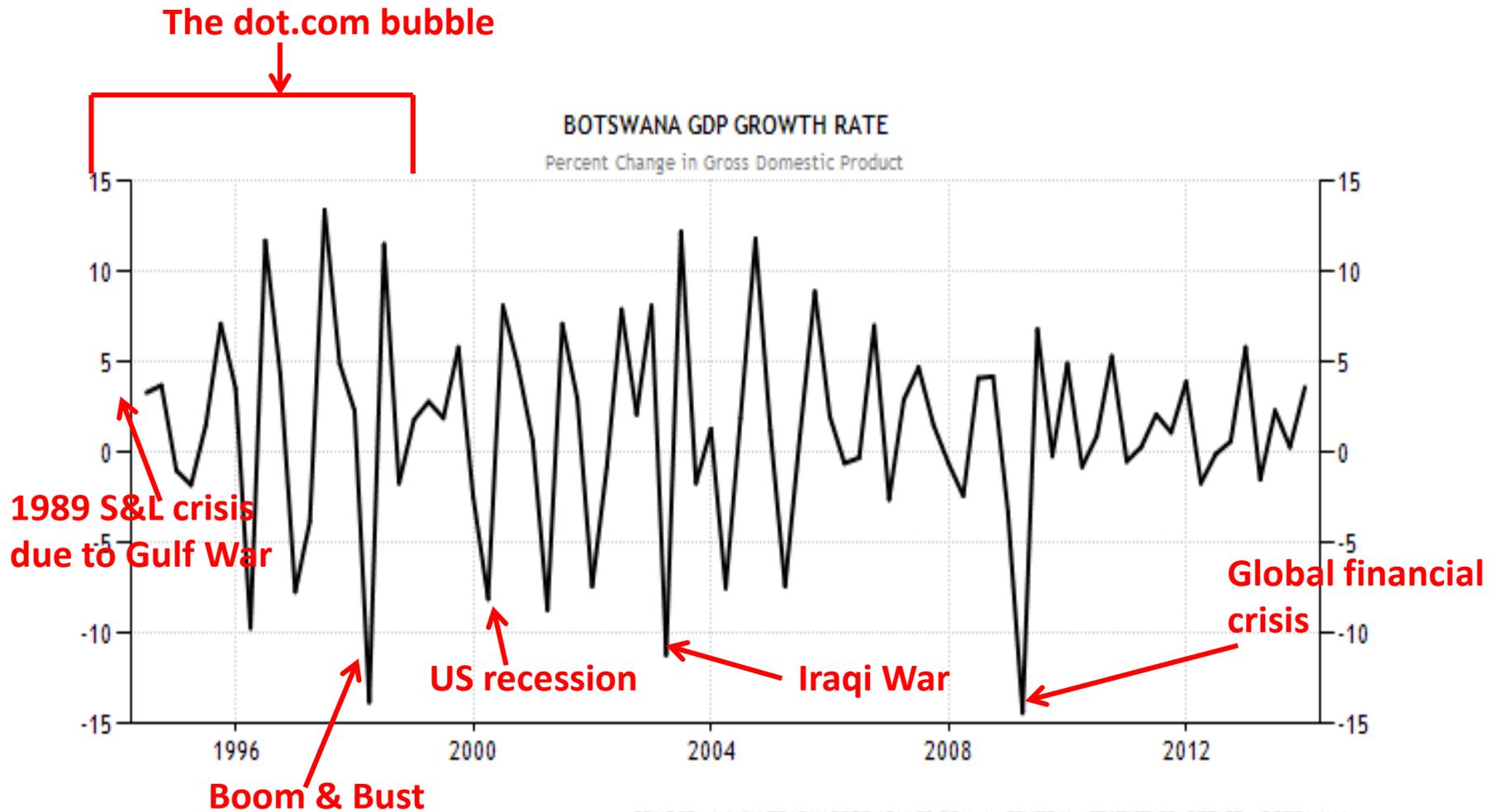
SOURCE: WWW.TRADINGECONOMICS.COM | CENTRAL STATISTICS OFFICE, BOTSWANA



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THE NATIONAL Cont'd



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GROWTH PROJECTIONS - World Bank

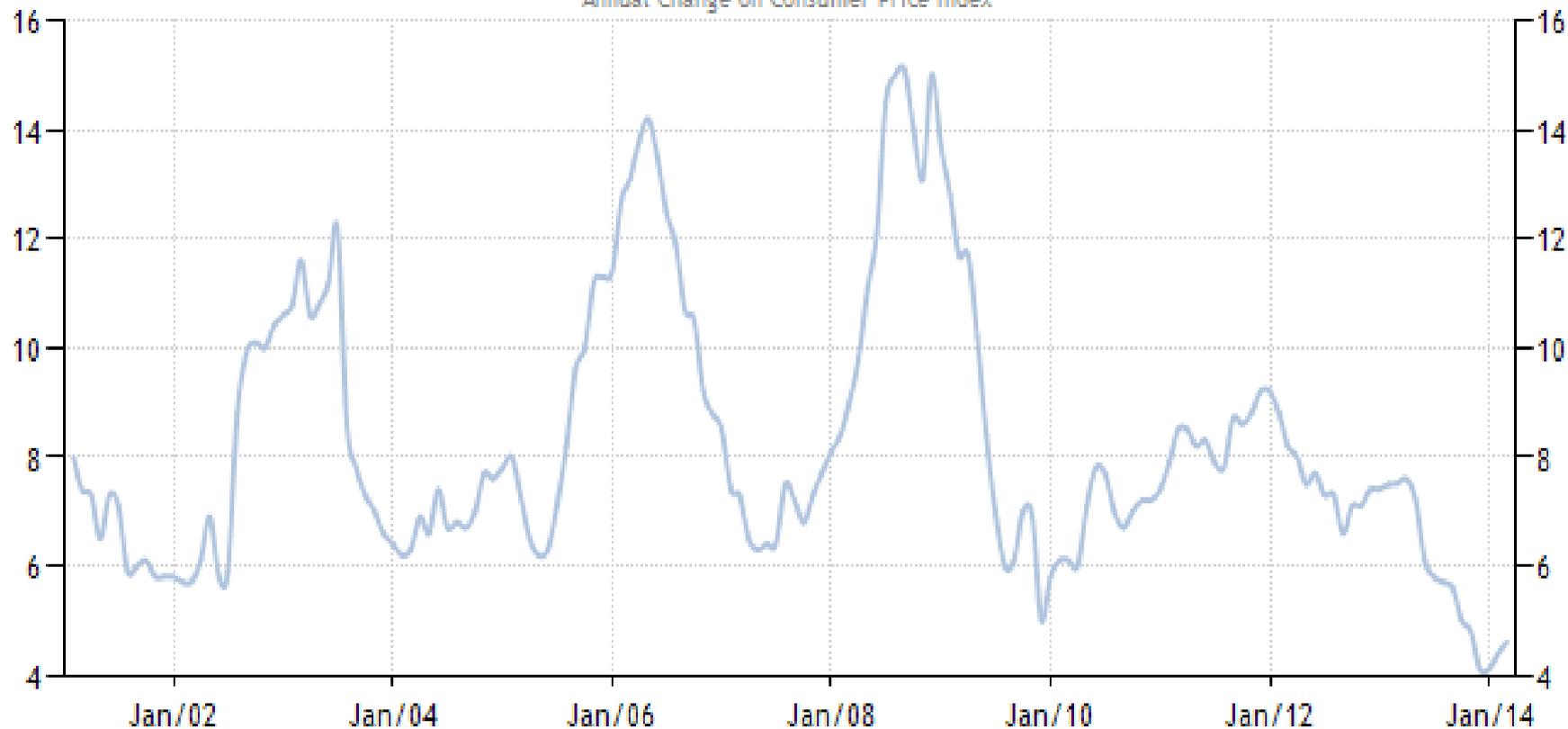
Country/Region	Yr 2013	Yr 2014	Yr 2015	Yr 2016	Yr 2017	Yr 2018
Botswana	9.3%	4.4%	3.0%	4.0%	4.2%	4.2%
South Africa	2.2%	1.5%	1.3%	1.4%	1.6%	1.6%
Sub-Saharan Africa			3.4%	4.2%	4.7%	4.7%
China	7.7%	7.3%	6.9%	6.7%	6.5%	6.5%
Central Europe	2.4%	2.8%	3.6%	3.3%	3.4%	3.4%
North America	1.8%	2.5%	2.7%	3.0%	3.2%	3.4%



INFLATION RATE TREND

BOTSWANA INFLATION RATE

Annual Change on Consumer Price Index



SOURCE: WWW.TRADINGECONOMICS.COM | CENTRAL STATISTICS OFFICE, BOTSWANA



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CURRENT ISSUES

- Per Capita Income trends
- Mining Activity (including DTC relocation), infrastructure
- Dry Port and Coal Exports
- Changes in Pension Fund Prudential Rules
- Low Inflation and Interest Rates
- Supply, Pressure on Rentals, Cap rates
- Exchange Rate BWP/ZAR
- Unemployment still a concern

BENCHMARKS

- Information on property scarce and not organised
- Properties are heterogeneous and no central marketplace
- Property performance measurement in Botswana at infancy, BIFM efforts
- IPD Botswana Consultative reports (2011-2014)
- Botswana, second in Africa to have Index



PROSPECTS FOR PENSION FUNDS

- Growth through Allocation optimisation
- Funding for Housing?
- Investment into Management/FM entities
- PPPs
- Regeneration of city centre property assets
- On-Going Enhancements of Assets held



KHUMO DEVELOPMENT EXPERIENCES



THANK YOU

