

**Presenting
debate on
contemporary
and emerging
portfolio
construction
issues**



portfolio
construction

CONFERENCE

15 & 16 August 2007 | AJC Convention Centre, Randwick, Sydney



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PROPERTY FUNDS MANAGEMENT

Pentacle Property Funds Management

PortfolioConstruction Conference 2007
Constructing an Unlisted Property Portfolio

August 2007

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Constructing an Unlisted Property Portfolio

- ✿ Property as an asset class
- ✿ Asset allocation decisions
 - ✿ Domestic sector allocation
 - ✿ Overseas allocation
- ✿ Return objectives
- ✿ Benchmark asset allocation
- ✿ Manager / product selection

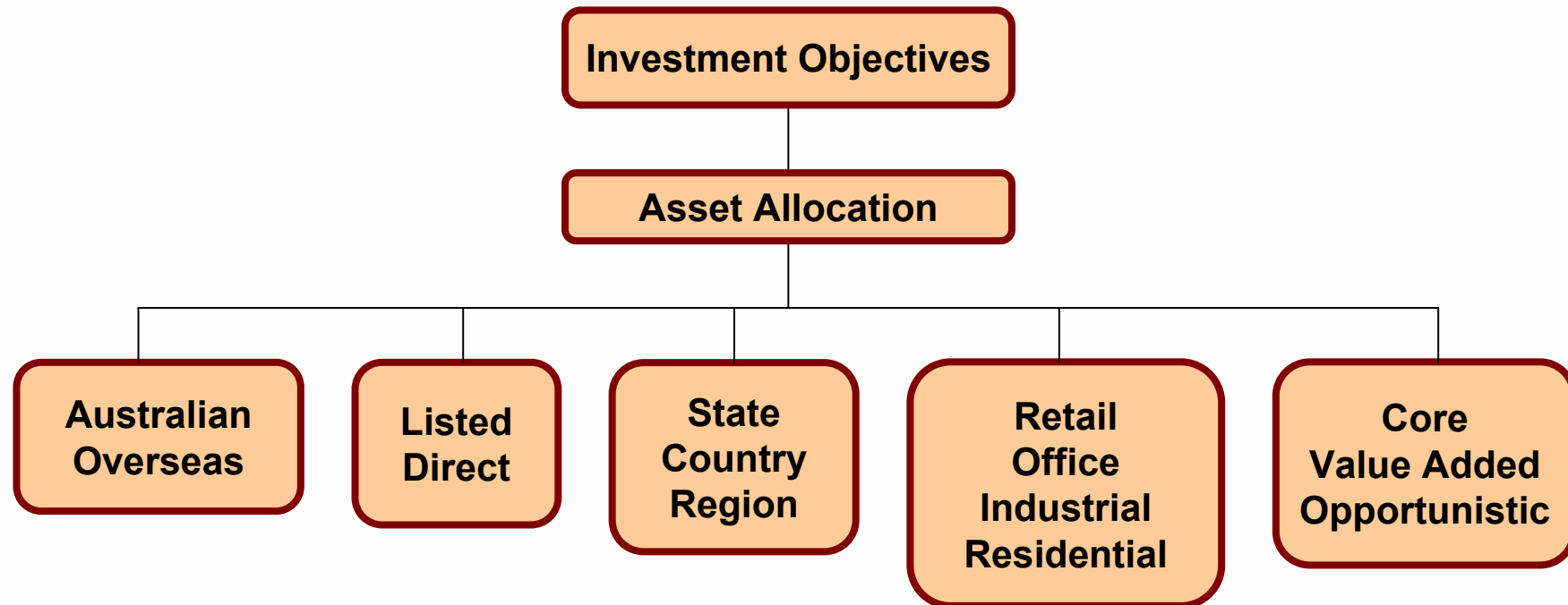
Property as an asset class



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- ✿ Regular income stream via rent
- ✿ Low correlation with other major asset classes
- ✿ Risk between fixed interest and equities

Asset allocation decisions



- ❁ **Commercial office**

CBD office buildings and office parks

- ❁ **Retail**

CBD shopping centres, regional and sub-regional shopping centres, and local or neighborhood centres

- ❁ **Industrial**

Warehouses, manufacturing facilities, distribution centres, business parks

Overseas property decision



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- ✿ Australia less than 2% of world property market
- ✿ Property asset class yet to be globalised
- ✿ Higher diversification benefits
- ✿ Products are emerging

Australian property sector returns

	20 - Yr Return % p.a.	20 - Yr Volatility % p.a.
Australian Direct Property	10.1	4.4
Office	7.9	5.6
Retail	13.5	2.8
Industrial	11.6	3.9
Australian Listed Property	13.4	9.7

As at 31 December 2006
(Source: PCA/IPD/UBS)

Return objectives

Global property sector returns

	Universe US\$ trillion	20 – Yr Return % p.a.	20 – Yr Volatility % p.a.
Global Direct Property	17.3	7.3	4.8

As at 31 December 2006
(Source: EPRA, Atchison Consultants)

Benchmarks



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- ❁ Property index
- ❁ Absolute return
- ❁ Income target
- ❁ Government bond yield + margin

Benchmark property asset allocation

Asset Allocation	Range	Benchmark
Retail property	30 – 60%	42.75%
Office property	20 – 50%	33.25%
Industrial property	5 – 25%	14.25%
Special Opportunity/ Development/value add	0 – 10%	4.75%
Listed property securities	0 – 30%	5.0%
Total		100.00%
Global property overlay	0 – 40%	30%

20 Year Average Income Returns and Volatilities to December 2006

	Return pa	Volatility pa
Composite Property	7.6%	0.2%
Retail Property	8.2%	0.4%
Commercial office Property	7.2%	0.3%
Industrial Property	9.6%	0.5%
Listed Property	8.0%	2.6%
Government 10 year Bond Yield	8.2%	2.9%
Australian shares	4.2%	1.3%
Overseas shares	1.6%	0.1%

Source: Atchison Consultants, PCA/IPD, S&P/ASX, RBA
Volatility is measured by the standard deviation of returns

Returns vs. 10 year Gov't bonds

		Benchmark Asset Allocation Return	10 year government bond yield	Variation
5 years	Return (p.a.)	13.3%	5.5%	7.8%
	Volatility (p.a.)	4.6%	0.3%	
10 years	Return (p.a.)	12.7%	5.8%	6.9%
	Volatility (p.a.)	4.9%	0.6%	
15 years	Return (p.a.)	10.6%	6.7%	3.9%
	Volatility (p.a.)	5.2%	1.5%	
20 years	Return (p.a.)	11.0%	8.2%	2.8%
	Volatility (p.a.)	5.9%	2.9%	

Source: Atchison Consultants, RBA
Volatility is measured by the standard deviation of returns

Manager selection



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- ✿ Retail
- ✿ Office
- ✿ Industrial
- ✿ Overseas
- ✿ Special opportunities
- ✿ Listed securities

Manager products



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- ✿ Types of property
- ✿ Property sectors
- ✿ Geography
- ✿ Commercial risk
- ✿ Return expectations
- ✿ Liquidity

Conclusion

- ❁ Historical analysis provides a benchmark asset allocation
- ❁ Total return to exceed 10 year bonds plus 3%
- ❁ Stable income of 6.5%
- ❁ Asset allocation provides framework for investment proposals

Q&A

A unique unlisted property fund

- ✿ Blending unlisted sector specialist managers
- ✿ Diversification by managers, sectors, geography
- ✿ Liquidity
- ✿ Focus on wholesale sector specialists
- ✿ Low volatility
- ✿ Strong research team on unlisted property

Pentacle Diversified Property Fund



June 30 Portfolio

	June 30 Allocation	Strategic Asset Allocation	Target Range	Australian LPT's*
Retail	45%	43%	30 – 60%	57%
Office	17%	33%	20 – 50%	28%
Industrial	31%	14%	5 – 25%	11%
Special Ops	6%	5%	0 – 10%	4%
Cash	1%	0%	0%	NA
Listed	0%	5%	0 – 30%	NA
	100%	100%		100%

Returns:

- ✿ 7.8% Income
- ✿ 11.88% Total Return

* Atchison Consultants