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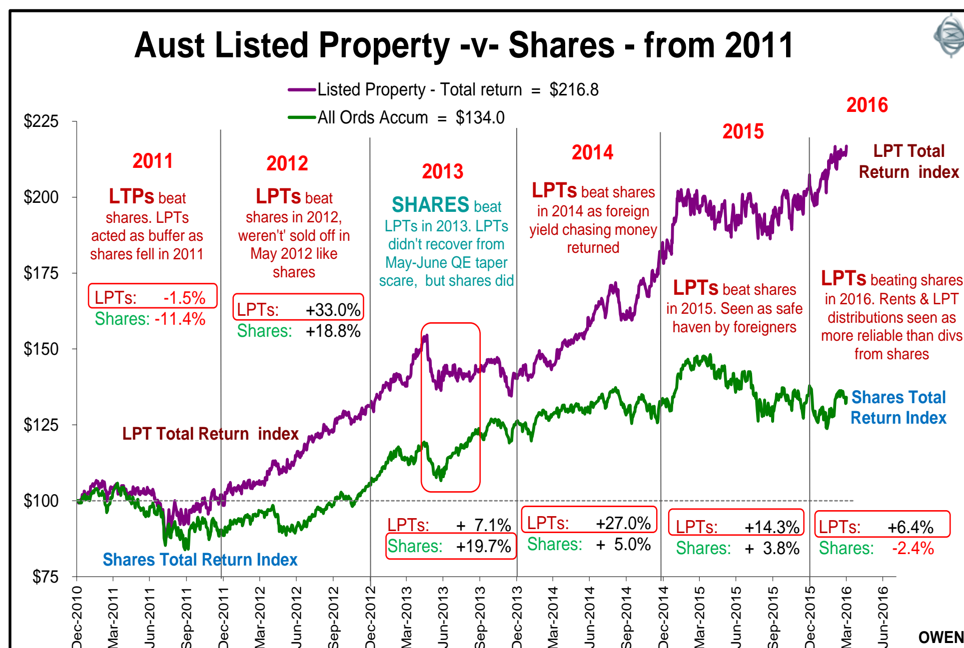
Why listed property trusts are beating shares

Ashley Owen

The listed property trust (LPT) sector in Australia has beaten shares in four of the past five years and they are doing so again so far in 2016. This article explains the reasons and why I have been overweight LPTs in portfolios since the start of 2012.

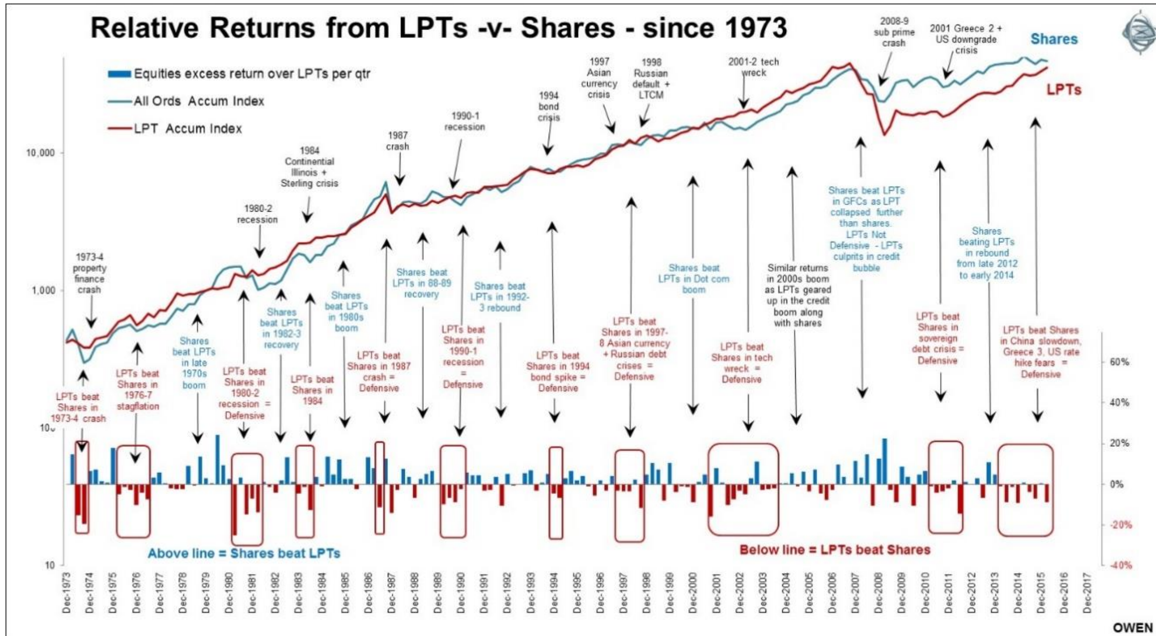


The first chart shows total returns from Australian shares versus LPTs from 2011 until the end of March 2016.

Similar total returns to shares – but different mix

The LPT sector and the overall stock market have each generated total returns (capital growth plus dividends and distributions) averaging around 13% to 14% per year over the past four decades, but the mix of income/growth has been very different. Two-thirds of total returns from shares have come from capital growth (price gains) and only one third from income (dividends). For LPTs, 70% of total returns have come from income (trust distributions) and only 30% from capital growth.

Because LPTs have generated higher income and less capital growth, they have been seen somewhat as 'safe havens' relative to shares, with property rents considered more stable and reliable than share dividends. As such, LPTs have provided a partial buffer against shares



and suffered less in market sell-offs, including the 1973-74 crash, the 1976-77 stagflation, the 1980-82 recession, the 1987 crash, the 1994 bond crisis, the 1990-91 recession, the 1997-98 Asian currency and Russian debt/LTCM crises, and the 2001-02 'tech wreck'. On the other hand, LPTs have underperformed shares in the stock market rebounds and booms between the sell-offs.

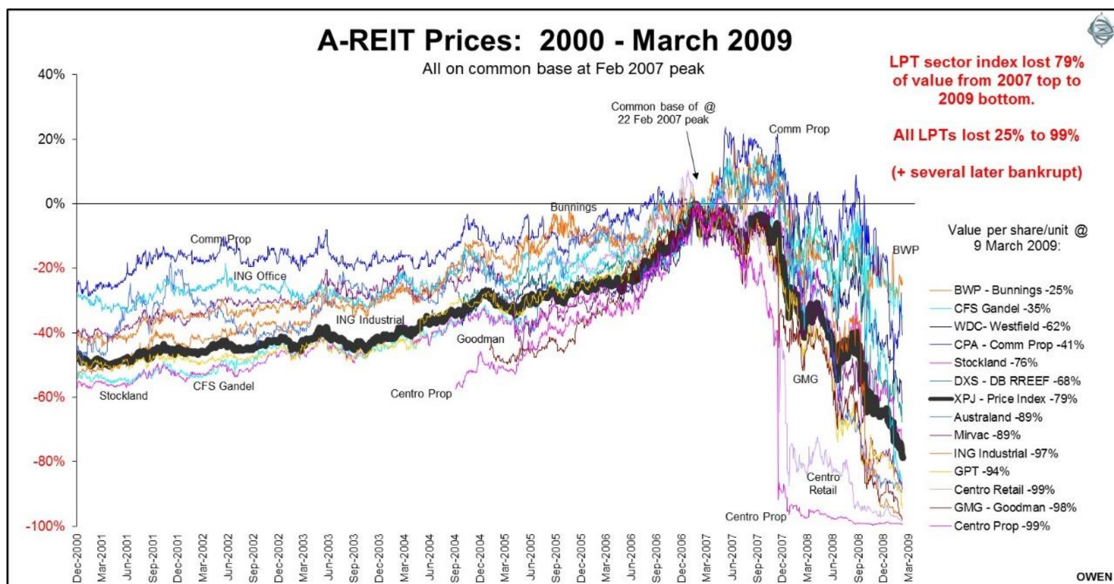
This is shown in the above chart of accumulated total returns from LPTs and shares.

2008-2009 global financial crisis

But the 'safe haven' status of LPTs was shattered in the 2008-09 GFC crash because LPTs were a big part of the problem rather than a defensive safe haven. LPTs enjoyed an almighty bubble in the mid-2000s boom, driven largely by debt, ill-timed and ill-advised expansion, over-priced acquisitions and financial trickery.

Consequently, LPTs crashed even more than shares in the global credit crisis, falling 79% from the February 2007 top to the March 2009 bottom. The All Ordinaries index fell 'only' 52% from top to bottom. The best of the LPTs was BWP (Bunnings), but several were down more than 90%, including aggressive up-starts like Centro and Goodman, but also formerly conservative, decades-old trusts like GPT.

The following chart shows the extent of the price collapses of the main trusts and the overall LPT index in the 2008-09 GFC crash.



To make matters worse, many thousands of investors used margin loans to gear up into LPTs, cooking up a 'Sara-Lee' layer cake of gearing. Untold thousands of investors lost their life savings and their homes when prices crashed and lenders sold out at the bottom and repossessed assets to secure their loans.

LPTs underperformed shares in 2007, 2008, 2009 and 2010. The catastrophic losses, bankruptcies and financial shenanigans in some LPTs turned many local investors off them for life. The final straw was the disgraceful treatment of unitholders in several trusts that diluted loyal investors by not allowing access to deeply discounted emergency capital raisings in the depths of the crisis.

LPTs reborn

In the aftermath of the crash the surviving LPTs re-structured and cleaned up their act. They dumped their CEOs, shed foreign acquisitions, raised equity, cut debt levels, rebuilt capital, shifted from short-term debt to more stable long-term debt, returned to low-risk rent collecting and limited development in their core markets.

When we underweighted shares in portfolios in mid-2011 prior to the stock market sell-off in the US downgrade crisis, we favoured LPTs (and bonds). We continued to favour LPTs when we overweighted shares again from early 2012 at the start of 'QE'.

Since then LPTs have out-performed shares in 2011, 2012, 2014 and 2015. (In 2013 LPTs still returned a modest +7% but shares did even better at +20%).

Listed beat unlisted property

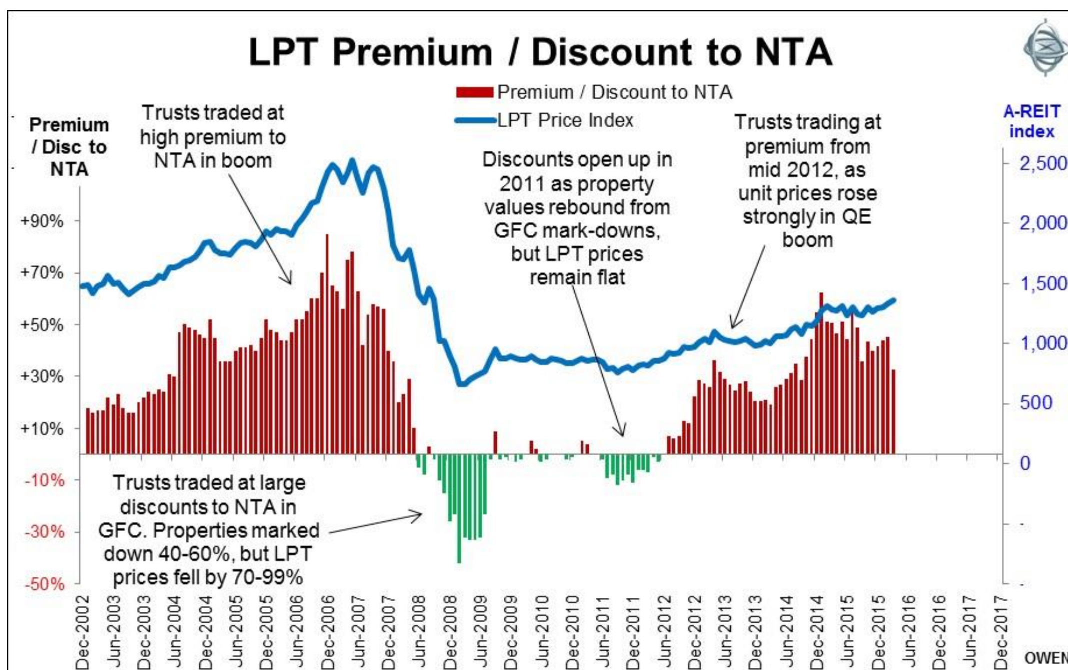
LPTs also outperformed unlisted property over the 2011 to 2016 period because LPTs were trading at discounts to the net value of their underlying properties at the start of the period. The discounts disappeared as prices rose, and the sector is now trading at a premium, as shown below.

This shift from discounts to premiums boosted returns for LPTs relative to the underlying commercial property market. The listed sector has returned more than 15% per year on average over the past five years, well ahead of unlisted trusts and direct properties at 10-11% per year.

Current position

We believe the LPT sector is now fully priced. Distribution yields are at record lows, most trusts are trading at significant premiums to the value of their underlying properties and properties are valued on record low yields (capitalisation rates). Gearing levels are creeping up again, although this time with more stable and long term debt structures than in the mid-2000s credit bubble.

However, I still believe that the foreign investors who have mainly driven up prices will continue to support LPTs. While LPT yields are at historic low levels they are still significantly higher than local and global rates on cash, bonds and bank term deposits. Further, rents from 'bricks and mortar' which underpin distributions from LPTs are seen as more reliable than dividends from shares. The two big sectors of the local stock market – banks and



miners – are coming under increasing pressure to cut dividends, whereas rents from commercial properties are holding up while the labour market remains relatively strong and the unemployment rate is not rising.

Ashley Owen (CFA, BA, LLB, LLM, Grad. Dip. App. Fin) has been an active investor since the mid-1980s, a senior executive of major global banking and finance groups, and currently advises wholesale investors and advisory groups. This article is general information and historical facts for educational purposes only. It is not intended as advice and it does not consider the personal circumstances of any individual.

Why bother with company visits?

Chris Stott

As an institutional investor, each year we arrange in excess of 1,000 face-to-face meetings with the management of companies and site tours of their operations. The visits provide deep insights into a business and its operations and are critical to our investment decision-making process.

But with companies required to disclose to all investors material information about their business, why bother with company visits?

The continuous disclosure regime

Pursuant to ASX Listing Rule 3.1, market participants are required to immediately disclose to the market all material information about their business, with the exception of confidential information. The Australian Securities and Investment Commission (ASIC) is charged with market surveillance and enforcing the continuous disclosure obligations. Commissioner John Price explained the regulator views continuous disclosure by companies as:

"a bedrock of market integrity … essential to two of ASIC's priorities: fair and efficient markets and confident and informed investors."

Over the past decade, compliance with the market's continuous disclosure rules has been significantly tightened. In August 2010, ASIC took over responsibility for supervising trading activity in Australia's domestic financial markets from the Australian Securities Exchange (ASX). Since this time there has been a marked increase in insider trading prosecutions. In 2013, ASIC implemented the Market Analysis and Intelligence (MAI) surveillance system enhancing the regulator's ability to monitor market activity. ASIC can now conduct real time surveillance of market trading activity and has the ability to analyse large data sets to identify irregularities on a timely basis.

So then, with a rigorous continuous disclosure regime requiring companies to disclose to all investors material information, what do we achieve by visiting so many companies?

1. Efficiently gain insights

Compared to a day spent researching and analysing public information on a company at a desk, a one-hour meeting with a company's CEO discussing their business allows us to quickly ascertain how they generate profit. It helps us to determine a value for the business. With limited sell side analyst research available on the majority of the 2,000 plus ASX-listed companies (that is, those falling outside of the S&P/ASX 300 Index), company meetings are particularly critical.

2. Assessing management

Our assessment of a company's management team is critical to our overall valuation of a business and one of the most important factors informing our investment decisions. We gather some of our most valuable insights about a CEO and senior executives in our face-to-face meetings. Much like in job interviews, we generally form a view of a person within the first one to two minutes. We gain a powerful impression by observing the body language and the overall demeanour. For example, whether they maintain eye contact and what their posture is. In addition to non-verbal communication, a person's tone of voice and how they interact with their colleagues is import. Meetings help our understanding of management's motivations and ensure their interests are aligned with their shareholders.

3. Understanding culture

One of the key filters we apply when making an investment decision is looking for positive corporate culture. Research demonstrates a strong correlation between a company's culture and its financial performance. A good corporate culture is more important than ever to attract younger talent with Millennials (the generation following Generation Y) seeking more flexible work arrangements. For example, an increasing proportion of teaching graduates are now preferring part-time to full-time positions for flexibility.

As a general rule, annual reports and other reported information provide very limited insights into a company's corporate culture compared with a meeting. A meeting or site tour allows us to truly gauge the state of a company's culture. For example, we can observe how a manager engages with their staff at all levels of the business.

Silver Chef Limited (ASX: SIV) is a company we hold in the highest regard for their corporate culture (disclaimer: we also invest in this company). Providing hospitality equipment funding, Silver Chef is committed to giving back to society (through support for Opportunity International) and to contributing to employees' wellbeing by promoting values of work-life balance, health and happiness.

4. Deeper understanding of financials

Financials are the life blood of a business and in making our investment analysis, reconciling cash flow is our focus. Frequently, our investment team has questions for the Chief Financial Officer about a company's reported financials. If we are not satisfied with management's responses, for example, questions about the numbers cannot be answered or we do not think they stack-up, we make a conclusive decision not to invest.

5. Determining consistency of 'story'

At least every six months we meet with management after results are reported and each time we ask some of the same questions to ascertain if their 'story' remains the same. A lack of consistency in a company's message over time raises concerns about their strategic direction and is a key factor impacting our investment decisions. In our view, the disciplined and consistent execution of a company's strategy over time is a measure of management's ability, as well as their trustworthiness.

6. Industry insights

Meetings with management are an important source of intelligence on the market in which the company operates, including their competitors. We gain insights from company visits that enhance our understanding of the industries in which we invest and their key drivers.

In summary, management meetings and company site tours are incredibly valuable for a range of reasons. In our view, company visits will always form the core of a 'bottom-up', stock picker's investment approach.

Chris Stott is Chief Investment Officer at Wilson Asset Management (WAM). WAM will soon provide investors with access to research-driven and index-unaware funds management focused on Australia's large-cap listed companies through its new listed investment company, WAM Leaders Limited (ASX: WLE). To find out more, see here.

Don't sweat the big stuff

Mark East

It is amazing how much brainpower is dedicated to thinking about the big-picture macro issues and staying up-to-date on the minutia of the daily financial news flow. News on US non-farm payrolls, China's latest PMI reading, and Yellen's latest utterance consume considerable media and investor attention. In our opinion, all of this can be a time-consuming distraction for investors and confuses their ultimate goal: building and protecting wealth.

The economy is unpredictable

Investment success is ultimately determined by what happens in the future, and trying to pick the big-picture macro issues is extremely difficult.

The economy is practically infinite in size, is interlinked, and is self-adapting. In science speak, the economy is a 'complex adaptive system'. In simple terms, it is all over the place. Just one of the many reasons given for the recent run up in the iron ore price was a flower show in October in Tangshan, an important industrial Chinese city whose steel mills have been told to shut down in an effort to reduce pollution in time for the show. Notice of the shutdown brought about a build-up in steel inventories beforehand, bringing forward demand for iron ore which is used in its production. Thus, to ensure some healthy gerberas in China, we saw the iron ore price run up hard, Fortescue's stock price double, Western Australian and Federal Government budgets get a boost, and a range of other economic consequences including a strengthening Australian dollar. It is doubtful, however, that economists will incorporate flower shows into their calendar of important upcoming events.

At least in hindsight, the effects on an economy of a flower show can make sense. Less rational factors can also come to bear on how an economy evolves. To take an example that has troubled the Reserve Bank of Australia (RBA), Australian business investment has been lacklustre in recent years despite supportive low interest rates. The culprit in

the RBA's view has been a lack of 'animal spirits'. Factors like boardroom confidence, consumer confidence, and banks' risk appetites are obviously not easily given to financial modelling or forecasts, yet they can have a significant impact. The economy is the sum of a great number of transactions entered into by real people in which human nature inevitably plays a part.

To summarise, the range of factors affecting the wider economy is virtually infinite, and not all are given to rational analysis.

Very few investors have done well by placing their bets largely behind economic forecasts; indeed, many like Warren Buffett have succeeded by ignoring them. Paul Samuelson, a US economist, famously said in the 1960s that the stock market has predicted nine out of the last five recessions. In recent Australian history, the record has been worse. Taking some other examples:

- offshore hedge funds have predicted nine of the last zero Australian housing busts and lost bundles shorting the Australian banks in the process
- almost no one predicted the oil price falling from US$100 to US$30 a barrel and the significant loss of value from holding oil stocks like Origin and Santos
- only a few characters depicted in The Big Short movie saw the mayhem start to unfold in the US housing and mortgage markets that gave rise to the GFC.

Yet despite the difficulties, the media and investors spend considerable time second-guessing the Fed and the RBA's next rate decision, whether GDP growth will be 2.5% or 2.7%, and the year-end level of the All Ordinaries. Even when we don't believe in the data itself, as is the case for Chinese GDP and other data, we still insist on having a guess on what it will be. But for what?

Predicting the economy and investing as separate endeavours

Even if investors could accurately predict the big macro variables, it does not follow that they will enjoy strong investment returns. Studies reveal that there is little correlation between GDP growth and the share market's return, and to the extent that there is a relationship, it is slightly negative. This may seem a somewhat surprising conclusion. No market commentator will say, "The economy is continuing to deteriorate and so I remain bullish on the stock market." Interestingly, this line of thinking has proven itself to work for most of the time since the GFC. Bad economic news has been taken as reason for further monetary easing, which in turn provided support for share prices. Bad news for the economy was therefore good news for stocks. Some investors whose macro predictions from some years ago now look like nonsense have produced some of the best investments returns, and vice versa.

One of the intricacies of investing is that successfully predicting the future does not ensure success. Asset prices are discounting mechanisms, meaning that markets discount, or incorporate, expectations of future earnings, interest rates, oil prices, and other relevant variables. Taking the example of stocks, there is little prospect for investment outperformance by holding a stock whose earnings perform in line with expectations, and which was probably therefore priced right after all. Investment outperformance generally requires that a company actually exceeds expectations, however bullish they might be. Thus, investment outperformance often requires the investor to have both a differentiated view and that it ultimately proves correct. In this respect, investors should consider where they might find an investment 'edge'.

Finding your edge by recognising levels of complexity

In our view, it is far easier to find such an edge once it is broken down into bite-size pieces. We admit to no skill for example in accurately forecasting currencies. Here, the game is played across a large and complex world, quite literally, and it involves an almost infinite number of inter-related variables (flower shows included). The less variables that come into play, and the more predictable the outcomes, the more likely investors can find an edge.

Moving down the difficulty scale, the oil price is a somewhat more manageable game to play. Unlike most commodities, demand for oil is quite stable, growing slowly on a global basis. Likewise, those that put in the effort can get a reasonable handle on oil production. While understanding the supply-demand dynamics might not afford precise oil forecasts for the near term, it can give rise to some reasonable assumptions over the medium and longer term that could be used in assessing oil company valuations.

Further still down the difficulty scale, is demographics, where predictions of an ageing population can form a useful view on the growing need for healthcare services. Or finally, in a specific industry such as the supermarket or fast food

industries, it is possible to understand which operators might eventually win and lose.

At Bennelong Australian Equity Partners, we tend to keep it simple by focusing on the more predictable companies, typically those high quality businesses selling recurring and often relatively defensive products. These are the types of companies that will see themselves through difficult economies and prosper over time. Two examples our funds have owned for many years are Ramsay Health Care, the largest private hospital operator in Australia and which benefits from an ageing population, and Domino’s Pizza, the pizza shop business that has clearly beaten its competition through innovation and an improved customer offering.

Of course, it is not necessary to find a personal investing edge to achieve a decent return if you can find someone else with an edge. A fund manager with a successful long term track record is the obvious place to start. Genuine diversification is vital, not the type from concentrating your portfolio in the big banks, some Telstra or Woolworths, and a resource stock or two. Genuine diversification means a portfolio spread across a range of macro exposures. Such a portfolio can better deal with the unpredictable and should provide the investor with the comfort that comes with being prepared for any macro eventuality.

Conclusion

We are inundated with negative headlines, dire economic outlooks and even predictions of imminent doom. Unfortunately, the reasoning behind this negativity often seems to make sense, and indeed prudent. The alternative argument, rarely put forward and seemingly blasé, is that capitalism will find a way for the economy and markets to advance through whatever arises, as it always eventually has.

In our opinion, trying to second guess the broad macro variables such as currencies and GDP growth offers limited value add over time. Investors are better advised to focus their efforts on the actual task of building wealth, and to this extent, focusing on setting up a portfolio to deal with continuing economic uncertainty and that makes use of any investment edge.

Mark East is Chief Investment Officer at Bennelong Australian Equity Partners (BAEP). This article is general information and does not consider the needs of any individual.

Dividends: more is less, less is more

Rudi Filapek-Vandyck

Over the past five years, the MSCI All Countries (AC) World index, representing equities for the global investor, has delivered a return of just 3.8% per annum, excluding dividends.

In Australia, share market returns over the past two years have been worse. Luckily, the Australian share market offers partial compensation by offering the world's highest yield from equities, on average.

No wonder investor attention is so much focused on dividends and yield these days. It's what is required in order to achieve reasonable and acceptable returns, or so it appears.

Dividends: the trend has been your friend

In the example of the MSCI AC World index, the average dividend yield over the past five years has been 2.9%, implying a contribution to total returns of more than 40% over the period. In Australia, the average dividend yield is usually around 4.5% but recent cuts, predominantly by resource companies, have lowered average yield for the ASX200 to circa 4%.

For superannuants in retirement phase trying to live off annual income from their investments, 4% probably is not enough, so they have gone searching for higher yielding alternatives. 6%. 7%. 8%. To those hunting for higher yield, it's all available in the Australian share market. Their key consideration is: can companies continue to pay at least the same dividends in years to come?

Despite high profile dividend cuts by the likes of BHP Billiton (BHP) and Woodside Petroleum (WPL), the answer in the overwhelming number of cases has been: yes, the company can.

Thus far, dividend-oriented investors have had the trend on their side. Faced with tougher growth and lower returns, companies have increasingly succumbed to satisfying growing investor demand by jumping on the bandwagon themselves.

Australia has a long tradition in this field, but, for example, in 1998 only 35% of companies in ASEAN countries paid out dividends to shareholders. Today the percentage is a whopping 95%. The average payout ratio throughout the region has steadily lifted over the period to 50% today.

But this is not an opportune moment to become complacent. There's a fair argument that the first cracks in the global dividend theme have now started to appear. With growth tepid and payout ratios often at elevated levels, investor attention should focus on 'sustainability' and on 'growth'.

While the absence of the latter might seem less important to income-only seeking investors, absence of growth can translate into capital losses in the short to medium term, and impact on sustainability in the longer term.

Why less is (often) more

Share markets are not always efficient or right, but they do have a sixth sense for separating the strong from the weak, in particular when it comes to dividend-paying companies. Remember when BHP was supposedly offering double digit yield? A few months later, after the board succumbed to the inevitable, BHP shares are trading on yield of circa 3%, ex-franking.

The share market provides investors with insights on a daily basis. Consider Graph 1 below, taken from my eBook "Change. Investing in a Low Growth World", published in December 2015. The number represents the forward-looking yield ex-franking.

When it comes to deriving yield or income from the share market, 'more' is seldom best while 'less' might generate a lot more in total return.

The practical application of this market observation is probably best illustrated through my list of personal yield favourites in the Australian share market: APA Group (APA), Goodman Group (GMG), Sydney Airport (SYD) and Transurban (TCL). All offer yields between 3.5%-4.5%. All remain in positive territory thus far in 2016, dividends not included, and all generated positive returns in 2015 as well as in the years prior.

In contrast, ANZ Bank, whose implied forward-looking yield has now risen above 7% (franking not included), has not managed to add any capital gains on top of the annual payout in dividends both in 2014 and 2015. With the share price down significantly since January, 2016 might become the third year in succession that total shareholder return will be less than the yield on offer.

The principle also applies among the banks with both CBA and Westpac offering lower yield but significantly outperforming their higher-yielding peers ANZ Bank and National Australia Bank.

A smorgasbord of possibilities

Investing in yield stocks is not a static concept. Changes in the economic cycle lead to shifts in investor preferences, impacting on share price momentum and, ultimately, on total investment return.

Often market commentators and investors take guidance from overseas leads but, beyond the day-to-day volatility, regional differences command differences in yield preferences and thus tailored investment strategies.

Let's take a look at the options of yield stocks and strategies investors can choose from:

Graph 1: Estimated dividend yield (ex-franking) and implied market risk assessment

Bond proxies - defensive stocks with plenty of cash flows (hence the potential to offer yield) but often with low to no growth. Think REITs and infrastructure owners and operators, and perhaps Australian banks at the moment.

Growth at a Reasonable Yield (GARY) - reasonable yield, backed by growth which is not yet priced at too high a Price-Earnings (PE) multiple. GARY often leads investors to industrial companies trading on mid-to low teens PEs while offering 4-5% yield. In today's context this could include the likes of Pact Group (PGH), Lend Lease (LLC) and Smartgroup (SIQ).

Dividend champions - companies who have a long history of not cutting dividends. In Australia Telstra (TLS) would be such an example and arguably the major banks. The obvious warning here is the legacy from the past doesn't count for much when things turn dire. Companies including BHP, Metcash (MTS), Fleetwood (FWD) and GUD Holdings (GUD) that used to have an enviable track record have been forced to reduce or to scrap dividends.

Cash proxies - companies swimming in cash but with low 'beta'. Genworth Mortgage Insurance Australia (GMA) just announced a special distribution of 34c per share plus consolidation of its outstanding capital.

Yield at low risk - see Graph 1 and my favourite yield stocks mentioned above (APA Group (APA), Goodman Group (GMG), Sydney Airport (SYD) and Transurban (TCL)).

High dividend yield – Companies such as Monadelphous (MND) and Duet Group (DUE) seem to have high yields but are they sustainable? Investors should be aware at all times share markets do not offer free lunches.

Low yield with strong growth - investors who bought Blackmores (BKL) shares three years ago are this year enjoying a forward yield of 6.74% on their original purchase, plus franking.

Current preferred strategies

As financial conditions tighten amid slower growth, payouts (including buybacks and dividends) will become unsustainable for many companies. My preference in the current market is for stocks with GARY and 'Dividend champions' characteristics when it comes to yield strategies.

For Developed Markets in general, GARY and 'Yield at low risk' are likely to generate the best results.

Rudi Filapek-Vandyck is Editor of FNArena. This article is for educational purposes and does not consider the circumstances of any individual.

China's little emperors prop up Aussie housing market

Narayanan Somasundaram

Han Fantong, an accountant, beat almost 60 other bidders to buy a three-bedroom home in Melbourne in November for $930,000. He had an advantage – full funding from his parents back in China.

Han, 32, an Australian permanent resident, bought the house on 688 square meters (7,400 square feet) of land in Ringwood East, about 30 kilometres east of Melbourne's business district, after a five-month search. His parents sold a 23-year-old two-bedroom apartment in Beijing for 8.1 million yuan ($1.65 million) to help pay for the property, he said by phone.

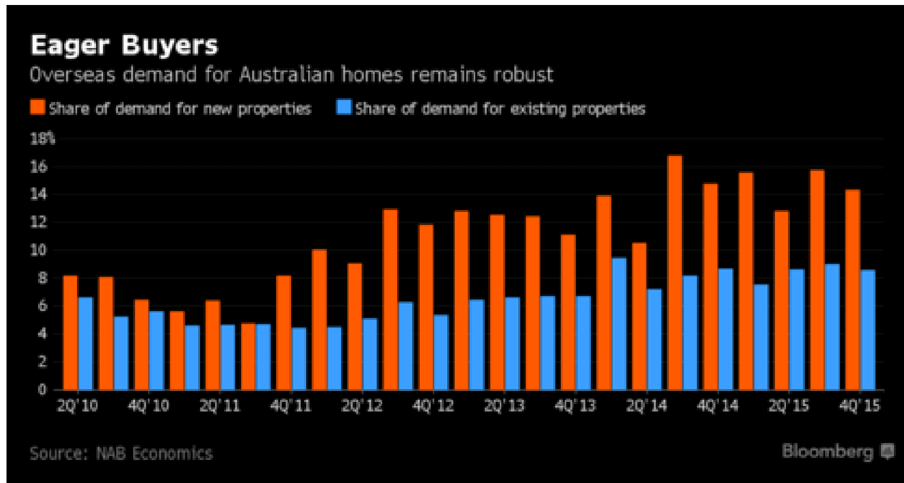
"It comes as a tradition in China to buy a home for a son to establish a family," said Han who lives in the house with his 29-year-old wife Chen Junyang. "Without my parents, it would still be difficult for us to bear the large mortgage loans."

Han is among scores of buyers who with the backing of relatives in China are underpinning a housing market in Australia that's coming off the boil. More than half the buyers of Chinese origin are supported financially by relatives residing in the world's second-largest economy, according to McGrath Ltd, Australia's only listed real estate agency. The firm's China desk has assisted in sales worth A$140 million since it was established in September 2013.

Increasing demand

Such demand, whether from permanent residents or overseas buyers, has triggered community concern that locals are being priced out of Australia's property market. The government has responded to the unease with tighter scrutiny of foreign investment that critics say may deter much-needed offshore capital.

"Chinese buying in Sydney and Melbourne has stepped up from say where it was five years ago, but publicity around that has created a perception which has run ahead of reality," said Shane Oliver, chief economist at AMP Capital Investors Ltd. in



a June peak, doesn't seem to have put a dent in demand.

And channels to get money out of China, where top-tier city home prices have been surging, remain open, even amid a crackdown by Beijing on capital outflows. As Bloomberg reported in November, Chinese nationals can break down cash into small amounts to avoid official scrutiny, and enlist friends, relatives and even employees to send out the money on their behalf.

Sydney. "The Chinese demand – both from mainland China and Chinese Australians – is propping up the market and boosting construction."

Leo Yu, 31, an Australian citizen, last year bought a two-bedroom apartment in the inner-Sydney suburb of Surry Hills, known for its cafes and restaurants, with the help of his parents from Qingdao. They gave him $73,000, part of it from China, toward a 20% deposit on the unit, which cost $835,000. The rest of the money was through a bank loan. Yu, an accountant, is renting out the property.

"The property can protect my parent's money from inflation and foreign-exchange risk," he said. "One day when they come to Australia for family reunion, I can sell the property to repay the deposit so that they can buy their own retirement home."

Hot market

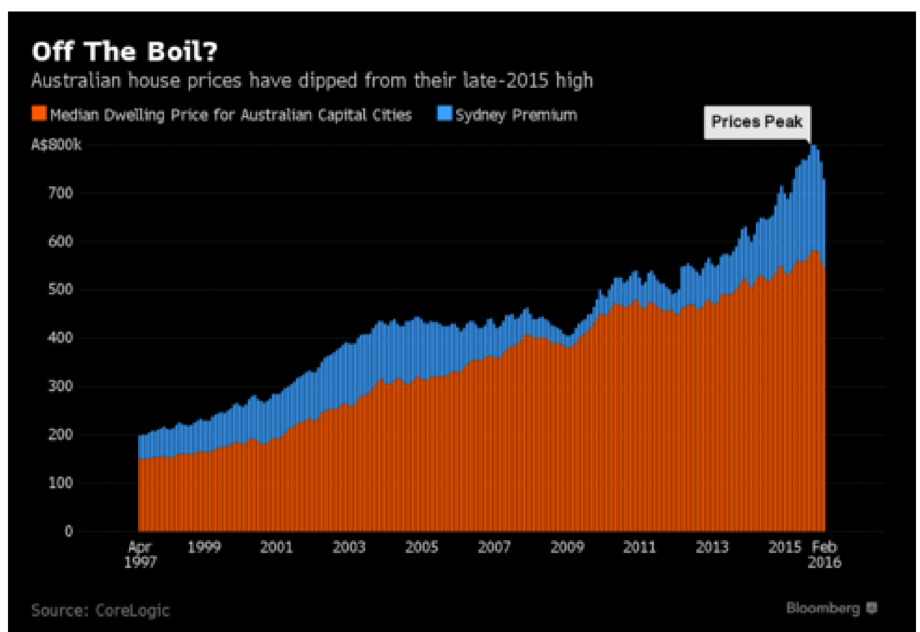
Purchases by foreigners, many with a connection to China, helped drive an almost 55% jump in home prices across Australia's capital cities in the past seven years as mortgage rates dropped to five-decade lows. The median Sydney home price reached a record $800,000 in October, according to research firm CoreLogic Inc. data. It has since fallen after a regulatory clampdown led to a slowdown in mortgages to landlords and the first increase in borrowing costs in five years.

Global financial market turmoil after China unexpectedly devalued the yuan last August, sending the benchmark Shanghai Composite Index more than 40% lower from

Capital outflow restrictions are expected to be short-term and while they may have some impact on overseas investments, there are still enough buyers in China who can afford overseas properties, G.T. Hu, the chief executive officer of the Australian unit of Country Garden Holdings Co., said in an interview Thursday.

"It didn't feel to us that the stock rout in China impacted the market in Sydney," said Luo Xiaohua, general manager of Shanghai-based property developer Greenland Group's investment arm in Australia. "We feel the market is stable and the demand is relatively strong."

The firm, which entered Australia in 2013, has sold $1 billion worth of apartments across three projects in Sydney, and is working on another two developments in the city and one in Melbourne, Luo said.



Home open

Five out of the seven properties sold earlier this year by First National Real Estate in Lindfield – a suburb about 13 kilometres north of Sydney's business district – were to buyers of Chinese origin, according to Lan Zhang, a director at the firm.

"Chinese origin buyers who are either permanent residents or citizens are among the biggest group of people who visit our open homes," she said. The buyers were able to exchange contracts within a few days of agreeing on a deal, suggesting financing was not an issue, she said.

Overseas buyers are largely limited by Australian law to new homes and need approval from the Foreign Investment Review Board. Temporary residents can buy new or existing properties with the board's approval, but must sell them when they leave the country. Amid community concern, Australia announced a crackdown on unlawful home purchases last year, and has forced sales of 27 properties, worth more than $76 million.

Authorities in Canada have also been grappling with the issue. The National Bank of Canada estimates that Chinese buyers made up about one-third of purchases last year in Vancouver, and the government has set aside money to find ways of tracking foreign homebuyers.

House with garden

Demand in Australia is so strong that online real estate listing firm Domain Group has, since late 2013, published a glossy weekly in Chinese which it distributes at 400 points across Sydney and Melbourne. The site is looking at more ways to connect with Chinese Australians as it expects demand from the community to only increase, according to its Chief Economist Andrew Wilson.

About one in two buyers who show up at auctions in Ringwood East in Melbourne are Chinese, according to Han, who has no siblings as a result of China's one-child policy that created a generation of so-called 'little emperors'. He said his home purchase was a 'good trade'.

"Houses here are still a lot cheaper, larger and better quality than those tiny apartments in Beijing," he said. "I would never imagine living in an American-style house with a garden in Beijing."

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The future of pension management

Keith Ambachtsheer

A lot of things have happened in the pensions world since I wrote *Pension Revolution* in 2007, some foreseen, some not. I decided last April that the time was right for an update that would thoroughly review and recalibrate the challenges facing the global pensions sector, viewed through the triple lenses of plan design, governance, and investing. And so the idea of *The Future of Pension Management: Integrating Design, Governance, and Investing* was born. As the subtitle indicates, the new book calls for action on three fronts.

Pension design

On the pension design front, the traditional DB (defined benefit) and DC (defined contribution) formulas are converging into hybrids with names such a 'Defined Ambition' (DA) and 'Target Benefit' (TB). The Netherlands and Australia offer good examples. The former country is transforming its traditional DB plans into DA plans, while the latter is transforming its traditional DC plans into TB plans. At the same time, workplace pension coverage is expanding. The United Kingdom is leading the way with its National Employment Savings Trust (NEST) initiative, while the United States and Canada are now busy designing their own expansion initiatives.

Pension governance

On the pension governance front, the process of reconciling the opposable needs for boards of trustees to be both representative and strategic continues to slowly move in the right direction. There is a growing understanding that it is not a question of 'either-or', but of how to get both ingredients into board composition. Why both? Because pension boards need 'legitimacy' to be trusted, and at the same time, need to be strategic to produce 'value for money' outcomes for their stakeholders. This strategic mindset addresses tough issues such as organization design and culture, investment beliefs, incentives, and stakeholder communication and relations. Behind these governance imperatives lies the broader question of organizational autonomy. Unnecessary legal and regulatory constraints are increasingly seen as 'value for money' destroyers in pension organisations.

Pension investing

Pension investing has been changing for the better too, starting with serious re-examinations of

investment beliefs. There is growing evidence the leadership of the global pensions sector is beginning to see their job as transforming retirement savings into wealth-producing capital. There are a number of factors at play here. One is the simple reality that good investment returns are increasingly difficult to come by. Another is a growing understanding of the zero-sum nature of short-horizon active management. Yet another is that both logic and empirical evidence support the idea that long-horizon active management should, and actually does, produce higher long-term returns than either short-horizon active, or passive management. However, saying is one thing, doing another. For many pension organizations, there is still a sizable aspiration and implementation gap to be closed.

Five 'unreasonable' men

Taken together, these developments add up to significant advances in the 'pension revolution' since 2007, and are worthy of being chronicled in a coherent, integrated manner. I took comfort in knowing that I would not be doing this alone. Much of the necessary insight and inspiration to write this book would come from five 'unreasonable' men as defined by the Anglo-Irish playwright George Bernard Shaw in his 1903 play *Man and Superman*:

"*The reasonable man adapts himself to the world. The unreasonable one persists in trying to adapt the world to himself. Thus all progress depends on the unreasonable man …"*

Jan Tinbergen established the principle that the number of economic policy goals has to be matched by an equal number of instruments designed to achieve them. In pensions, this offers a solution to the 'affordability vs. safety' dilemma in pension design. Achieving two goals requires two instruments: one that focuses on affordability through long-term return compounding, and another that focuses providing payment safety for life. Yet, 'reasonable' people persist in beating their heads against the wall trying to achieve these two goals with one instrument. Some 'reasonable' people say that the 'right' instrument is a DB plan; others say it is a DC plan. Both are equally wrong.

Peter Drucker asserted that pension organizations are not exempt from universal governance effectiveness dictates. Ineffective governance will produce poor outcomes for the pension organization's stakeholders. Effective pension organizations have clear missions, inspired governance, and great execution capabilities.

John Maynard Keynes makes a clear distinction between the dysfunctional short-term 'beauty contest' investing practices of most institutional investors, and long-term investment processes that convert savings into wealth-producing capital. 'Beauty contest' investing is a zero-sum game played for the enjoyment of professional investors, funded by the fees paid by their clients. It has little to do with 'real world' wealth-creation.

George Akerlof's 'asymmetric information' insight figures prominently in my thinking about the design of pensions systems and organizations. Fair pricing and efficient resource allocation require that all market participants have the same information when they buy or sell goods or services. This is not the case in the market for pension management services. As a result, unless steps are taken to level the informational playing field, buyers will pay too much for too little value.

Roger Martin's work on integrative thinking and the creative resolution of opposable ideas also played an integral role in the structure and tone of the book. Logic tells us we lose a lot by being 'silo' rather than integrative thinkers. Connecting the dots between pension design, governance, and investing leads to more holistic thinking and more thoughtful solutions. On resolving apparently opposable ideas, three direct applications in the pensions space are: 1. The 'DB vs. DC' debate in pension design, 2. The 'lay vs. expert' debate in pension governance, and 3. The 'active vs. passive' debate in pension investing.

Launching in Australia

Many more people (and not just men!) have contributed to the book. Its first official launch just occurred at the University of Toronto, and launch action now moves on to Cambridge University, London, Amsterdam, Washington, Ottawa, Montreal, Boston, Hong Kong, Singapore, Sydney, and Gold Coast over the course of the rest of the year. For more about the about the book and the launch schedule, go to http://kpa-advisory.com/books/the-future-of-pension-management/

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