



# Alternative Investment Analyst Review

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### **IR&M Momentum Monitor**

*Alexander Ineichen, CAIA*

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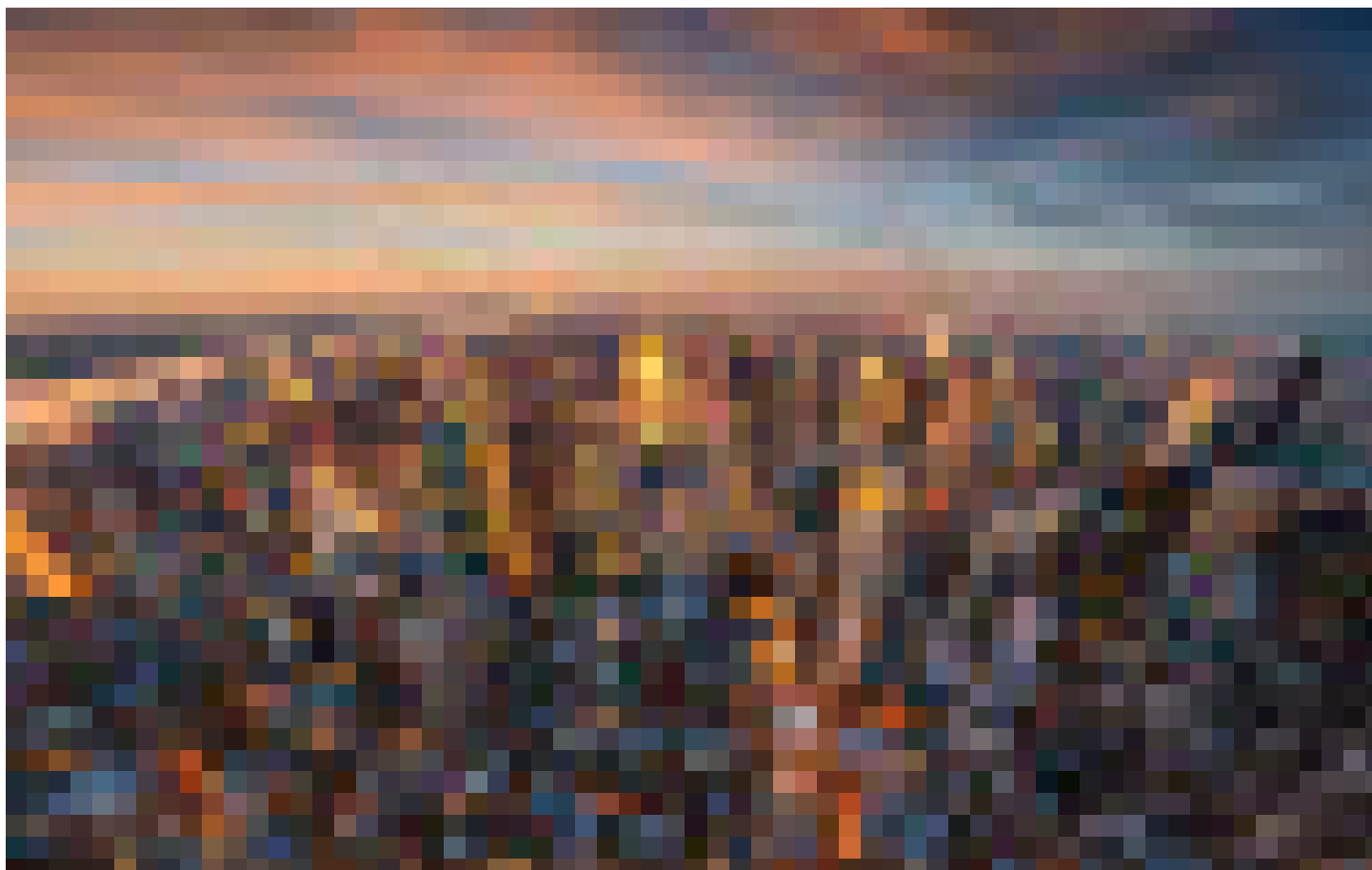
### **VC-PE Index**

*Mike Nugent and Mike Roth*

## **THE IPD GLOBAL INTEL REPORT**

### **The IPD Global Intel Report**

*Max Arkey*



# The IPD Global Intel Report

**Max Arkey**

Vice President, Product Management  
MSCI Real Estate

The UK real estate market picked up swift momentum in 2014, with returns of 18.3% up to Q3 2014. This was nearly double the average of 9.2% over the previous four years. The uptick in performance was seen across most major cities and property types, but it raises questions about the longevity of peak cyclical performance. Drawing from the Global Intel dataset, this report provides insights into four key areas of the investment process: performance, risk, strategy, and asset management.

## NATIONAL DASHBOARD

2014 Q3

Annualized Total Return (%)

All property quarterly series in GBP to 2014 Q3

☒ peak

☒ trough

	Latest	Trend	
		1-yr*	Since 2001
UK	18.3	☒	
Retail	14.6	☒	
Office	22.9	☒	
Industrial	23.0	☒	
Residential	8.4	☒	
Hotel	15.8	☒	
London	22.4	☒	
Birmingham	17.1	☒	
Manchester	13.6	☒	
Glasgow	11.2	☒	
Bristol	17.4	☒	
Edinburgh	13.8	☒	
Reading	17.3	☒	
Sheffield	13.6	☒	
Cambridge	20.4	☒	
Liverpool	10.0	☒	
Leeds	16.3	☒	
Aberdeen	18.5	☒	
Guildford	14.7	☒	
Cardiff	15.3	☒	
Oxford	15.2	☒	
Newcastle u Tyne	14.8	☒	

\* at least 100 bps above (☒) or below (☒) year ago

### Performance

A strong wave of capital has flowed toward UK real estate over the past year, attracted in part by the cyclical opportunity of attractive spreads in bond yields and financing costs. Investors, pension funds, sovereign wealth funds, and high-net-worth individuals have sought out real estate in the United Kingdom as a way to support performance and diversify risks. These capital inflows led to more yield compression over the past year and a return to double-digit capital growth. Like the United States, the United Kingdom has been one of the better performing global markets in recent years, after being one of the worst through the financial crisis of 2007-2009. Significant variations exist within the UK domestic market, especially in terms of income return. The spread between the 25th and 75th percentiles of income return has averaged 340 basis points over the past four years, roughly double the 170 bps seen in 2007. Among cities and property sectors, industrial and office space experienced annualized total returns exceeding 20% in Q3 2014, as did London and Cambridge. This was more than double the returns in Liverpool, Glasgow, and the residential sector.

### Risk

The UK property market's historical volatility reinforces the need to monitor market risks, avoid style drift, and focus on the movement of markets through their cycles. The IPD Pricing Indicator for the United Kingdom still shows attractive current pricing based on spreads, but with a relatively low income yield. The indicator's position hints at a potential shift as bond yields ultimately rise. The relatively low level of current UK liquidity also parallels aggressive pricing. These indicators are countered by a falling vacancy rate that is occurring amid a recovering economy and relatively low deliveries of new supply.

## Strategy

Top-down choices of asset allocation and selection impact performance and risk through market cycles. Investors spurned the office sector and Greater London during the financial crisis, but have since returned. Retail continues to be a preferred investment sector, although it has consistently held overall UK performance back during the past decade. The residential sector has diverged the most from the overall market, lagging other sectors significantly over the past year, although it has boosted performance over the longer 10-year period. Among all cities, London—and to a lesser extent, its satellites across the Southeast, including Cambridge and Guildford—continue to dominate UK performance. Outside Southeast England, the only major city to outpace overall UK performance during the past decade has been Aberdeen, with an economy strongly tied to oil prices.

## Asset Management

The Global Intel dataset provides asset managers with insight across a range of operating and investment data. Gross and net incomes lag their pre-financial crisis levels, thus leading to elevated operating cost ratios over the past five years. Improvement expenditures (as a share of capital value) have averaged below 100 bps over the past five years in most sectors (residential is an exception). In this improving market, UK funds have generally underperformed direct returns. Unlike their more leveraged US and Continental European counterparts, UK funds have been slower to maximize on current low interest rates.

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## GLOBAL INTEL CALENDAR

Recently Added. Asset level indexes for Canada, Ireland, the Netherlands, New Zealand, the UK, and the US (to 2014 Q3), and for the UK (to October 2014) and Japan (to July 2014). Fund level indexes for the UK and the US (to 2014 Q3), and for Australia and Germany (to October 2014).

Scheduled. Asset level indexes for Australia, Nordic, Pan-Europe, and Portugal (to 2014 Q3), and for Japan (to August 2014). Fund level indexes for Global (to 2014 Q3) and for Australia, Germany, and the UK (to November 2014).

**Important Note:** The charts and metrics in this report are illustrative of the material within Global Intel. For further details and any feedback, please contact Max Arkey at +1.312.461.4371 or [max.arkey@msci.com](mailto:max.arkey@msci.com).

## Author Bio

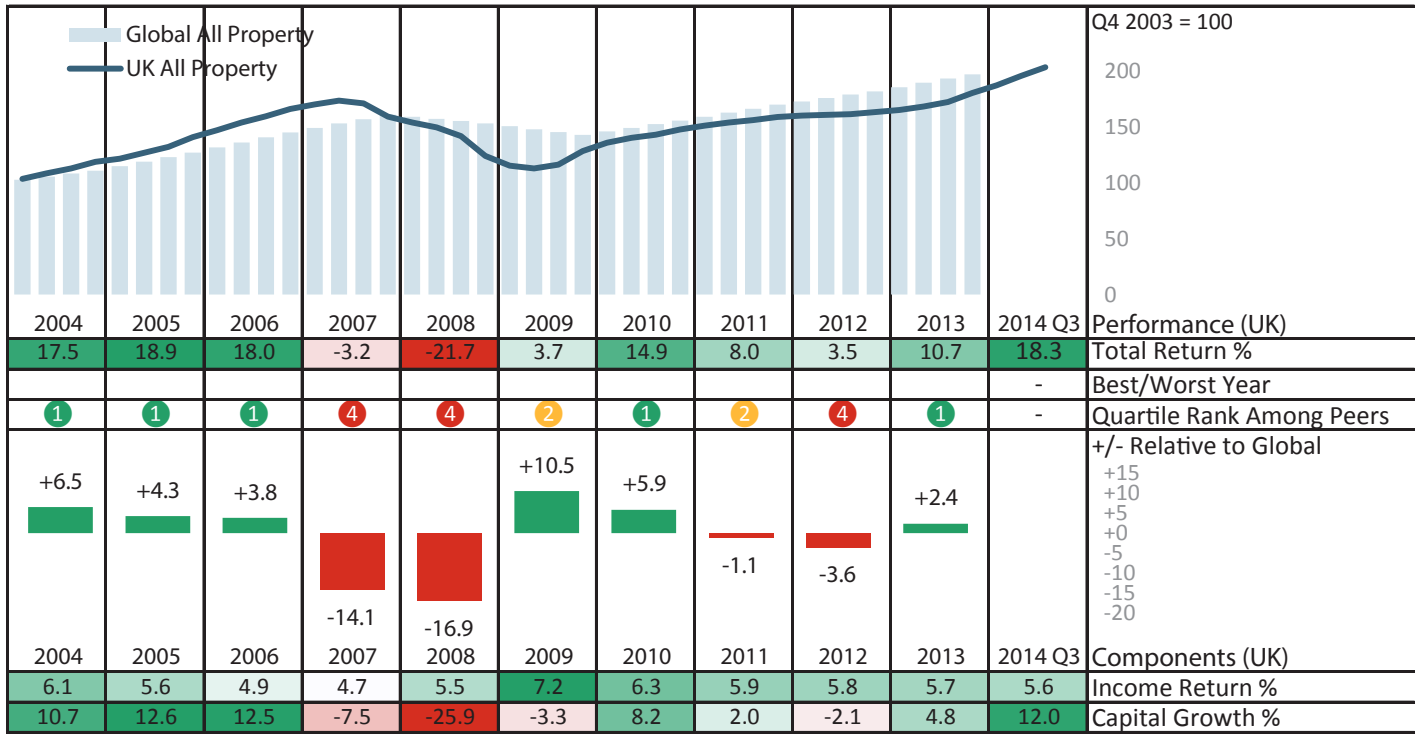


**Max Arkey** works in product management at MSCI Real Estate where he heads up indexes and market information products. These analytics are mission critical to the investment process for 19 of the top 20 largest global asset managers, all the way through to specialized domestic investors. For further details contact: [max.arkey@msci.com](mailto:max.arkey@msci.com)

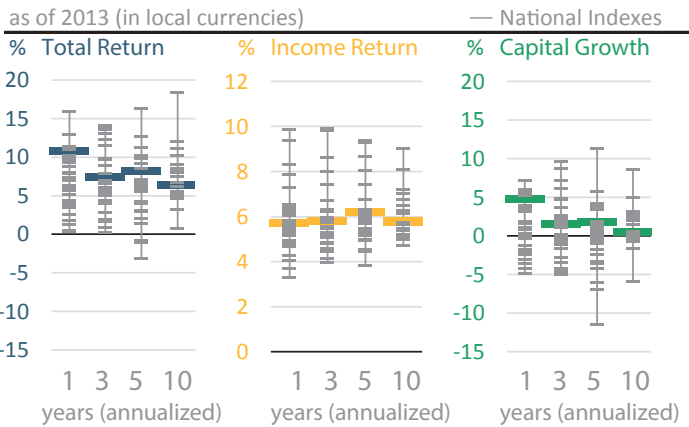


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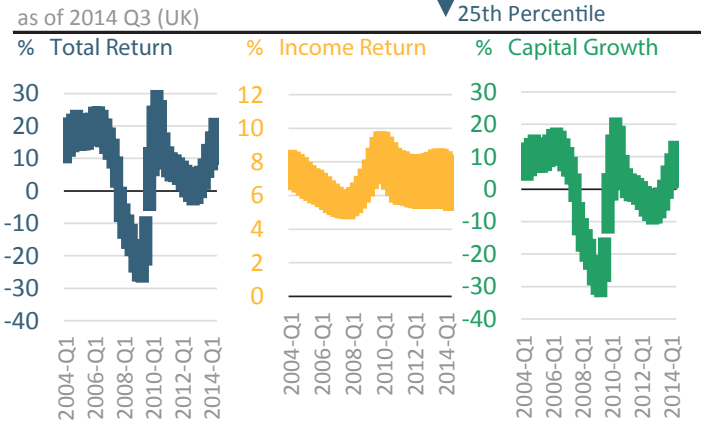
HISTORY



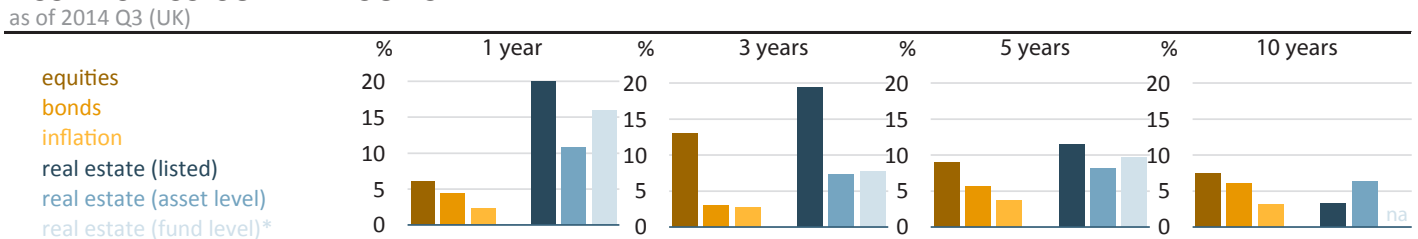
MARKET COMPARISONS



PERFORMANCE RANGES



ASSET CLASS COMPARISONS



\*Fund level real estate performance is calculated from a different sample than asset level real estate in Global Intel (see page 5).



2 RISK MANAGEMENT

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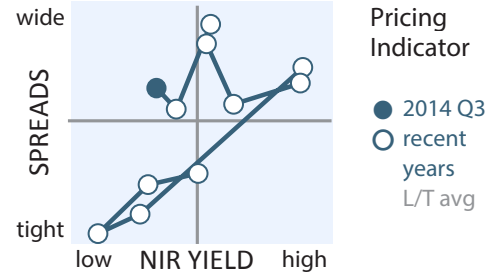
RISK METRICS

as of 2013

Asset Class Indicators

		10-Year*			5-Year*		
		Total Return	Std Dev	Sharpe Ratio	Total Return	Std Dev	Sharpe Ratio
Global	Property (direct)	7.0	7.3	0.57	5.2	6.9	0.36
UK	Property (direct)	6.3	12.5	0.28	8.1	4.9	1.13
	Property (listed)	4.0	30.7	0.16	8.7	15.1	0.43
	Equities	8.0	15.4	0.36	12.9	10.9	1.02
	Bonds	5.8	6.9	0.33	4.5	8.4	0.21

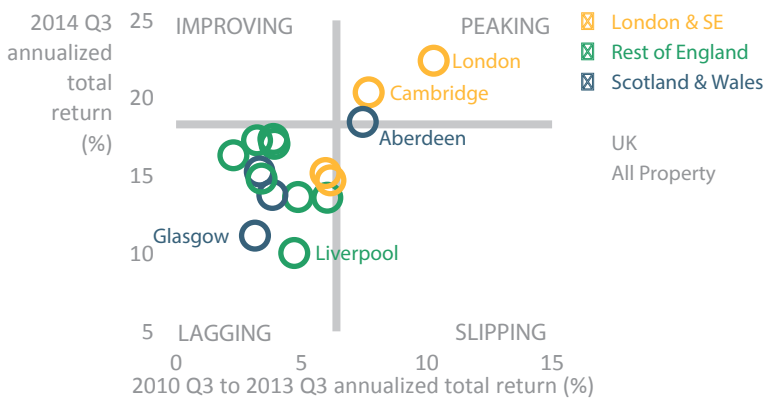
\*calculations on annual data for comparability to global real estate series



2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Q3	Market Indicators
9.7	10.4	6.9	7.7	14.1	10.9	5.6	4.8	5.9	8.7	5.5	Liquidity (%) SALES / CV
5.6	5.1	4.6	5.0	6.7	6.7	6.0	5.7	5.7	5.4	5.2	Yield (%) NIR YIELD
-	-	-	-	-	10.1	8.7	9.0	9.9	8.9	8.7	Vacancy % OF MARKET RENT
108	87	-5	32	308	279	239	353	390	229	270	Spreads BASIS POINTS
											9 % (difference between net income receivable yield and long-term national bond rate)
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Q3	Cyclical Indicators
17.5	18.9	18.0	-3.2	-21.7	3.7	14.9	8.0	3.5	10.7	18.3	Total return DIRECT R.E.
44.8	18.9	49.4	-35.4	-41.6	5.4	5.2	-10.2	30.5	16.8	20.3	Total return PROP. EQUITIES
											Difference from direct (+/-)

CYCLICAL PERFORMANCE

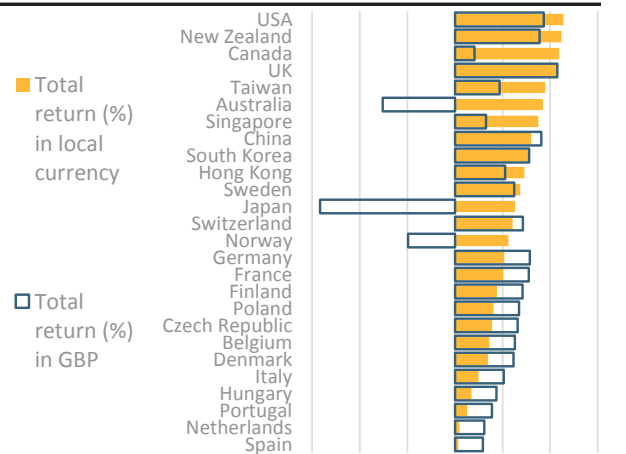
as of 2014 Q3 (UK cities)



Note: SE is Southeast England

CURRENCY RISK

as of 2013





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## WEIGHT OF CAPITAL

All property net investment in local currency, national average 2004-2013, indexed to 100

Property sectors and cities relative to national average net investment, 2004-2013 (index = 100)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Q3*	by Sector
124.8	68.8	45.6	-6.8	-49.6	9.9	110.6	138.4	81.4	41.0	111.1	Retail
22.9	39.0	187.8	50.4	-155.3	-157.8	38.7	31.1	-43.7	-24.1	76.8	Office
53.4	64.3	53.4	4.3	-37.4	-13.5	19.4	8.6	15.2	26.4	54.6	Industrial
-8.8	-1.7	5.4	14.5	5.1	-0.6	8.0	5.9	-2.3	7.1	13.7	Residential
1.0	1.2	3.6	0.9	-2.3	0.9	12.2	13.0	9.8	6.8	9.4	Hotel

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Q3*	by Region
13.4	26.6	46.6	-21.8	-2.4	-31.9	5.2	10.6	-6.0	3.4	7.5	Greater London
10.4	23.9	40.3	-20.1	-17.6	0.1	13.5	13.4	6.4	-5.0	15.7	South East
7.8	27.5	40.9	-10.8	-5.2	3.5	16.3	12.1	8.6	-2.8	23.0	North West
7.3	8.3	30.3	-2.7	-13.6	11.5	12.9	11.4	19.0	11.7	21.7	Eastern
10.9	-0.6	25.9	-1.4	-14.8	11.1	6.2	5.6	18.4	13.0	17.6	West Midlands
9.3	-5.3	32.0	-3.2	-15.2	10.1	3.6	2.8	11.7	13.6	16.8	South West
6.1	7.1	29.7	-8.7	-4.5	10.4	9.9	4.9	4.2	13.0	15.2	Scotland
7.3	4.6	29.2	-7.5	0.5	18.0	7.4	3.6	0.5	8.1	13.1	Yorks & Humber
-0.1	4.3	21.0	-5.0	0.6	15.6	8.7	7.1	0.1	7.6	14.0	East Midlands
3.3	6.8	13.9	-5.7	-0.5	14.8	5.8	7.4	3.6	9.4	16.0	Wales
5.8	3.0	10.6	-5.2	-2.6	8.7	4.6	4.9	3.3	6.6	10.4	North East
7.1	4.3	5.4	-3.0	-0.9	8.4	2.2	4.1	2.9	4.4	10.2	Northern Ireland

\*calculated on the four-quarter total ending in the quarter shown.

## RELATIVE PERFORMANCE CONTRIBUTION

Relative annualized all property total return by sector and geography

Difference from national all property total return by period

3-month*	1-year	3-year	5-year	10-year	by Sector	Sector/city weights % of national Weight %**
					Retail	
					Office	
					Industrial	
					Residential	
					Hotel	n.a.

3-month*	1-year	3-year	5-year	10-year	by City	Weight %**
					London	
					Birmingham	
					Manchester	
					Glasgow	
					Bristol	
					Edinburgh	
					Reading	
					Sheffield	
					Cambridge	
					Liverpool	
					Leeds	
					Aberdeen	
					Guildford	

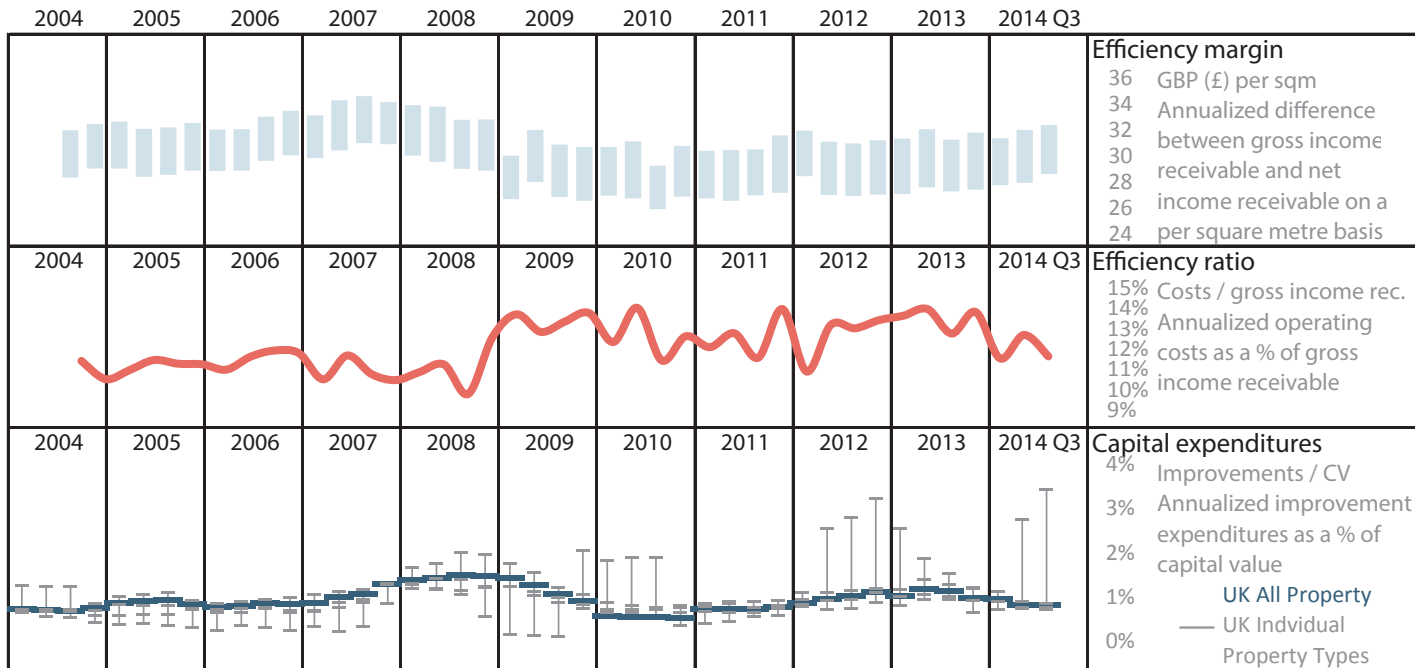
\*3-month return is quarter-over-quarter. All others are annualized

\*\*sector weights based on 2013 market size estimates in USD; cities weighted separately on IPD Databank capital values at 2014 Q3 in GBP



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OPERATIONS & INVESTMENT



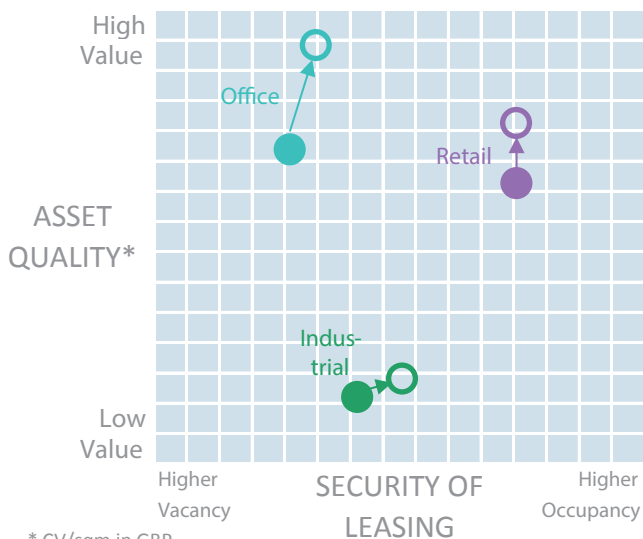
ASSET MGMT. STRATEGY

UK property types

Historical avg.  
2014 Q3

FUND RECONCILIATION

as of 2014 Q3 (UK )



\* CV/sqm in GBP

Total Return (%)	3-month Q/Q	1-year Y/Y	5-year Annualized
<b>NET FUND</b>	3.81	15.90	9.72
+/- IMPACT OF: leverage, cash, fund costs, mgmt. fees, etc.	-0.90	-1.42	-0.86
<b>DIRECT REAL ESTATE</b>	4.71	17.32	10.57

Note: The UK sample size used for fund reconciliation differs from the broader UK sample, thus the direct real estate return shown here differs slightly from the remainder of the Global Intel dataset.

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