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Investment Consulting



Real Estate - The Swiss Pension Fund Perspective

PPCmetrics AG

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Some of the graphs/pictures are not
available online

Bern, September 18, 2019

Real Estate Exposure (Look-through)

Asset Class	Benchmark	%
Fixed Income CHF	SBI Domestic AAA - BBB	25.0%
Fixed Income FC	Barclays Global Aggregate	15.0%
Swiss Equities	SPI Index	10.0%
Global Equities	MSCI World ex CH	20.0%
Real Estate	KGAST Immo Index	20.0%
Other	N/A	10.0%
<i>Asset allocation based on the latest BFS Pensionskassenstudie (2017)</i>		100.0%

*Asset allocation based on the latest BFS
Pensionskassenstudie (2017)*

«Look-through» Real Estate



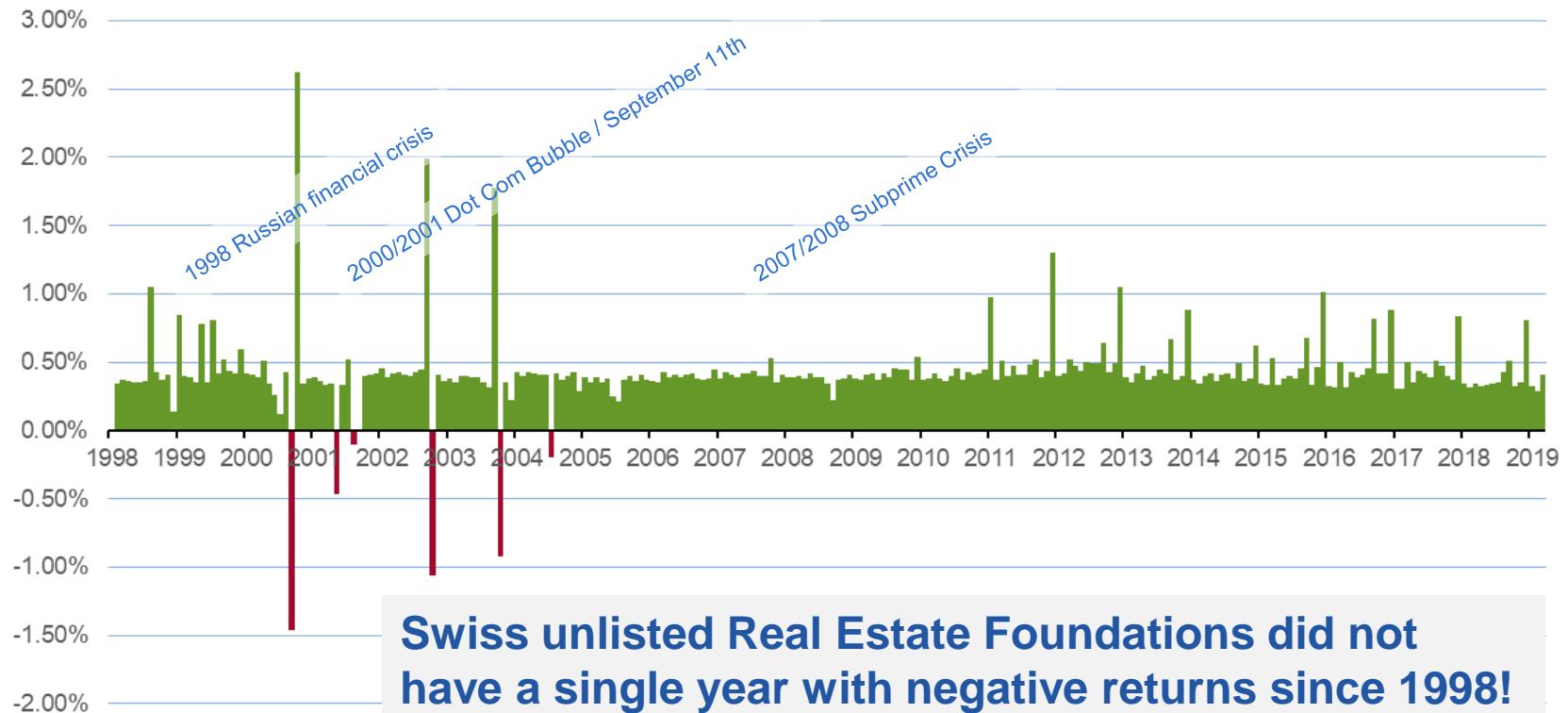
Swiss pension funds hold approx. 20% in «real estate» and approx. 35% in total *real estate related* investments.

	Public	Private
Real Estate Equity	1.5%	20.0%
Real Estate Debt	11.0%	2.0%

Asset allocation based on the latest Pensionskassenstudie (2017); look-through analysis based on annual reports of index members (single securities). Source: Bloomberg, SXI, MSCI, KGAST

Swiss Real Estate: the last 20+ Years...

KGAST Immo Index



Monthly returns of the KGAST Immo Index (unlisted real estate portfolios); Source; KGAST

On the risk of unlisted real estate and valuation issues, see «Kunkel und Skaanes, 2016, «Analyse der Volatilitäten und der Zinsrisikoeigenschaften bei Immobilien-Direktanlagen», Swiss Real Estate Journal 12, 27-33»

Swiss Real Estate: Differences in Returns ...



Source: **PPCmetrics Swiss Immo Tool**; the sample includes direct portfolios and unlisted collective investments.

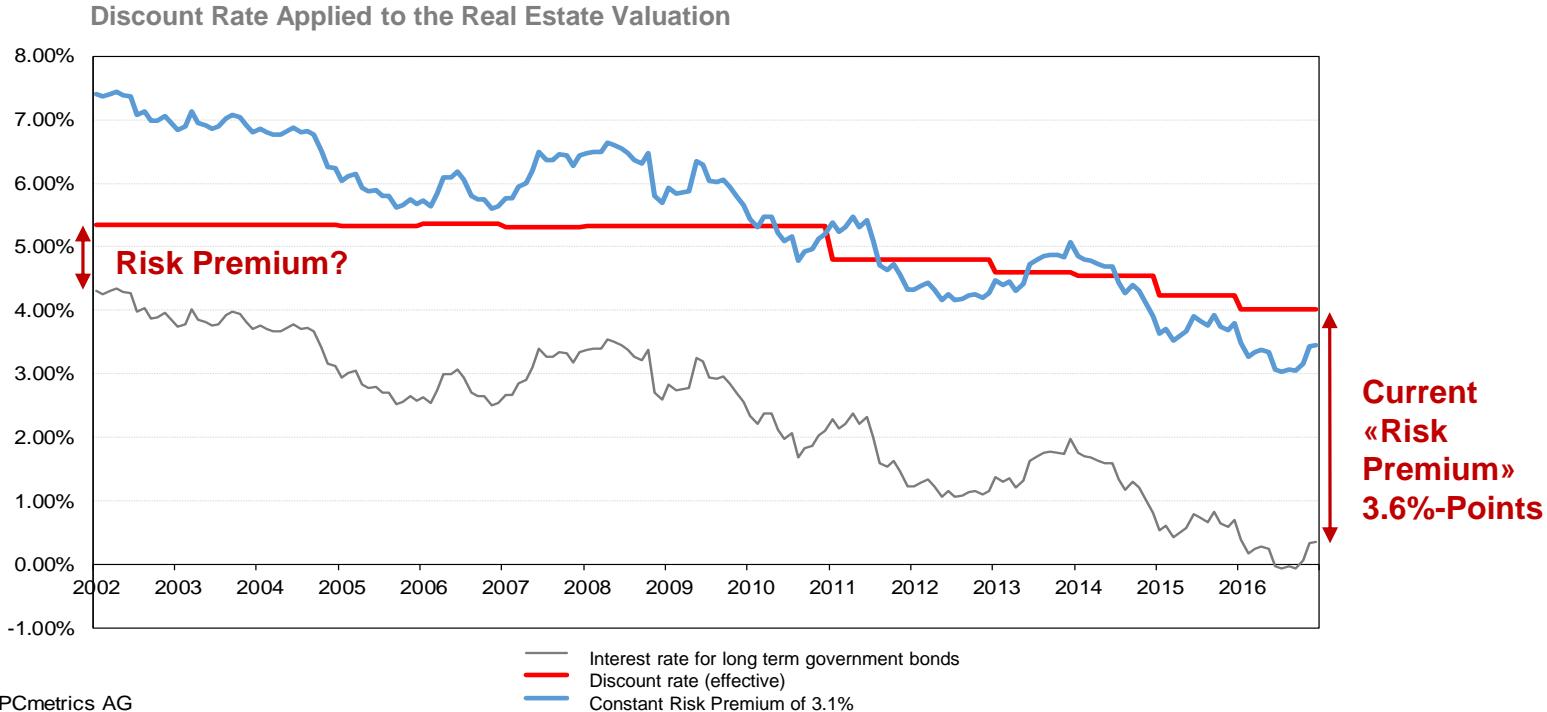
... largely driven by valuation assumptions

Fragen	
Ausschüttungsquote	● ▲
Anlagerendite	●
Nettorendite der fertigen Bauten	●
Fremdkapitalquote	●
Restlaufzeit der fixierten Mietverträge (WAULT)	●
Ø Diskontierungssatz real	●
Ø Diskontierungssatz nominal	●
Rendite (3 Jahre)	● y
Veränderung Diskontsatz (3 Jahre)	● x ▾
Teilnehmer	
Alle Auswählen	●
Mindestkriterien erfüllt	●
Portfolio 01	●
Portfolio 02	●
Portfolio 03	●
Portfolio 04	●
Portfolio 05	●
Portfolio 06	●
Portfolio 07	●
Portfolio 08	●
Portfolio 09	●
Portfolio 10	●
Portfolio 11	●
Portfolio 12	●



Source: PPCmetrics Swiss Immo Tool; the sample includes direct portfolios and unlisted collective investments.

Assumptions: Discount Rate and Risk Premium



Implied “Risk Premiums” applied to valuations have undergone significant changes!

Source: SNB; Interest on long-term government bonds equals the YTM for 30 year Swiss Govt. Bonds

Competition for Investor Capital

Anbieter	Anlagegefäß	Rechtsform	Kapitalerhöhung in CHF Mio.	Aktuelles Volumen in CHF Mio.	Kapitalaufnahme in %
Adimora	Omega	Anlagestiftung	30	285	10.5%
Akara Funds AG	Swiss Diversity Property Fund PK	Anlagefonds	150	750	20.0%
Baloise Swiss Property Fund	Baloise Swiss Property Fund	Anlagefonds	0	275	0.0%
ECOREAL Anlagestiftung	SUISSESELECT	Anlagestiftung	20	410	4.9%
Fundamenta Group Investment Foundation	Swiss Real Estate	Anlagestiftung	0	0	0.0%
Greenbrix Anlagestiftung	Greenbrix Housing	Anlagestiftung	70	280	25.0%
Helvetica Property Investors AG	Helvetica Swiss Commercial	Anlagestiftung	75	310	24.2%
Helvetia Anlagestiftung	Immobilien Romandie	Anlagestiftung	0	240	0.0%
IST Investmentstiftung	IST Immobilien Schweiz Wohnen	Anlagestiftung	55	254	21.7%
J. Safra Sarasin Anlagestiftung	Nachhaltig Immobilien Schweiz	Anlagestiftung	100	484	20.7%
Patrimonium Anlagestiftung	Gesundheitsimmobilien Schweiz	Anlagestiftung	30	180	16.7%
Patrimonium Anlagestiftung	Wohnimmobilien Schweiz	Anlagestiftung	15	520	2.9%
Pensimo Anlagestiftung	Casareal	Anlagestiftung	25	1'864	1.3%
Pensimo Anlagestiftung	Proreal	Anlagestiftung	19	471	4.0%
SFP Anlagestiftung	SFP AST Swiss Real Estate	Anlagestiftung	100	50	200.0%
Steiner Investment Foundation	Swiss Development Residential	Anlagestiftung	100	190	52.6%
Swiss Life Anlagestiftung	Immobilien Schweiz Alter und Gesundheit	Anlagestiftung	67	52	128.4%
Swiss Prime Anlagestiftung	SPA Immobilien Schweiz	Anlagestiftung	280	1'502	18.6%
Turidomus Immobilien-Anlagestiftung	Casareal	Anlagestiftung	50	3'531	1.4%
Vontobel Real Estate Investments	Vontobel Sustainable Real Estate Switzerland	Anlagestiftung	57	170	33.5%
Die Anlagestiftung Immobilien DAI	Die Anlagegruppe Gewerbeimmobilien Schweiz DAGSIS	Anlagestiftung	0	111	0.0%
Telco Anlagestiftung	Immobilien Schweiz	Anlagestiftung	30	932	3.2%
Turidomus Immobilien-Anlagestiftung	Urban & Mixed-use	Anlagestiftung	220	466	47.2%
Summe			1'493	13'327	11.2%

We observe very different growth strategies (closed vs. extensive fund raising) & different qualities of newly launched products / portfolios!

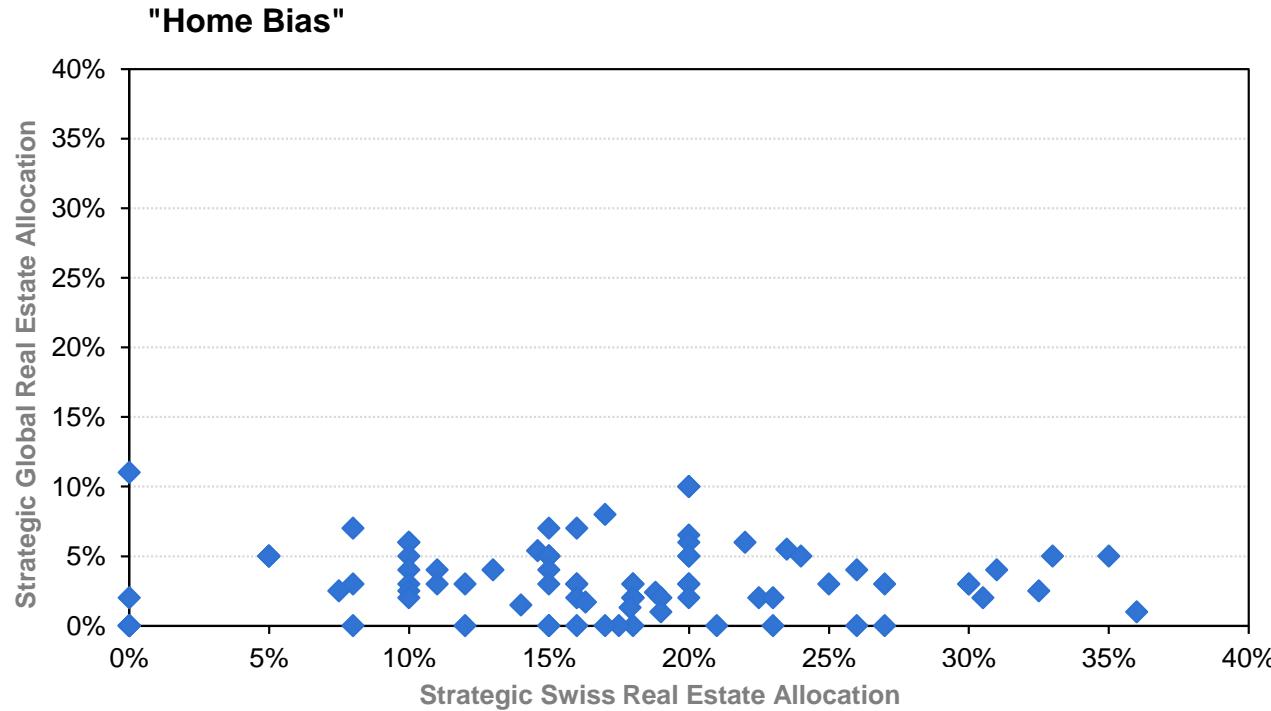
Source: PPCmetrics Swiss Immo Tool; the table shows planned capital increases for the calendar year 2019 as of Q1 2019.

Conclusion 1: how to prepare for a storm ?

- Pension funds will undoubtedly be impacted by a market correction of the Swiss real estate market.
- It is critical to prepare for a possible downturn:
 - **Strategy Risk:** A pension fund should be able to maintain the target allocation to real estate even in downturns. Therefore, Pension Funds need to understand the loss potential, even in extreme scenarios. Valuation uncertainty of unlisted real estate creates an additional challenge.
 - **Risk of Tactical Allocation:** A pension fund should understand the differences between its portfolio (e.g. local residential portfolio) and the broad market.
 - **Risk Concentration:** The portfolio should be reviewed with respect to possible risk concentrations, such as large single investments.

Theory: Go Global to Diversify!

Reality: Stay Local ...

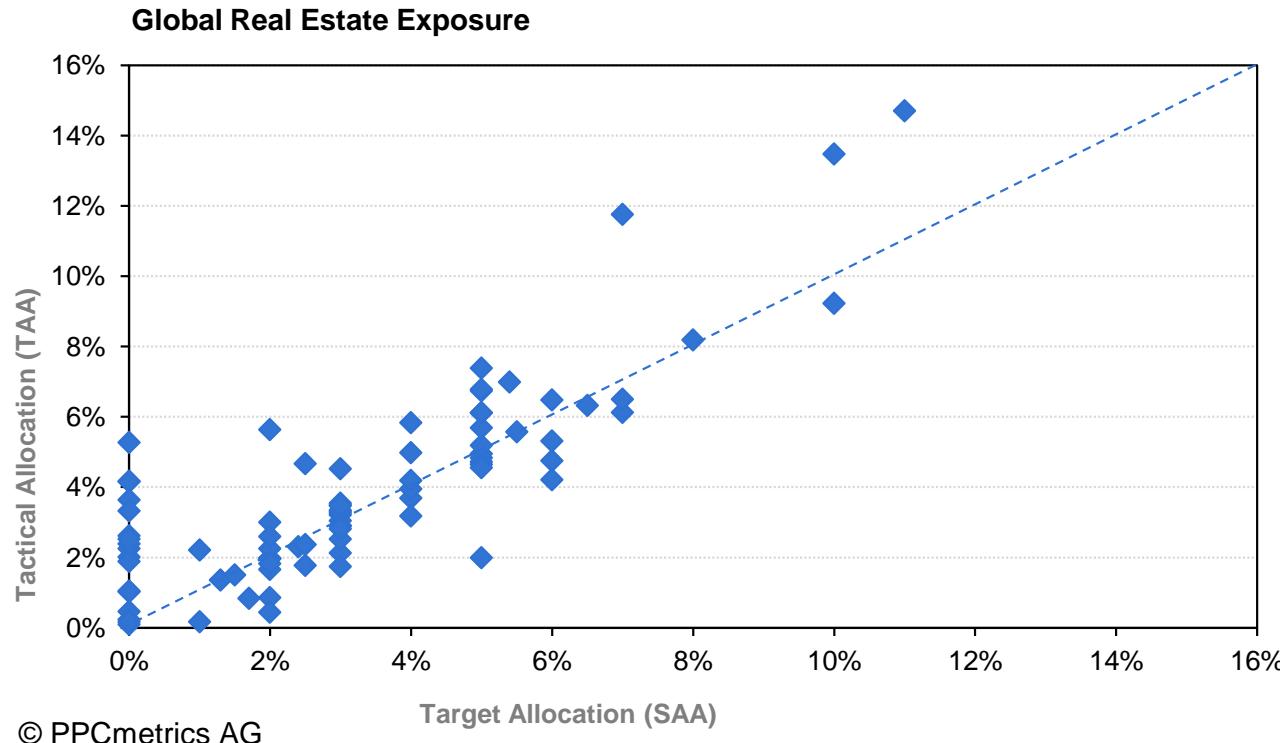


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Investments in global real estate are increasing, but from a low level.

Source: PPCmetrics Investment Controlling; our analysis includes pension funds that are currently investing in real estate abroad. Number of legal entities: 85; Total assets (total) of all legal entities:> CHF 270 billion; Investments in real estate in Switzerland:> CHF 34 billion; Investments in real estate abroad:> CHF 6 billion

Global Real Estate: Tactical Positioning



On average, global real estate is slightly overweight vs. SAA.

Source: PPCmetrics Investment Controlling; our analysis includes pension funds that are currently investing in real estate abroad. Number of legal entities: 85; Total assets (total) of all legal entities:> CHF 270 billion; Investments in real estate in Switzerland:> CHF 34 billion; Investments in real estate abroad:> CHF 6 billion

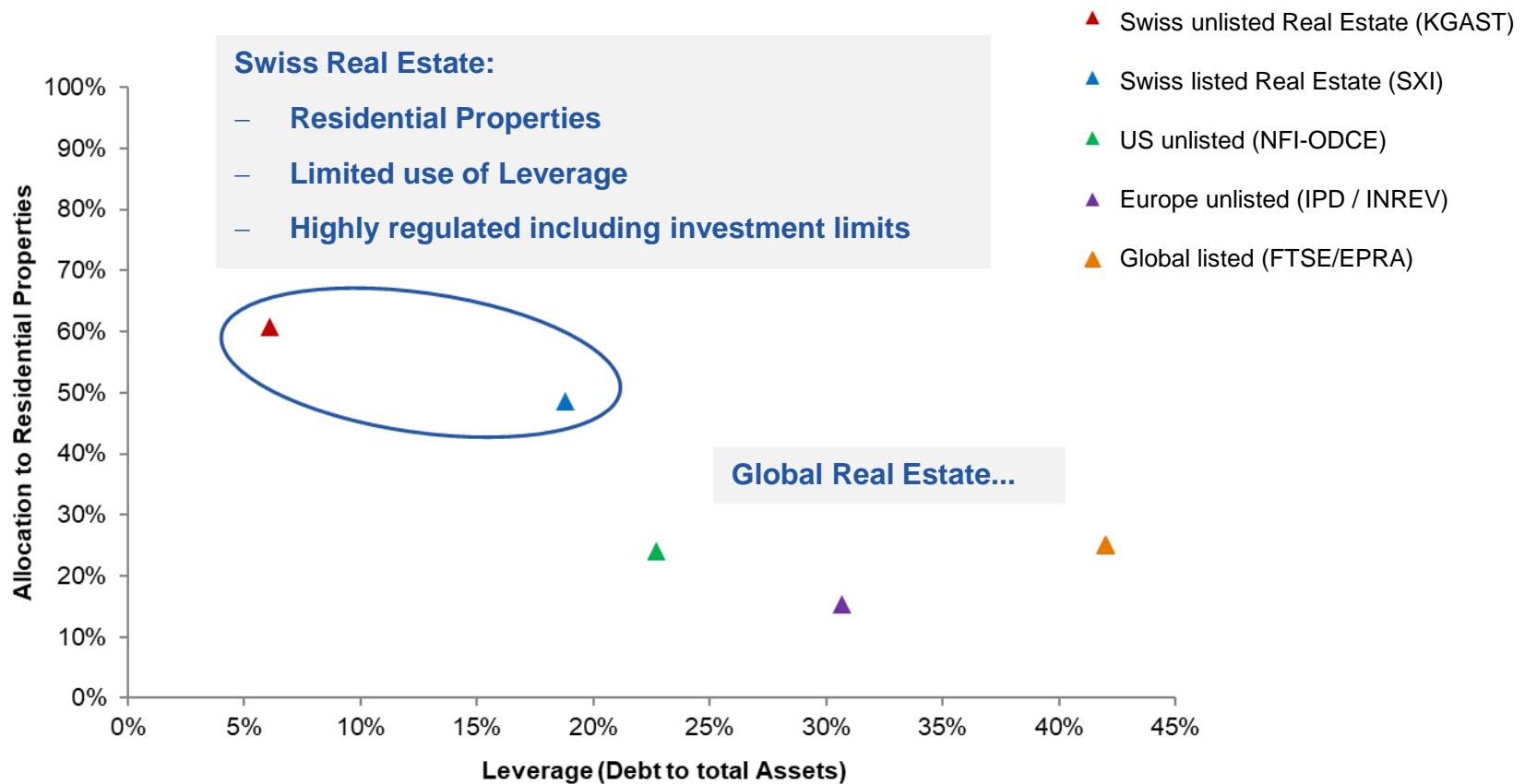
Global Real Estate: Implementation

Size of Pension Fund	Unlisted: Single Funds	Unlisted: Fund of Funds	Listed
< CHF 1 Mrd.	24.6%	24.6%	50.9%
> CHF 1 Mrd < CHF 5 Mrd.	44.7%	10.5%	44.7%
> CHF 5 Mrd.	50.0%	11.1%	38.9%

- The table shows how often the respective implementation variant is used
 - All size segments include investors who currently use one or more of the three variants. In all size segments, both Swiss and foreign legal forms are used.
 - Investors with CHF 20 - 100m in global real estate: more frequent use of local Single Funds, selection & monitoring by pension fund itself
 - Investors with more than CHF 100m global real estate: more frequent use of external portfolio management (segregated account of local single funds), tailor made solutions / single investor funds and strategic partnerships.

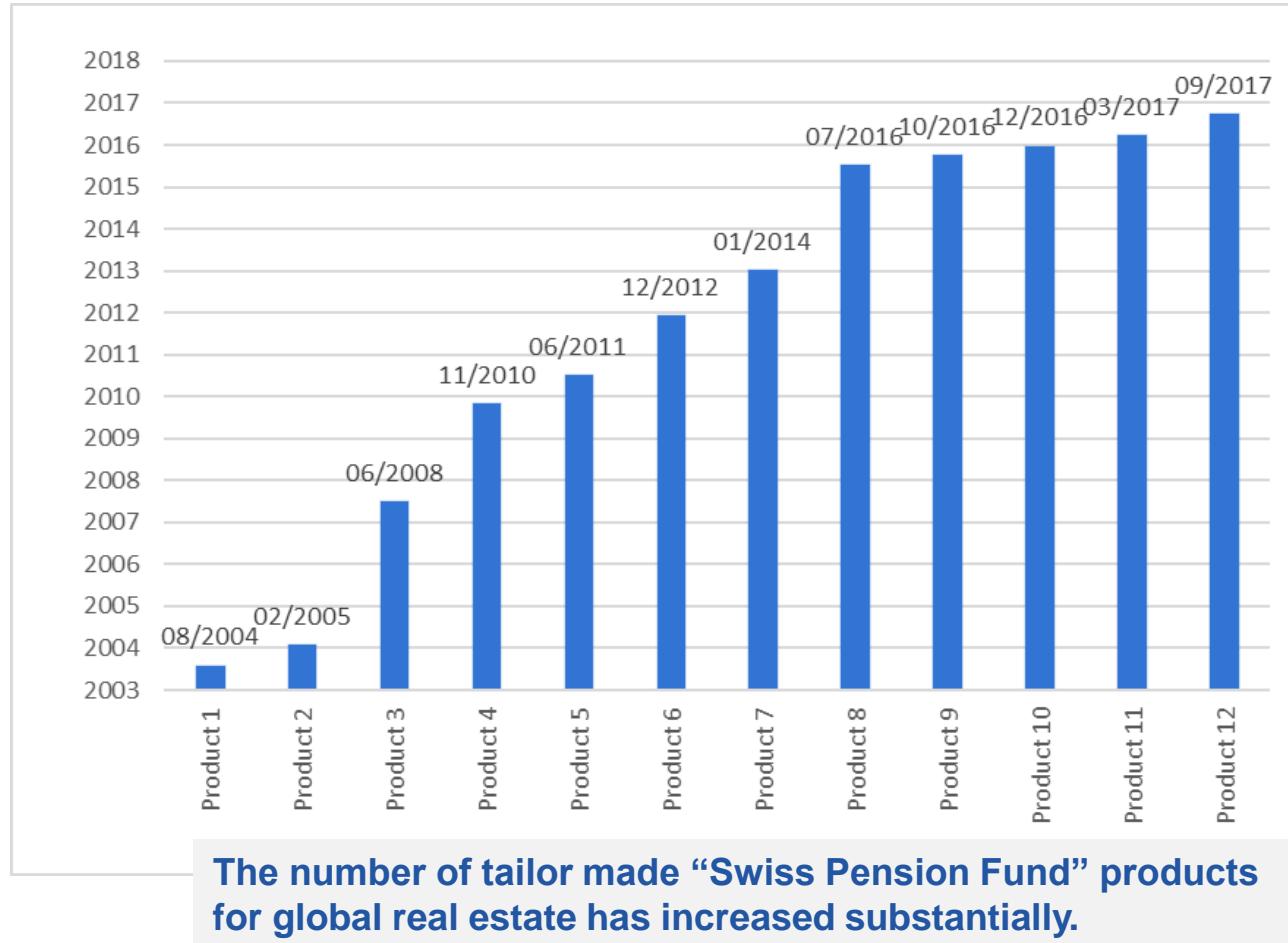
Source: PPCmetrics Investment Controlling; our analysis includes pension funds that are currently investing in real estate abroad. Number of legal entities: 85; Total assets (total) of all legal entities:> CHF 270 billion; Investments in real estate in Switzerland:> CHF 34 billion; Investments in real estate abroad:> CHF 6 billion

Swiss vs. Global Real Estate



Analysis PPCmetrics AG; Data Sources: Annual Reports of Investment Foundations and Real Estate Funds, KGAST, NCREIF, IPD, INREV, FTSE / EPRA, as at 31/12/2015

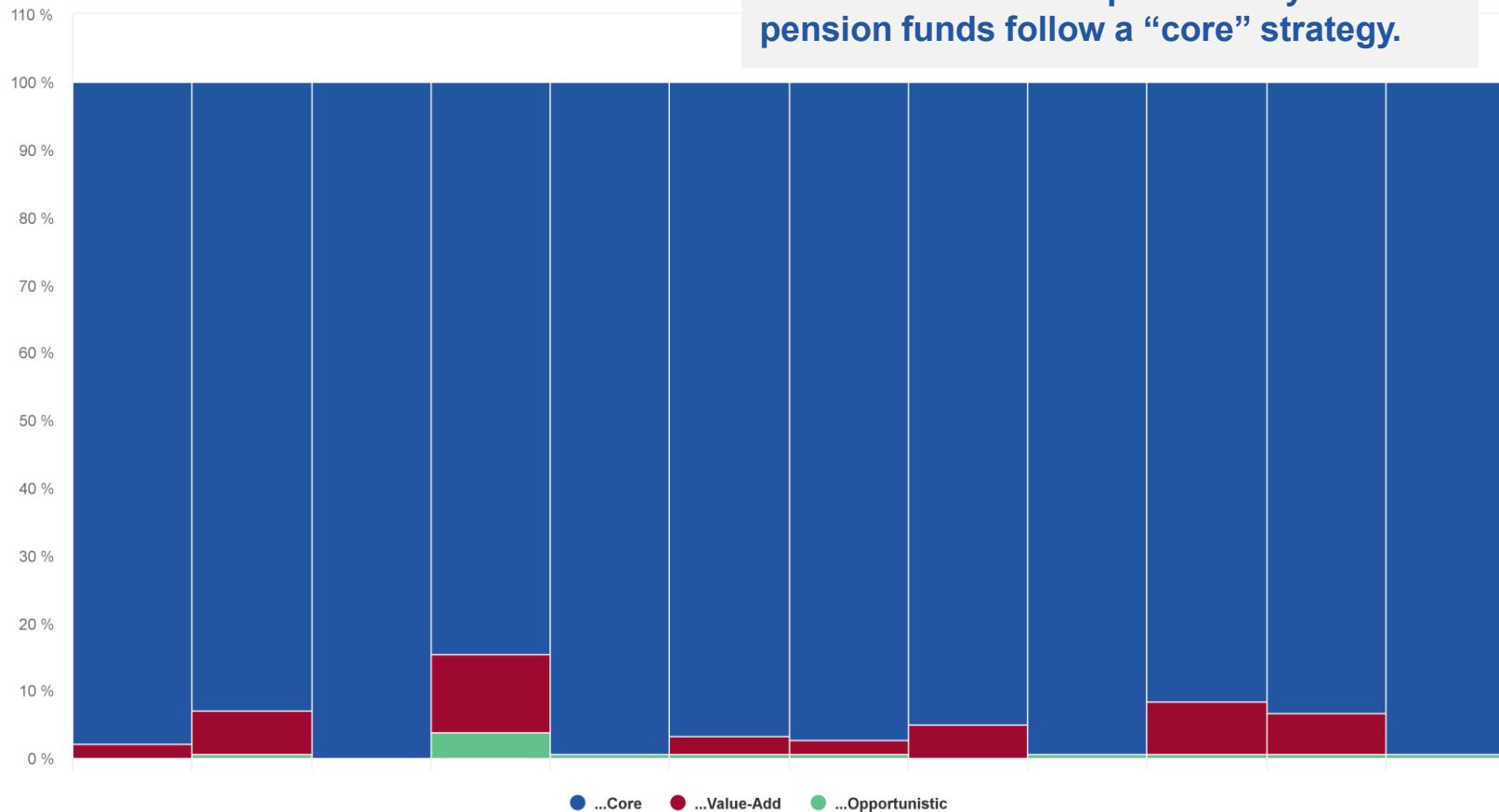
Global Products



Source: myPPCmetrics Global MarktScreen

Global Products: Style

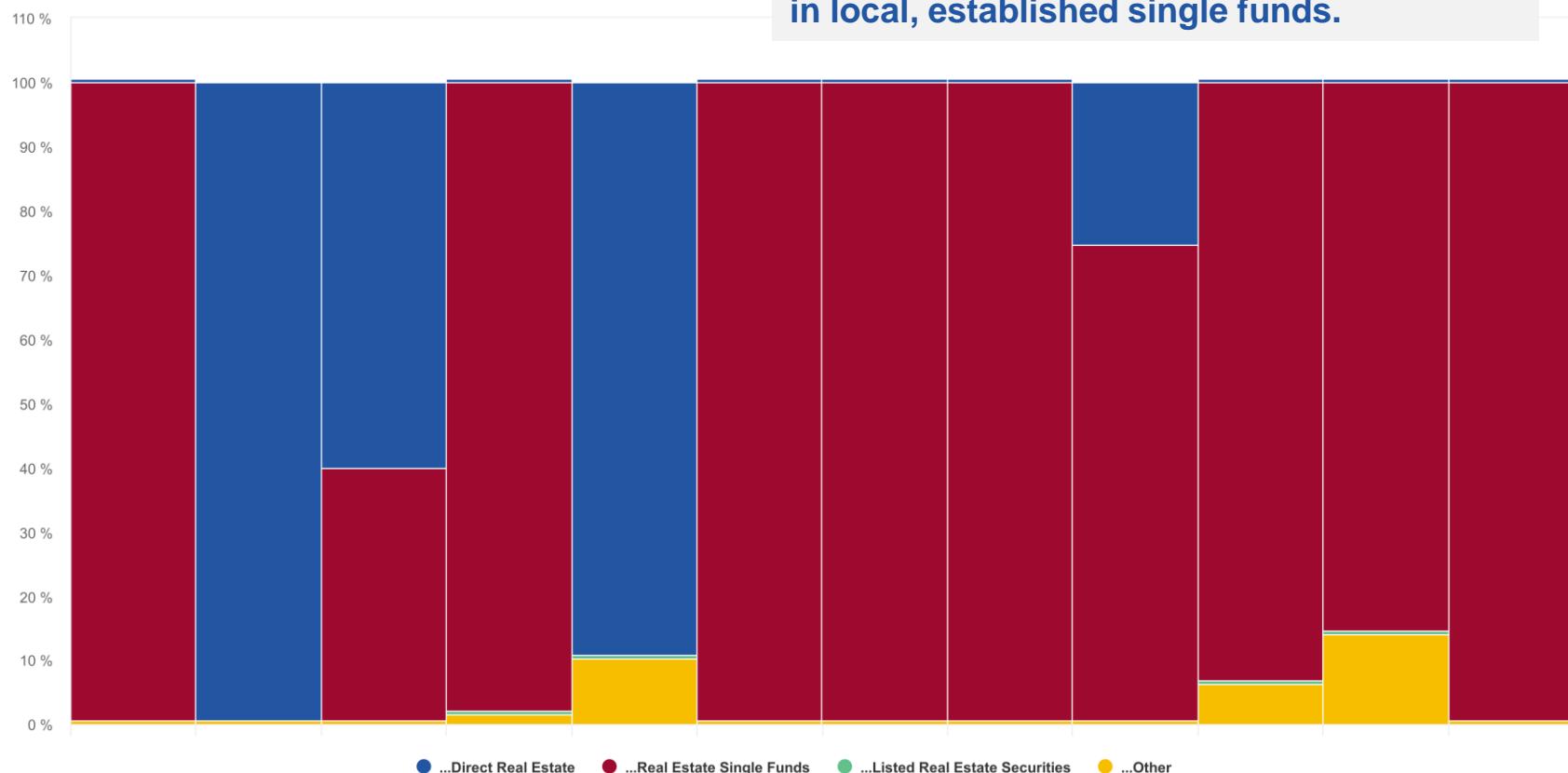
Global Real Estate Products (most frequently used)



Source: myPPCmetrics Global MarktScreen

Global Products: Implementation

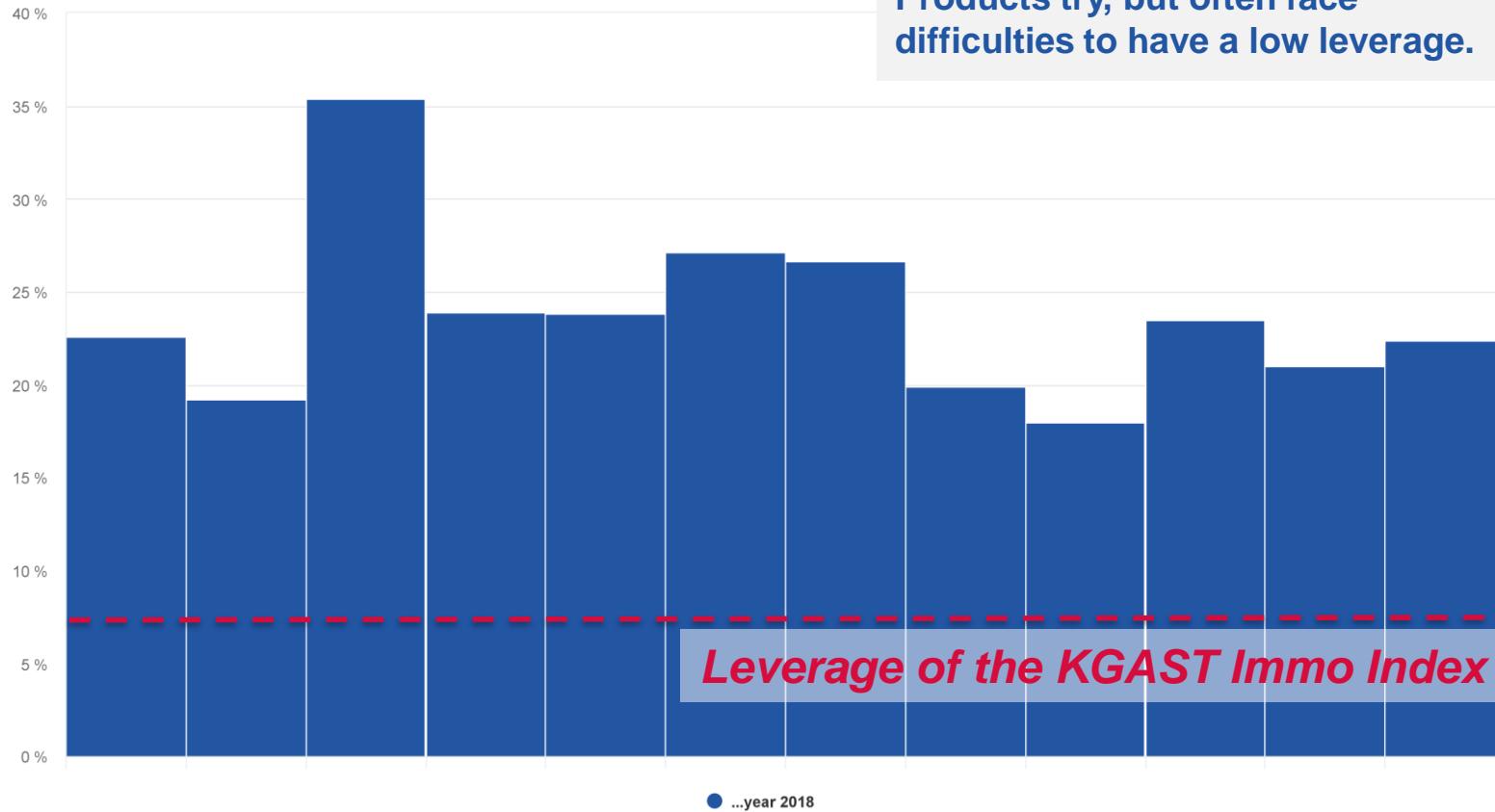
Global Real Estate Products (most frequently used)



Source: myPPCmetrics Global MarktScreen

Global Products: Leverage

Global Real Estate Products (most frequently used)

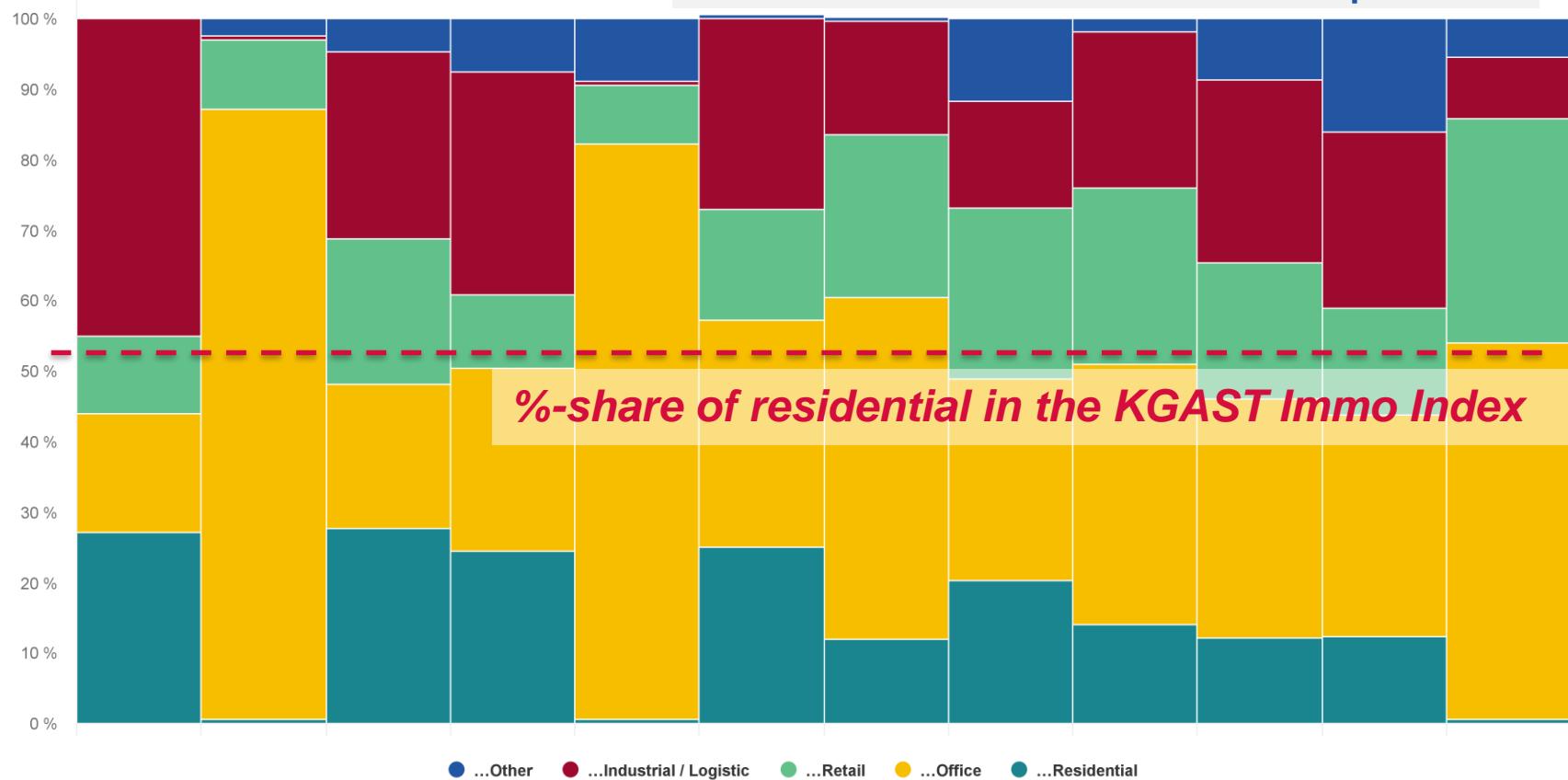


Source: myPPCmetrics Global MarktScreen

Global Products: Sector Allocation

Global Real Estate Products (most frequently used)

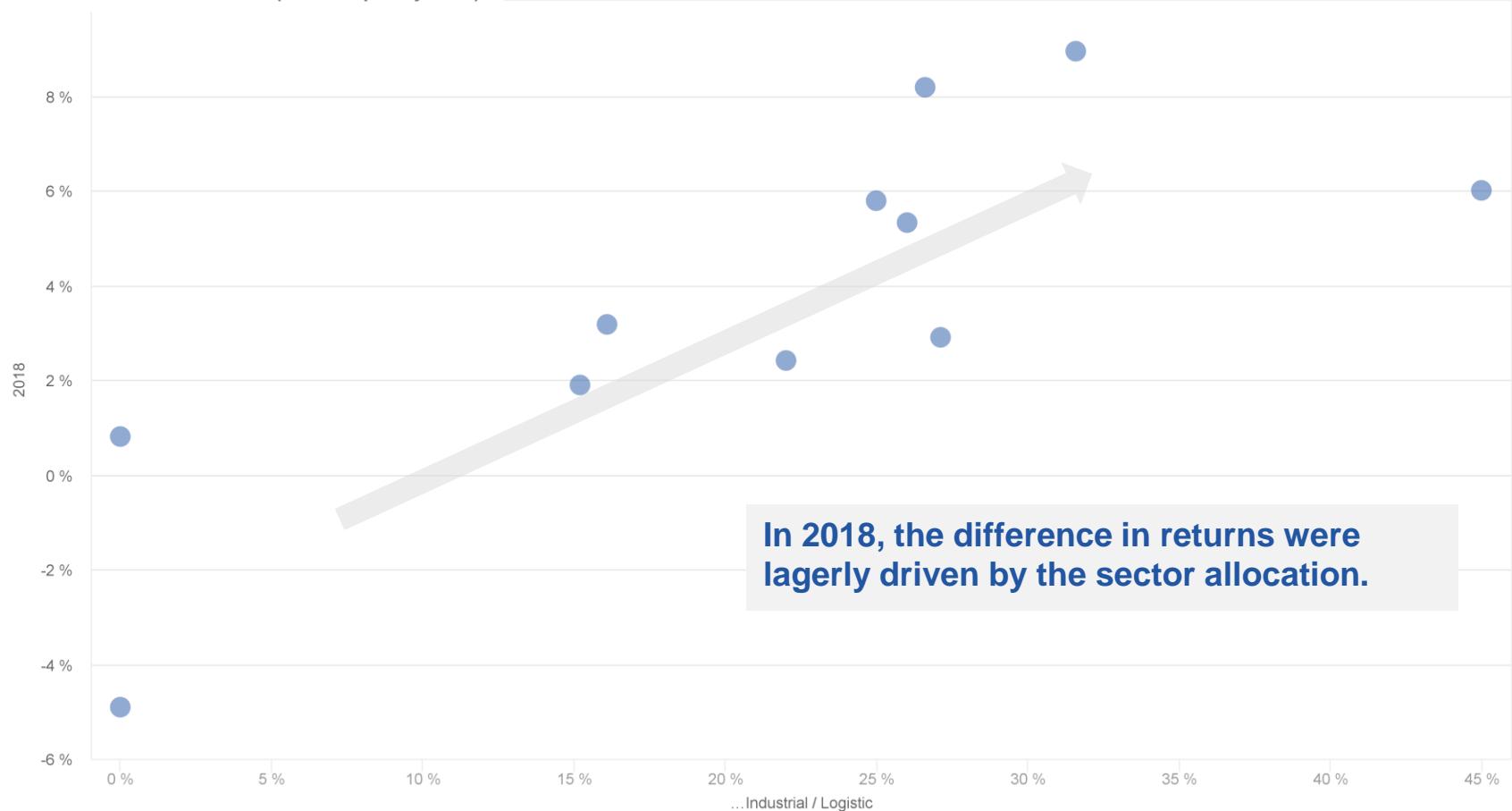
Products differ in the sector allocation. Residential is much lower than for Swiss real estate products.



Source: myPPCmetrics Global MarktScreen

Global Products: Return Driver

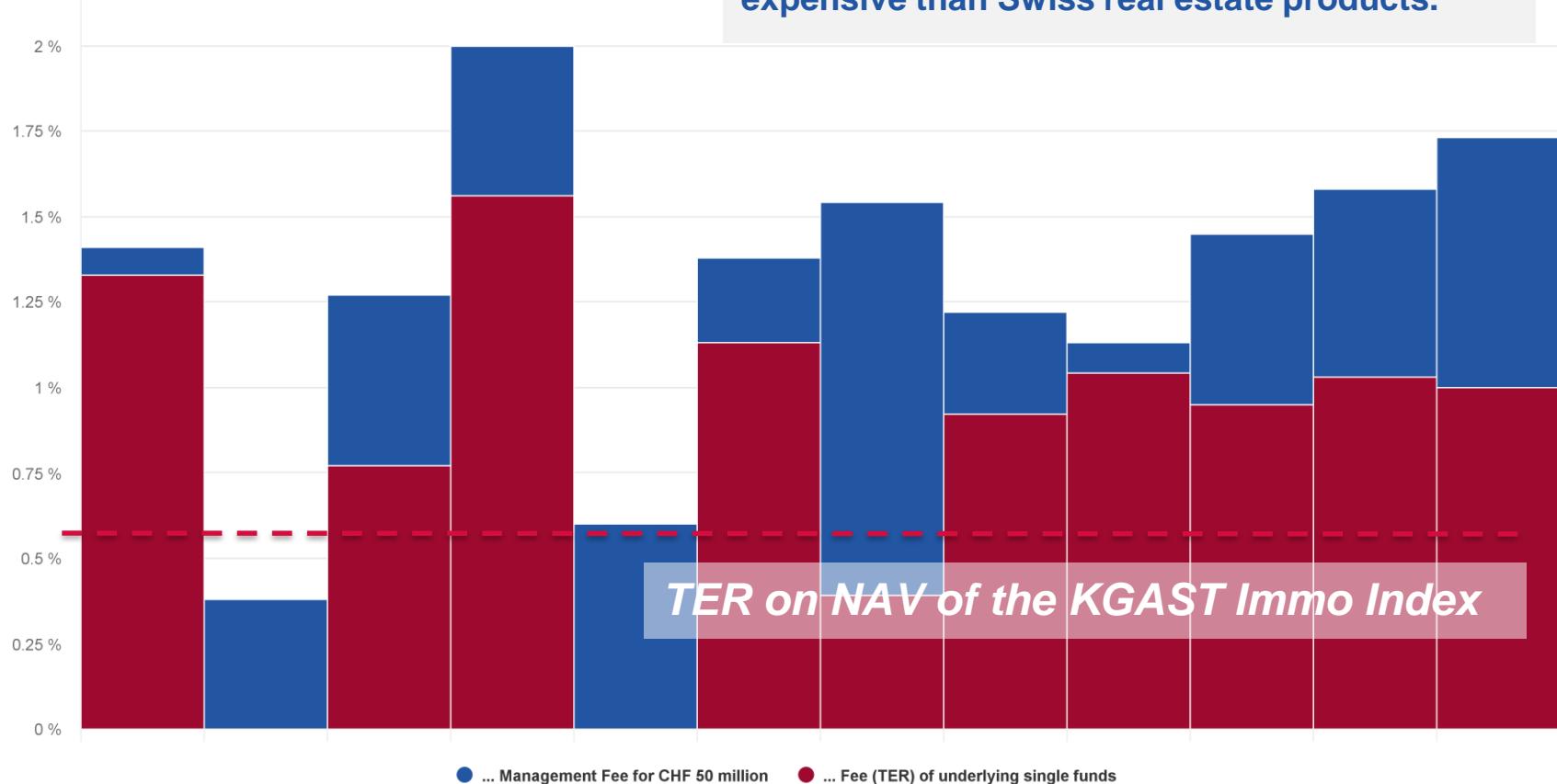
Global Real Estate Products (most frequently used)



Source: myPPCmetrics Global MarktScreen

Global Products: Costs

Global Real Estate Products (most frequently used)



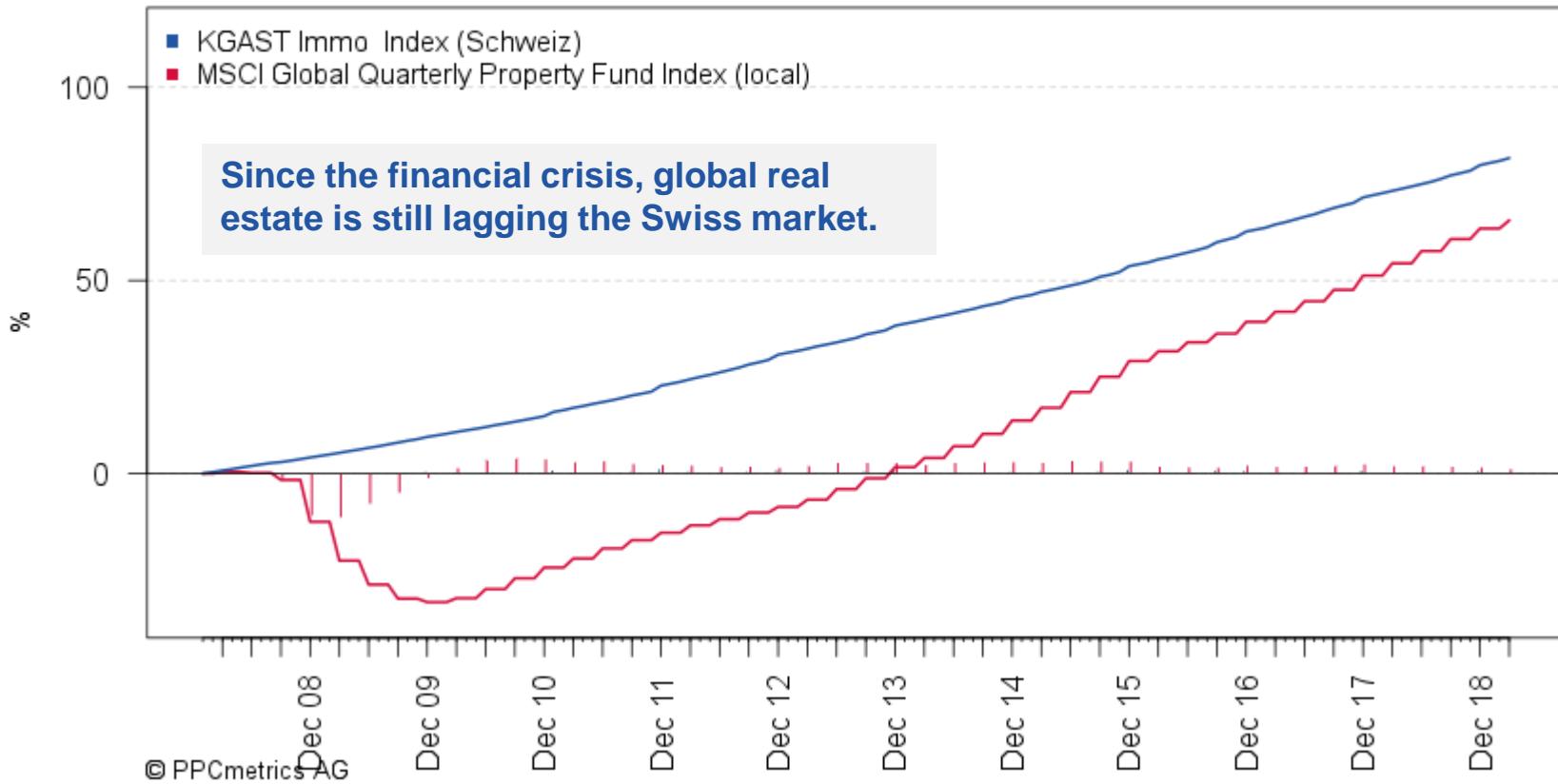
Source: myPPCmetrics Global MarktScreen

Swiss vs. Global Real Estate Returns

Absolute Returns over Time

Lines: cumulative, Bars: periodic

Time series 01.02.2008 - 31.03.2019



Conclusion 2: going global?

- In principle, the international diversification in global real estate is a good solution to mitigate or reduce the impact of a correction of the Swiss real estate market.
- The number of investment vehicles for global real estate has significantly increased.
- However, products for global real estate differ significantly from local products: higher leverage, less residential properties, higher fees and alter the risk / return properties of the real estate investments.

Thank you!

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Function

Managing Director (2019)

Division Manager Asset Manager Selection & Controlling

Education

Master of Science in Economics (financial market theory, real estate finance),
Universities of Maastricht and St. Gallen

Work Experience

PPCmetrics AG: Senior Investment Consultant (2006)

PPCmetrics AG: Investment Consultant (2002)

University of Maastricht, Finance Department: lecturer and research associate
Global Property Research, Amsterdam: research stay

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Lucerne University of Applied Sciences

University of Zurich (Center for Urban & Real Estate Management CUREM)

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