

News Release

Contact: Craig Morris
Director Marketing
Russell Investments
cmorris@russell.com
T: 02 9229 5120 or
M: 0413 274 037

Alexandra Cain
Honner Media
alexandra@honnermedia.com.au
T: 02 8248 3753 or
M: 0429 842 923

Russell Investments
Level 29
135 King Street
Sydney NSW 2000
Tel: 02 9229 5111
www.russell.com.au

Janet de Silva
Media Manager
Australian Institute of
Superannuation Trustees
jdesilva@aist.asn.au
M: 0448 000 499

Institutions poised to invest in global property amidst constrained local market, new research shows

2012 tipped to be a watershed year for overseas non-listed real estate investment

Lack of knowledge and foreign tax drag main barriers to investing offshore

HOBART, September 7 2011 – Australian investors are planning to increase their allocation to global non-listed property by as much as 34% in the next two years as they grapple with supply constraints in the local market and need for diversification, according to new research.

The groundbreaking research was conducted by Russell Investments, the Asian Association for Investors in non-listed Real Estate Vehicles Limited (ANREV) and the Australian Institute of Superannuation Trustees (AIST) to gauge how Australian institutional investors view the opportunities and challenges associated with offshore real estate. Thirty-nine institutions and superannuation funds representing \$360bn of funds under management participated in the inaugural survey, which will be carried out every two years.

“While Australian institutional investors have long discussed the need to capture global property opportunities, it seems a definite move offshore is now underway,” said Martin Lamb, director, Asia Pacific Real Estate Investment at Russell Investments.

Jeremy Stewardson, executive director of ANREV added: “We wanted to understand how investors were approaching this challenge and what support they needed to manage the transition. We think this study will enhance transparency and facilitate discussion.”

AIST CEO Fiona Reynolds said the study was particularly timely given debate about the asset allocation of Australian superannuation funds sparked by recent global sharemarket volatility. “International property will be increasingly on the radar of those funds looking for greater diversification,” she said.

Australian institutions currently allocate 9.7% of their investment portfolios to property, largely Australia-focused, and are intending to increase this to 10.5% in two years, the survey showed. When this increased property allocation is combined with the quickly-growing overall pool of superannuation capital, the survey suggests up to \$40bn in new capital could be targeted for real estate in the next two years, a substantial sum for the circa \$200bn Australian prime property market.

The research shows institutions are planning to increase the percentage of their property portfolios allocated to offshore investment from 2.3% to 3.2% in two years, a 34% increase. Many said they were planning overseas due diligence and said 2012 could be a watershed year.

The survey also uncovered some caution due to lingering bad memories from the global financial crisis (GFC), with investors now gravitating towards lower geared investments – 71% of those surveyed agreed they preferred funds with a gearing level of 50% or below.

Diversification, capacity constraints and access to high growth markets are the main drivers

Diversification was the overwhelming reason why investors are looking offshore, with 71.8% of investors naming it as a motivation.

“Recent equity market instability has prompted investors to seek alternatives that reduce overall portfolio volatility and non-listed property has always been known for its low correlation with traditional asset classes,” said Mr Lamb.

Constraints in the local market was named by 46.2% of respondents as a key reason to invest offshore, while access to high growth markets came in third with 43.6%.

Interestingly, the strong Australian dollar was not a primary motivation for investing offshore, as many investors felt currency exchange rates were too volatile to form the basis for an investment strategy and preferred to think of the current favourable exchange rate as “an added sweetener”.

Concerns around due diligence and foreign tax drag

Even as institutions are beginning to embrace offshore property investing, there are many concerns to address.

“Over half of respondents (56.4%) named lack of knowledge of offshore property as a challenge, and suggested this could be improved by better education supported by industry groups, consultants and fund managers,” said Ms Reynolds.

Foreign tax drag was also a deterrent for 43.6% of investors, with many particularly cautious about the US. They suggested the industry could do a better job of explaining tax efficient investment structures.

With trustee due diligence in the spotlight recently, investors are also worried they do not have the necessary internal resources to manage global real estate allocations, with 41% naming it as a concern.

“Australians are savvy property investors, and the survey shows they are clear-eyed about the opportunity to diversify their property holdings and bolster their offshore expertise. However there are still numerous challenges and we as an industry need to support them, to ensure we all negotiate this new territory prudently and look beyond our shores together,” Mr Lamb concluded.

For more detailed survey results please contact Honner Media.

About Russell Investments

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Celebrating its 75th anniversary in 2011, and 25 years in Australia, Russell has pioneered innovations that have come to define many of the practices that are standard in the investment world today, and has four decades of experience researching and selecting money managers globally.

Russell has about US\$161 billion in assets under management (as of 3/31/11) and works with 2,300 institutional clients, 530 independent distribution partners and millions of individual investors globally. As a consultant to some of the largest pools of capital in the world, Russell has \$2 trillion in assets under advisement (as of 12/31/2010) and traded \$1.5 trillion last year through its implementation services business. Russell provides leading administration and member services to over 220,000 individuals through its Australian Member Administration Centre. The Russell Global Indexes calculate over 50,000 benchmarks daily covering 63 countries and more than 10,000 securities.

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Asian Association for Investors in Non-listed Real Estate Vehicles Limited (ANREV)

ANREV is a not-for-profit organisation driven by institutional investors in Asian Non-listed Real Estate Vehicles. Our aim is to serve as a platform for investors who guide the association's strategy in a bid to improve transparency and accessibility of market information, promoting professionalism and best practices, sharing and spreading knowledge. Fund managers, investment banks, lawyers and other advisors provide support in addressing key issues facing the Asian non-listed private equity real estate fund markets. ANREV now has 128 members companies in fourteen countries. For more information about ANREV, visit www.anrev.org.

Australian Institute of Superannuation Trustees (AIST)

AIST is a national not-for-profit organisation whose mission is to promote and protect the interests of Australia's \$450 billion not-for-profit superannuation sector. AIST plays a key role in developing superannuation policy and provides professional training, research, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members.

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