Fund managers move on as Australian-only listed trusts lose their gloss

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AUSTRALIAN Property Securities funds, once the $27 billion powerhouse of the local property sector, have all but lost their relevance.

The sector, consisting of funds that invest solely in Australia's listed property trusts, lately has seen the departure of managers Credit Suisse and Axa Alliance Bernstein. Funds under management in the sector fell to $11bn at June 30 from $27bn three years before, according to Morningstar research.

By the early 2000s, these fund managers had been able to make or break an Australian listed property trust's initial public offering or capital raising, taking positions worth hundreds of millions of dollars in individual stocks.

Industry veteran Greg Paramor, who started Australia's first property securities fund in 1985 at Growth Equities Mutual, questioned whether the solely domestic funds had outlived their usefulness. "Are property securities funds able to add value?" he asked.

Mr Paramor, who heads boutique investor Equity Real Estate Partners and is a former managing director of Mirvac Group, said that once there were 65 to 70 listed property stocks from which these fund managers could choose. Now the top four or five stocks, such as Westfield and Stockland, made up 75 per cent of the Australian listed property index.

"They (property securities funds) have only been on the landscape for 20 years and you have to question whether they've served their purpose," he said.

Other managers who no longer provide property securities funds investing solely in Australian listed property include Pengana, Goldman Sachs JBWere, Blackrock and UBS, which folded its Australian Real Estate Investment Trust portfolio into its general equities or global property funds. Morningstar said the decline in the market value of A-REITs was the main reason for the fall-off in funds under management.

The market value of A-REITS has plunged from a peak of $129bn in September 2007 to $32bn in March last year, before recovering to $69bn now.

"The sector is even smaller when you back out Westfield, which represents 42 per cent of the A-REITs index," said one fund manager. Investors also stopped channelling money into Australian-only property securities funds during and after the global financial crisis.

At the same time, investment dollars began moving to global property securities funds, which grew rapidly from $627 million in June 2005 to $6.4bn in 2007. But their inflows were also hit by the GFC and funds under management have dropped to $5.8bn.

One source estimated that the number of specialist A-REITs fund managers had "probably fallen from around 30 a decade ago to 20, with 10 offering active management", meaning they select individual stocks as opposed to following the S&P/ASX A-REITs 200 Index.

Credit Suisse sold its credit and real estate securities funds to Challenger Financial Services, leaving David Scott and Pat Barrett without a job from last month.

"It is an irony. They were the fund managers of the year in property last year," said a Sydney-based manager.

Similarly, Goldman Sachs JBWere did not replace Tim Hannon and Andrew Smith, who ran its A-REITs portfolio when they left the firm.

A GSJBW spokeswoman said A-REITs were now run by its general equities team.

ING director of real estate securities Justin Blaess left earlier this year, moving to an investment banking role at Deutsche Bank.

Andrew McGrath and David Curtis, co-portfolio managers of Australian listed property securities at UBS Global Asset Management, left the firm last October.

And since November, Jakov Males, director and senior manager for Australian equities, has run the UBS Property Securities Fund.

Pengana portfolio manager Tim Shaw, who used to run an A-REITs portfolio, said the firm no longer offered the product. Last year it launched an Asian equities fund, which includes exposure to property securities.

Mr Shaw said it was also planned to have a specialist Asian property securities fund.

The loss of power of Australian property securities funds will result in more volatility and wilder share price swings for the A-REITs.

Global managers and general equities investors tend to move their money in and out more often than a pure Australian A-REITs manager.

But the shift is not inexorable as some managers are bucking the trend.

Atchison Consulting is working on a fund that would provide a high level of staple rental incomes.