

Current Regulatory Trends In Real Estate Investments

TRUSTEE TRAINING.

URBRA

IMPERIAL ROYAL HOTEL, OCTOBER, 2019

Outline

- Role of Trustees in investment management
- A focus on Alternative Investments
- Real Estate-
 - ✓ Growth
 - ✓ considerations and
 - ✓ challenges

2

Critical Roles of Trustees' In Investments Management

Roles of trustees

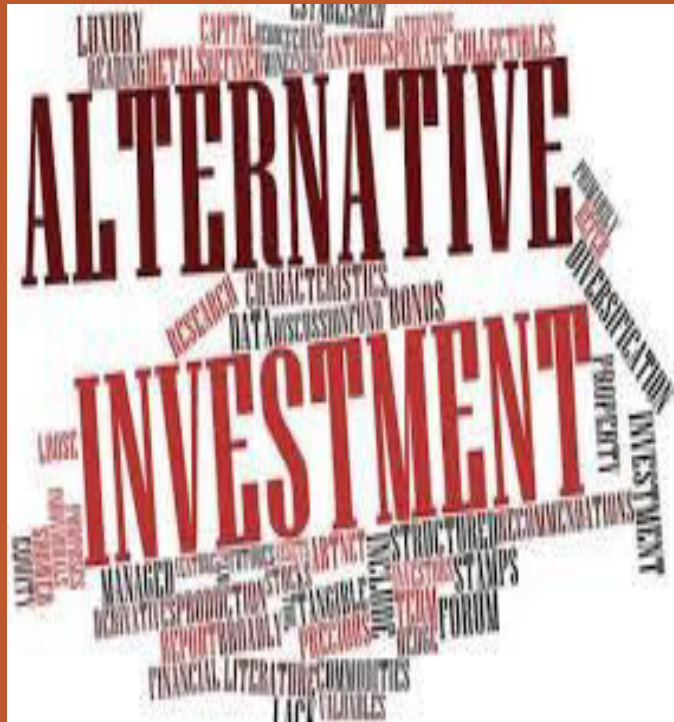
- Develop the investment policy that will guide the manager's actions;
- Appoint, appraise and as required remove, Fund Managers.
- Appoint, appraise and as required remove, other service providers such as asset consultants and custodians
- Monitor and review all investment arrangements.
- Regularly review and revise this Statement of Investment Principles (IPS) (3 years)

- Specify the risk tolerance, investment policy, objectives and principles of the Fund.
- Develop and implement an appropriate investment strategy to meet the objectives.
- Determine the permissible assets to be invested in (subject to any statutory limitation).
- Determine the Strategic asset allocation strategy
- Ensure compliance with all relevant legislation and regulations, and to act in accordance with the Trust Deed

3

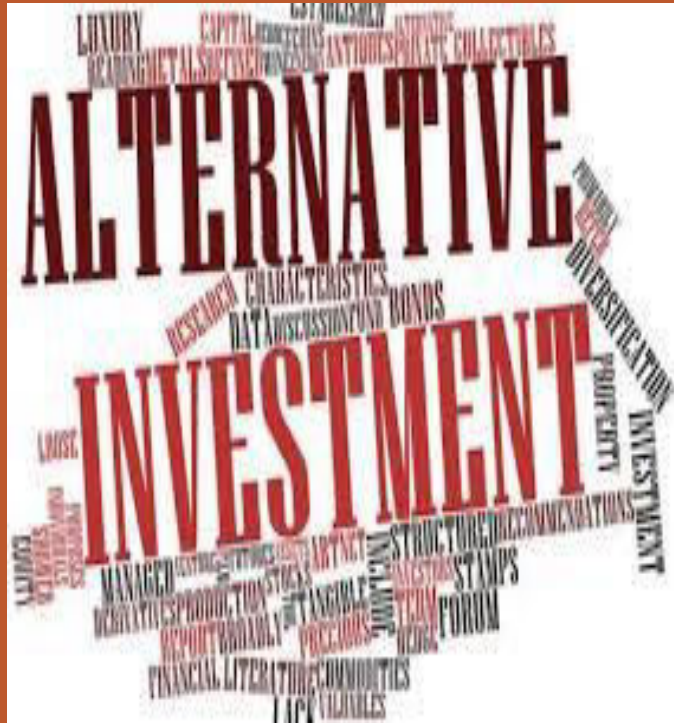
Asset classes- A focus on Alternatives

ASSET CLASSES



- Hedge Funds - the hedge fund manager raises money from outside investors and then invests it according to whatever strategy he or she has promised to use.
- Infrastructure
- Private equity-Stock or membership units in a privately held business
- Real Estate - Real estate and all of its many derivations, including directly owned property, real estate development corporations and REITs

RISK & RETURN PROFILES



- Investors primarily invest in alternatives to diversify returns as alternative asset class returns are more tied to economic variables such as inflation, GDP
- Property is particularly popular as this offers a hedge against inflation but this is associated with significant due diligence costs
- Infrastructure investments have the highest due diligence costs and longest investment tenors, often in excess of 15 years
- Private equity firms generally buy companies, enhance them and sell them on.- they are illiquid and long term in nature. Investment strategies include; LBO, VC, DC and DI

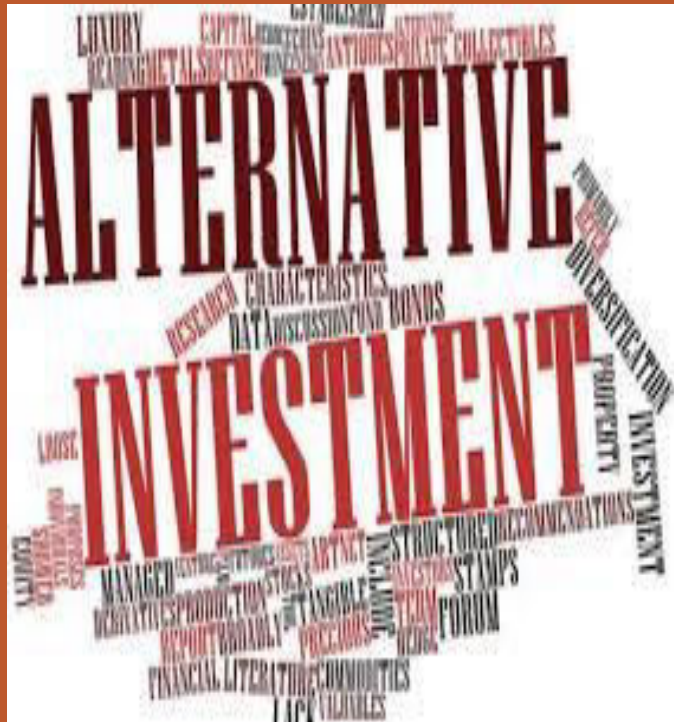
QUIZZZZ- 2

One of the key risk of investing in private equity (P.E) is that;

- A) Its offers diversification
- B) P.E's have a low correlation with inflation and other economic variables
- C) P.E's are illiquid and long term in nature



Growing need for Alternatives by Pension Funds.



- Response to the financial crisis of 2008-In as a way of increasing their diversification into assets that are non-correlated to the stock market and stability
- The downward trend of the yield curve (increase in alternative sources of finance)
- The volatile equity markets
- The increase pressure on pension funds to increase return on investments
- Perspective of a boom in the Real Estate market currently in Uganda

4 Real Estate

REAL ESTATE INVESTING

Property purchased with the intention of earning income through rental income or resale, rather than as a primary residence.

Real estate investors typically purchase homes to rent out to tenants, apartment buildings, and commercial buildings or Land.

Growth in allocation to real estate

IMMOVABLE PROPERTY IN UGANDA	June 2016	June 2017	June 2018	June 2019
COMMERCIAL	95,437	96,438	96,811	106,931
RESIDENTIAL		0	0	7,595
AGRICULTURAL		0	0	-
INDUSTRIAL		0	0	-
UNIT TRUST		0	0	-
REAL ESTATE INVESTMENT TRUST	4,581	2,709	2,594	
UNDEVELOPED PROPERTY	367,144	429,661	448,256	673,878
TOTAL	371,725	432,370	450,850	673,878

Trustees consideration when investing in real estate

- ❑ The investment process prescribed by the URBRA Act and regulation(S. 67, S.46 Which emphasis prudence and diligence)
- ❑ Structure of the scheme (DC, DB, payout frequency)
- ❑ Risk profile for the overall investments of the scheme (20% to 25% of total risky asset is recommended).
- ❑ Land only contributes by adding a revaluation gain (the more the allocation the more the strain on income generating Assets)

A case on allocation to real estate

Growth in allocation in real estate - 6.5% in 2016, 5.2% in 2018, 6% in 2017 and 6.1% in 2019

SCHEME	June 2016 (Millions)	Proportion	Structure	June 2018
SCHEME A	7,595	26.2%	DC	high payout
SCHEME B	8,437	20%	DC	low turnover
SCHEME C	242	2%	DC	Medium turnover
NSSF	772,129	6.9%	DC (Mandatory)	

QUIZZZZ-3

One of the key consideration for trustees to invest in real estate include;

- A) Because all schemes are investing in real estate
- B) Trustees have identified a buyer willing to sell quickly at bargain price
- C) the schemes IPS



Challenges of investing in real estate

- ❑ Endowment bias (Trustees want to be in charge)
- ❑ Lack of transparency in sourcing for investment opportunities (Conflict of interest)
- ❑ Lack of transparency in pricing and valuation
- ❑ Property investments are very illiquid
- ❑ The objective of purchase may not be understood by the trustees.

4

Asset allocation

CONCLUSION

- ❑ Inclusion of property to a schemes' Portfolio can add great diversification benefits
- ❑ Trustees need to look at the risk profile of the scheme as a whole, IPS and payout structure before investing in real estate.
- ❑ The objective of purchase must be understood from the beginning and clearly aligned to Investment objective of the scheme.
- ❑ Investments in real estate should follow the Investment processes prescribed in the ISFR (*Determine the permissible assets to be invested in (subject to any statutory limitation).*)

