



Paradigm shift in Germany:

The future for open ended, closed ended funds and REITs

Bernhard Funk

ERES Industry Seminar

Frankfurt on March 23, 2012

Foreword: Phrases for the year 2012

“The *closed* open-ended fund.”

“*Discount* on NAV for open-ended fund shares.”

“*Diversified* closed-ended funds for *institutional investors*.”

“The *abolishment* of the German REIT.”

Hypothesis: Paradigm Shift

The German market for indirect real estate vehicles:

1st: “There is a profound shake-up in the market, changing the rules of the game.”

2nd: “Reorganization for funds and sponsors is imminent.”

3rd: “We failed to introduce a regulatory framework that offers viable alternatives to existing regimes in the indirect market.”

Is this the first paradigm shift in the German fund industry?

NO!

Previous industry reorganizations occurred, just naming one ...

Abolishment of tax incentives for German real estate by the end of the 90s ...

TRIGGERING

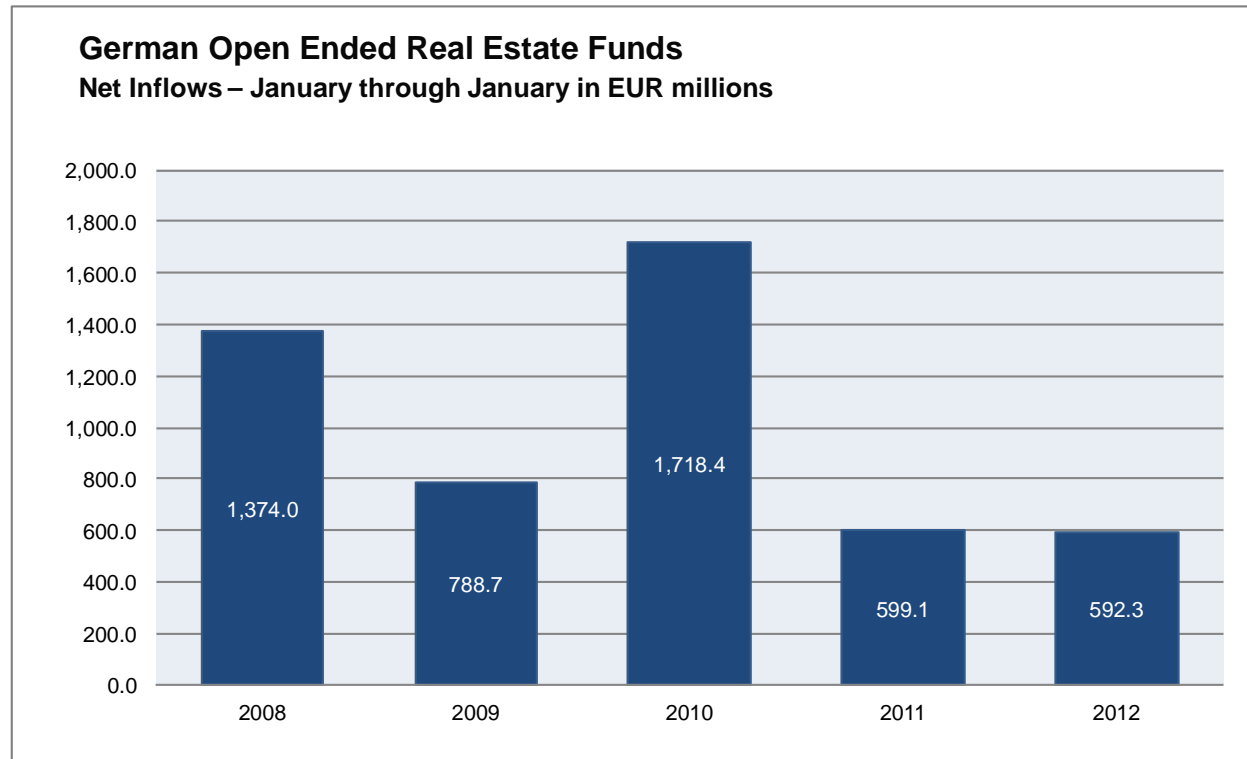
Meltdown of fund structures designed to help High Net Worth Individuals receiving benefits from accelerated depreciation for properties in East Germany.

Where do we stand, and where do we go?

2012 market environment for German ...

- A) Open-ended funds
- B) REITs
- C) Closed-ended funds
- D) “ Specialfunds “ for institutional clients

Unlike one would think, there is considerable inflow into German open-ended funds ...



Figures show, that German open-ended funds maintain to attract capital from private clients, but why?

Interest rates

Euro crisis

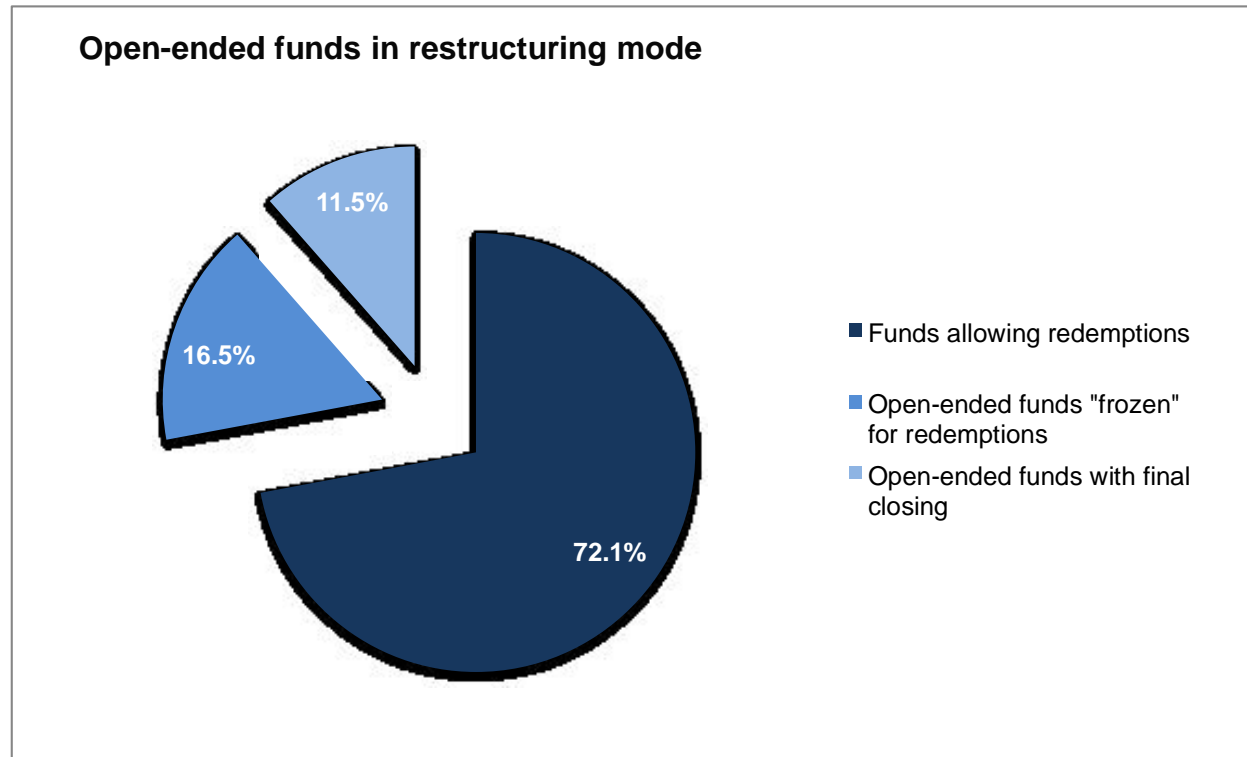
Diversification benefits

And perhaps ...

“Selective retention”

Source: BVI, January 2012

Considerate share of open-ended funds “froze” capital of investors ...



Note: Shares calculated by fund size (AuM)

Customers considered open-ended funds to provide immediate liquidity by providing daily redemption rights ... but now ...

Almost 30% of the market is “locked” ...

„The promise of providing liquidity by investing into illiquid real estate assets has been broken ...“

Source: BVI, January 2012

Examples for funds hoping to reopen in 2012 ...

"Frozen" are...	Assets in million Euro	"Last call" for re-opening or closing until...
SEB ImmoInvest	6,336	May 5, 2012
CS EUROREAL A	6,000	May 18, 2012
KanAm SPEZIAL grundinvest Fonds	359	May 2, 2012
AXA Immosolutions	353	May 25, 2012
UBS (D) 3 Sector Real Estate Europe	345	October 6, 2012
SEB Global Property Fund	293	March 7, 2012
DEGI GERMAN BUSINESS	238	November 29, 2012

Total

13,925

Source: BVI, January 2012

Examples for funds that eventually will sell their assets and quit the market ...

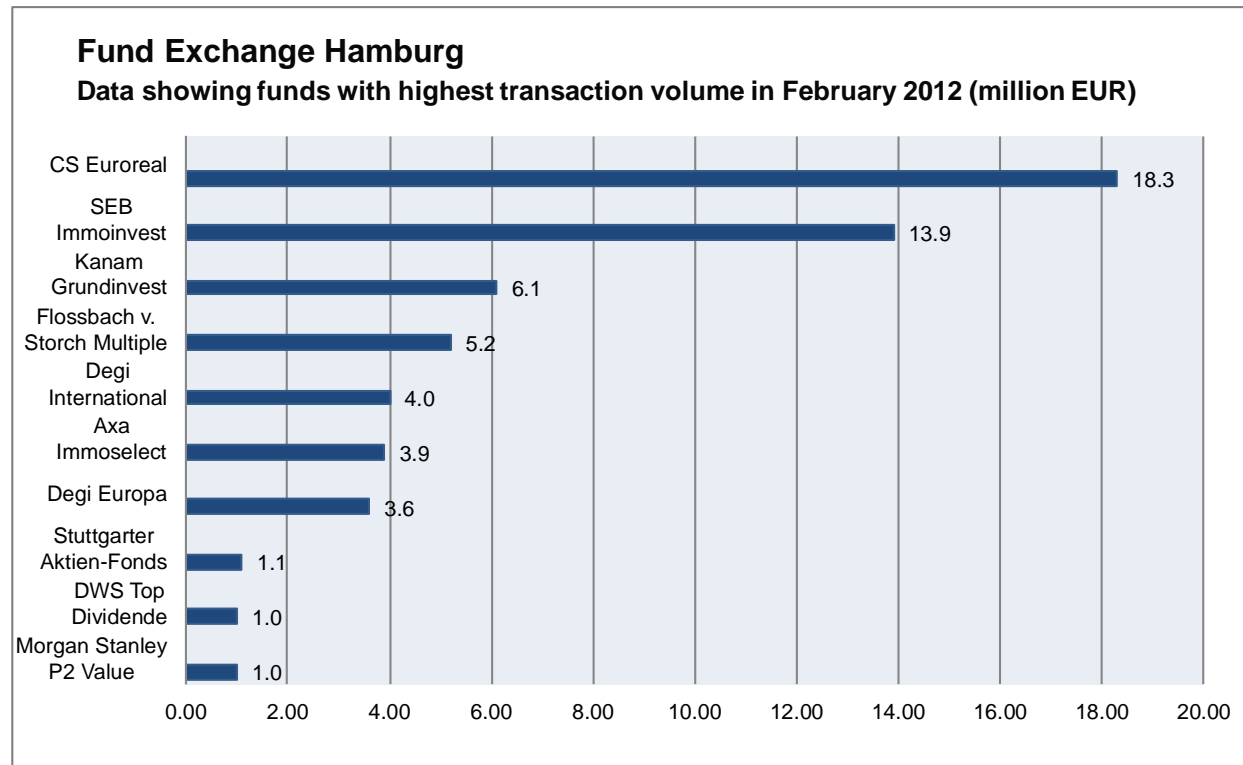
Dissolved will be...	Assets in million Euro	Closing until...
KanAm grundinvest Fonds	3,925	December 31, 2016
AXA IMMOSELECT	2,463	October 20, 2014
DEGI INTERNATIONAL	1,562	October 15, 2014
DEGI EUROPA	845	September 30, 2013
TMW Immobilien Weltfonds P	673	May 31, 2014
DEGI GLOBAL BUSINESS	234	June 30, 2014

Total **9,702**

Will the selling spree impact the investment markets for German commercial properties in the coming years?

Source: BVI, January 2012

Markets can provide liquidity, and stock exchanges are the institutionalized format to organize this ...



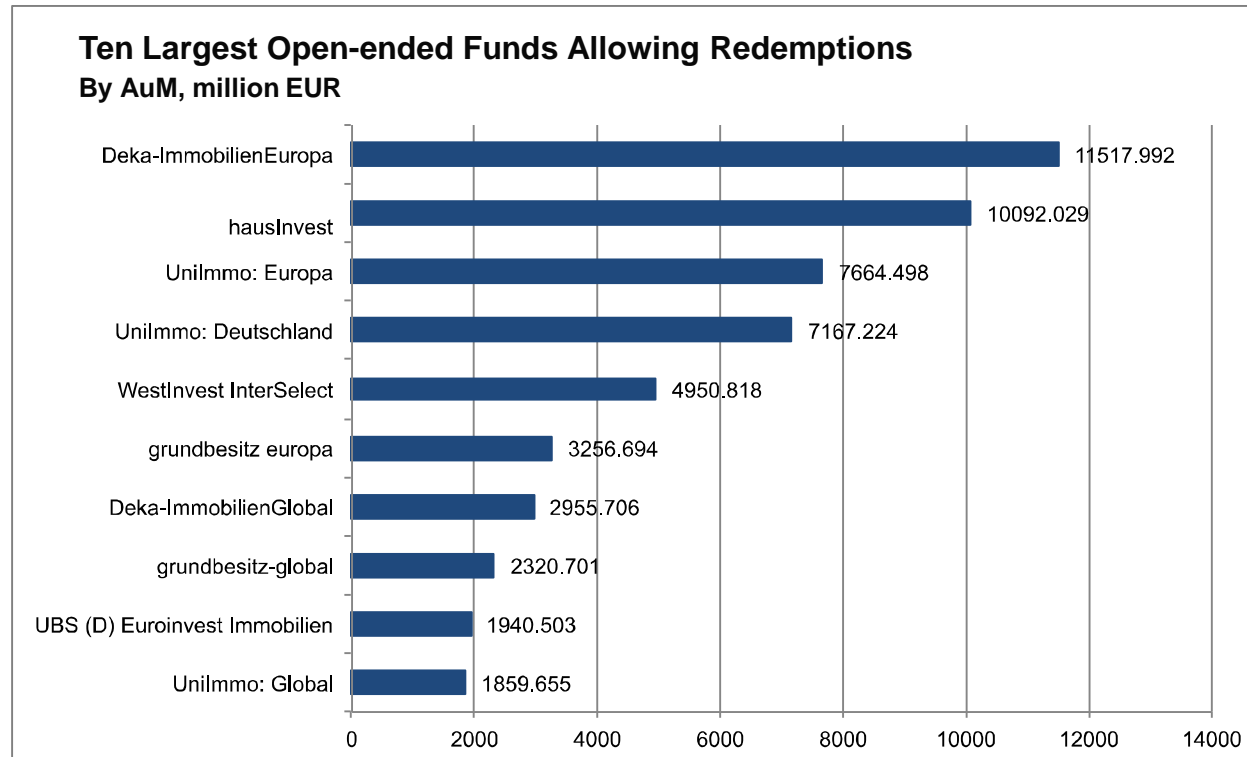
There is a secondary market for fund shares „locked“ by closed open-ended funds ...

Shares trade at discounts on NAV.

The discounts for “frozen“ open-ended funds range from 25% through 50% .

Source: F.A.Z., 13.03.2012

The current market sentiment: Open-ended funds supported by a strong retail banking distribution network will survive



But what happens if further closures in 2012 hamper the image of the product

... and cause retail customers of banks to redeem their shares in open-ended funds even further?

„Is there **WISDOM OF CROWDS** amongst the retail investors?“

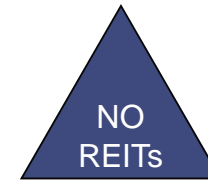
Source: BVI, January 2012

Why does Germany lack a significant market for REITs?

A significant listed sector would solve the liquidity issues.

In Switzerland and in the US, the listed sector works well.

Why not in Germany? The “TRIANGLE OF PREVENTION“:

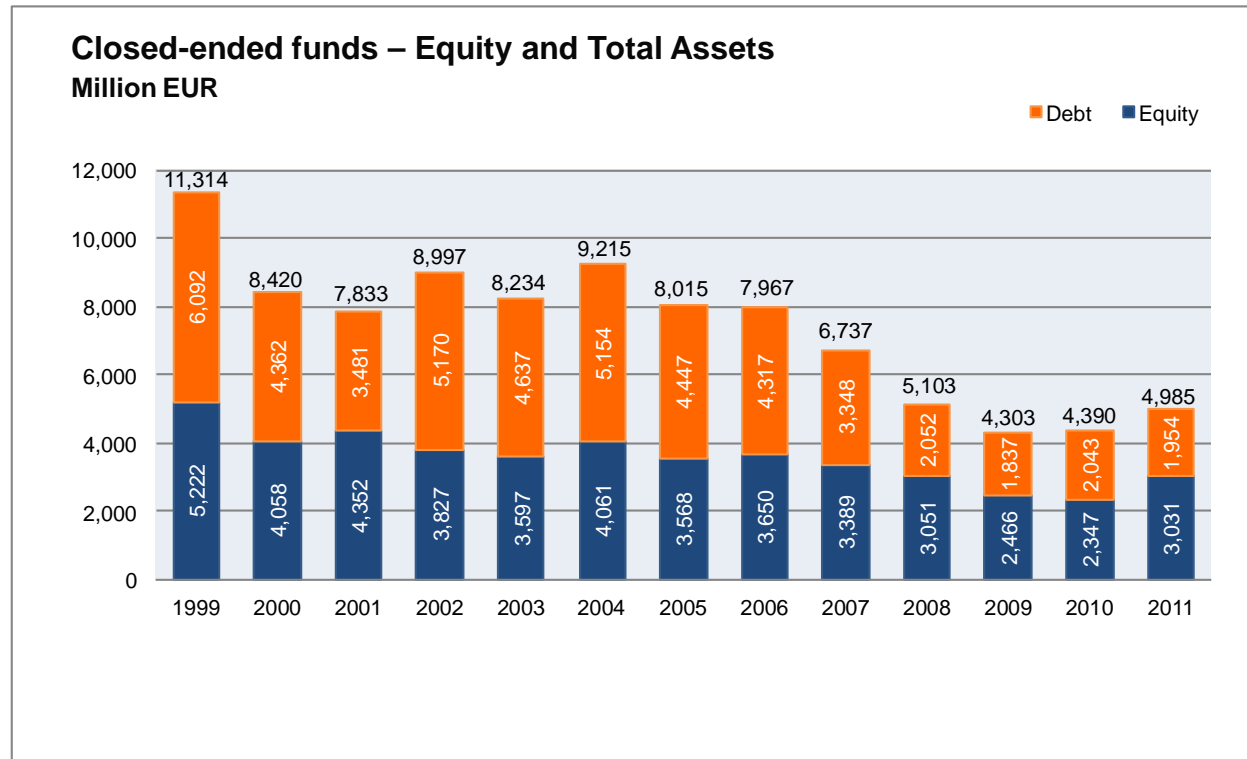


- German politicians do not support the evolvement of a viable REIT regime in Germany. The regulatory framework is unsatisfactory.
- Typical German retail clients avoid the volatility of public markets.
- Institutional investors such as German insurance companies would prefer a PRIVATE REIT - not allowed by the German regulatory framework.

“CASE CLOSED ... BUT HOPING FOR CHANGE“:

Germany would clearly benefit from a significant listed sector, but the regulatory framework is not supportive for the listed sector!

Market for closed-ended funds contracted in the last decade



Today's market accounts for less than 50% from what the sector had close to millennium.

Why?

Abolishment of tax incentives

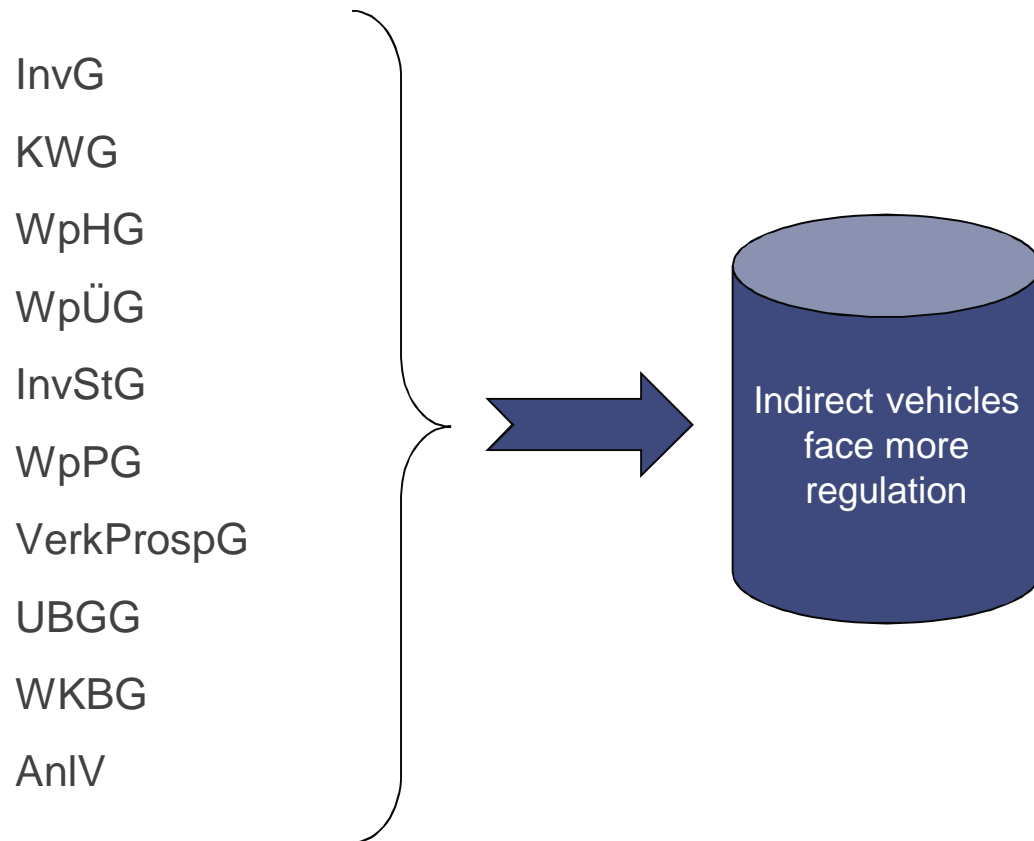
Some sponsors with poor performance

Banks hesitant to take-on legal risk in distribution chains

Source: VGF 2012

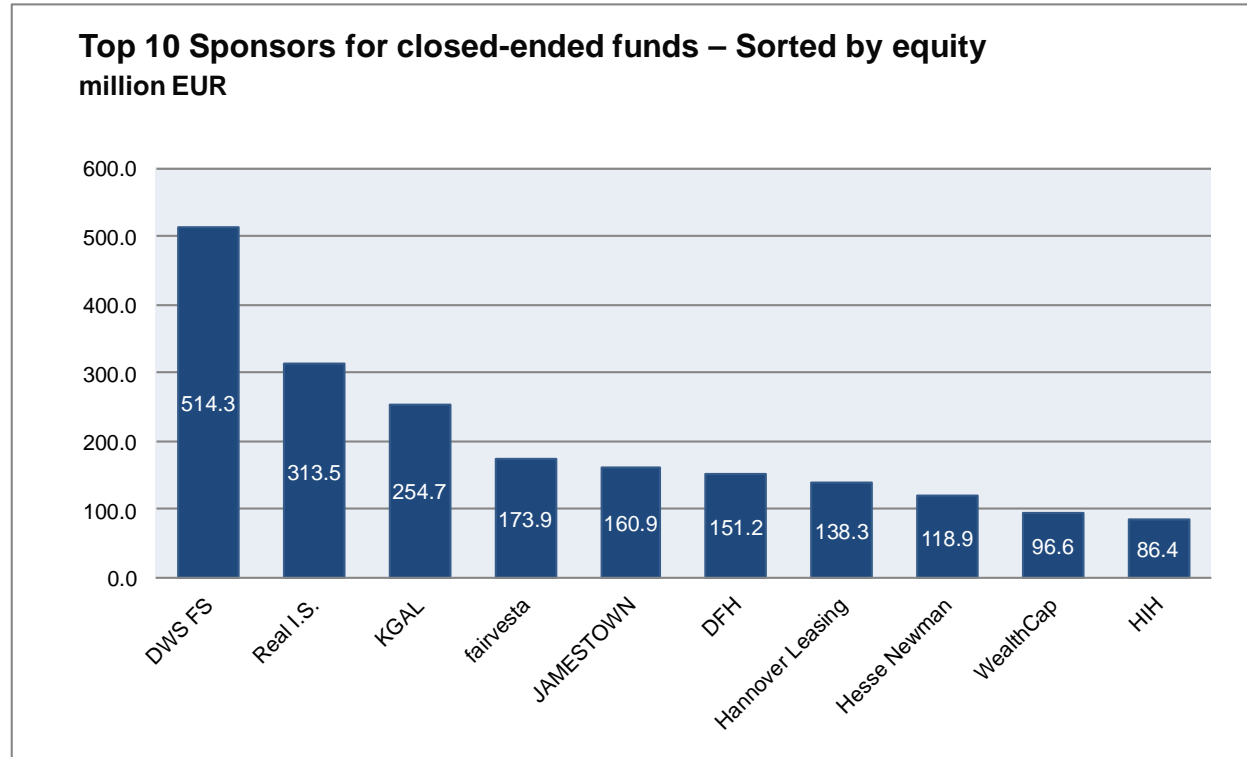
German laws and directives governing funds are manifold

AIFM directive and associated German laws and directives:



Source of list: Mayer Brown, 2012.

AIFM directive implementation will benefit the big players ...



AIFM and associated regulation will lead to complete reorganization of closed-ended funds:

Stricter regulation and re-design of organizational process ...

Risk- and Liquidity Management

Depository

Prospectus and Marketing

Source: VGF, 2012

German Specialfund is filling the gap of non-existent Private REITs vehicle ...

Market Share of German Specialfunds – Top 5

Company	AuM (million EUR)	Market Share (per cent)
IVG Institutional Funds	7,281.9	23.41
Internationales Immobilien-Institut (iii-investment)	3,160.2	10.16
RREEF Spezial Invest	1,762.6	5.67
Warburg-Henderson KAG für Immobilien	1,734.3	5.58
Hansainvest Hanseatische Investment	1,700.7	5.47

Specialfunds is a sector with organic growth. But competition will increase fiercely as ...

Former open-ended fund sponsors

Closed-ended fund sponsors

enter the market for German Specialfunds.

Total market volume
~ EUR 30bn +

Source: BVI / ENTZIAN Study 2011. Data as of 2010.

Outlook for indirect vehicles in Germany

REITs will not substitute other indirect vehicles, unless the regulatory framework and the retail clients' sentiment towards the listed sector improve.

Retail clients' demand for a well-diversified risk-averse real estate investment is strong.

The classical segmentation between the markets for open-ended funds and closed-ended funds is historical. *“Just imagine AIFM required diversified portfolios for closed-ended funds!”*

Fund organizations will look very similar in the future due to stronger regulation.

If the market for open-ended and closed-ended funds contracts, who will fill the gap?

Your contact

Bernhard Funk

E-Mail: info@reits.de

DISCLAIMER

Diese Präsentation wurde von Bernhard Funk („Funk“) ausschließlich für und zur internen Verwendung des Adressaten sowie ausschließlich zum Zwecke der Diskussion bestimmter hierin beschriebener Fragen erstellt. Diese Präsentation basiert ausschließlich auf öffentlich zugänglichen Informationen. Alle hierin enthaltenen Schätzungen und Projektionen umfassen zu einem bedeutenden Teil subjektive Urteile und Analysen, die nicht zwingend zutreffend sein müssen. Funk und alle ggf. mit Funk verbundenen Organisationen, Unternehmen oder ggf. seine Mittelbaren oder unmittelbaren Gesellschafter sowie jeweils deren Mitglieder der Geschäftsführung, Mitarbeiter und Bevollmächtigten geben weder (ausdrücklich noch konkludent) Garantien oder Zusicherungen noch übernehmen sie eine Haftung bezüglich der Richtigkeit, der Herkunft, der Gültigkeit, Genauigkeit oder Vollständigkeit der hierin enthaltenen Informationen und Daten oder die Verantwortung für Schäden, Verluste oder Kosten (einschließlich mittelbarer oder unmittelbarer Verluste) infolge von Fehlern oder Auslassungen in dieser Präsentation. Die wirtschaftlichen Bewertungen in dieser Präsentation basieren notwendigerweise auf den aktuellen Marktbedingungen, die innerhalb einer kurzen Zeitspanne wesentlichen Änderungen unterliegen können. Änderungen und Ereignisse, die nach dem Datum dieser Präsentation eintreten, können daher die Gültigkeit der Rückschlüsse in dieser Präsentation betreffen. Funk ist jedoch nicht verpflichtet, diese Präsentation oder die ihr zugrunde liegenden Informationen und Daten zu aktualisieren und/oder zu überprüfen. Mit der Entgegennahme dieser Präsentation stimmen Sie den vorgenannten Regelungen zu und erkennen Sie als verbindlich an.
