



Submission to the Asia Region Funds Passport Consultation Paper

11 July 2014

Dear Sir/Madam

Property Funds Association of Australia - Asia Region Funds Passport Consultation Paper

We welcome this opportunity to make a submission in respect of the Asia Region Funds Passport Consultation Paper (**ARFP CP**) to assist in developing a multi-lateral framework for the cross border offer of collective investment schemes (**CIS**) in the Asia region.

The CP currently does not contemplate including property as an eligible asset class for property funds. For the reasons outlined below, the Property Funds Association of Australia (**PFA**) would encourage the member states to consider including property as an eligible asset class under the ARFP regime.

About the Property Funds Association of Australia

The PFA is an industry body representing the Australian unlisted wholesale and retail property funds sector, currently some \$79 billion in size.

The PFA's members consist of Australian Financial Services Licensed property fund managers, their advisors, consultants and representatives.

Importance of the unlisted property funds sector to the economy

Unlisted property funds can form an important part of an investment portfolio for institutional and retail investors. Unlisted assets often provide protection against movements in the listed market, as they have not been highly correlated with the listed market. Unlisted property funds also tend to provide more stable returns, by providing investors with regular distributions from rental income.

The PFA supports measures that encourage investment into unlisted property or other direct asset funds (including infrastructure). These measures include an appropriate framework for offering property funds which protects investors, regulation that supports a "level playing field" with other investment types and alternative market structures that enhance access to these types of investment in the Asia region.

Accordingly, this submission sets out the PFA's views as to the inclusion of property as an asset class for an eligible CIS offered under an Asia Region Fund Passport and canvasses

key issues which should be open for discussion to foster a robust unlisted property funds sector in Australia. I would like to acknowledge the Issues and Regulatory Committee and Hall & Wilcox for preparing this submission on behalf of the PFA.

Basis for excluding property as an asset class

The CP provides that one of the objectives of the ARFP is to offer passport funds which are relatively non-complex investments and which provide a high degree of investor protection.

The CP appears to assume that property is a complex investment, due to it being an illiquid investment. However, investment in property through a CIS can be structured in a simple manner. Many property funds are structured as a direct investment in property, providing investors with exposure to property which they would otherwise be unable to access.

Furthermore, illiquidity does not necessarily correlate with complexity or higher risk. Accordingly, property as an asset class does not necessarily entail additional risk compared to other more liquid assets which may be offered under the ARFP. Additionally, risks can be managed by informing investors of the illiquid nature of property funds and providing them with limited liquidity opportunities which are in the best interests of the particular property fund.

As discussed below, the offering of property as an asset class for passport funds can be appropriately regulated and managed to offer the requisite investor protection sought to be achieved by passport funds.

Benefits of including property as an asset class

There are numerous benefits of including property as an asset class for eligible passport funds. Importantly, including property as an asset class will assist in achieving the very objectives for which the ARFP is established to achieve.

Diverse range of investment opportunities

The Australian property sector is attractive to overseas investors. Investors should be offered the benefit of various asset classes with different risk profiles and investment horizons. This will assist investors in better managing their investment portfolio and meet their investment objectives.

Broadening the asset class to include property will also make ARFP funds more competitive with the UCITS funds which have penetrated the Asia market and have a strong existing

brand in the Asia market. This can provide a significant point of difference from UCITS funds which cannot invest in real estate and infrastructure.

Attracting finance for growth and social infrastructure

Property funds are often used to house investments in infrastructure and social infrastructure related assets including: child care, student housing, hospitals and the like – and as such measures to encourage private investment into these vehicles are crucial in reducing the future, growing impost on the public purse and fostering growth.

Therefore, it is important that the ARFP framework creates a robust and efficient framework to support continued investment in property funds to provide the necessary infrastructure which will facilitate future economic and demographic, while at the same time offering necessary protections to investors.

Promotion of property funds sector

Australia has a sophisticated and mature property funds management industry, which it can export to the region if property is included as an asset class for passport funds.

The experience of fund and investment managers, regulators and advisors in the property funds sector provides Australia with a natural competitive advantage in showcasing its funds management expertise to the region and facilitating the emergence of Australia's reputation as a financial services centre.

Safeguards for investor protection

The PFA is cognisant of the concerns in relation to permitting offering CISs which invest in property. However, the PFA submits that adequate measures can be implemented to ensure that investors are provided with the necessary protections.

The disclosure principles set out in ASIC Regulatory Guide 46 - Unlisted property schemes: improving disclosure for retail investors could be adapted and incorporated into passport rules to ensure that investors are provided with appropriate disclosure to address certain key risks in respect of investment in property. This approach would also allow investors to readily compare different passport funds which invest in property.

Similarly, the Australian experience in respect of the pricing, valuation and withdrawal mechanisms for property funds could be used as a guide in appropriately regulating passport funds which invest in property. Other aspects of the regulatory and legal framework may also

be used as a starting point for determining governance and regulatory approaches for such passport funds.

Furthermore, various submissions from industry associations in relation to the ASX mFunds settlement services and short form product disclosure statements demonstrate a desire towards creating an appropriate secondary market for unlisted property funds. If these submissions are heeded by policymakers, this could also ensure that concerns regarding liquidity in the asset class would be minimised.

Next steps

We would be pleased to assist and be involved in any further consultation in relation to these matters and other proposed reforms which may impact the unlisted property funds sector.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Healy', with a large, sweeping flourish at the end.

Paul Healy
Chief Executive Officer
Property Funds Association of Australia