

# RREEF Alternative Investments

In July, **Geoffrey Dohrmann**, publisher and editor-in-chief of The Institutional Real Estate Letter – Europe, met with **Pierre Cherki** and **Chris Papachristophorou**, co-CEOs of RREEF Europe and MENA. The following is an excerpt from that conversation.

**Dohrmann:** *What is RREEF Alternative Investments?*

**Cherki:** RREEF Alternative Investments is the global alternative investment management business of Deutsche Bank's Asset Management division and consists of three business lines: Real Estate, Infrastructure and Private Equity. The largest business line is Real Estate, which offers institutional investors the opportunity to invest in global core, value-added and high-yield property assets and funds, as well as investments in publicly traded real estate securities. RREEF Real Estate has more than €48.3 billion in assets under management worldwide.

RREEF's infrastructure business invests in assets within the transport, communications and utilities sectors and has more than €6.5 billion in assets under management. RREEF Private Equity advises over €4 billion in discretionary and non-discretionary assets across three investment strategies: secondaries, co-investments and primary fund of funds.

**Dohrmann:** *What was the rationale behind uniting these business lines under one roof?*

**Papachristophorou:** By integrating the different businesses, we have created a unique platform upon which we can capitalise for the future. We're very excited about having this platform to invest successfully on behalf of our clients.

**Cherki:** Although each line has its own management team, there are very real synergies that can be achieved between the groups when each is looking at investments. The processes involved in sourcing investments and deals are very similar, and there is often crossover from one sector to the other. Infrastructure deals, for example, can often involve real estate and private equity components. Putting these business lines under one global umbrella allows



## CHRIS PAPACHRISTOPHOROU

Chris Papachristophorou is a managing director and co-CEO for RREEF Europe and MENA, based in London. Since joining RREEF, he has completed over 25 investments with a gross asset value in excess of €14 billion. These transactions, amongst others, include Highstreet GBR, the company comprising Karstadt Quelle's real estate portfolio, DG AG and Baubecon group of companies, two of the largest residential companies in north-eastern

Germany; New Real SpA, the property subsidiary of Enel SpA, Italy's largest electricity provider; Rinascente SpA and France Printemps, two of the largest up-market department store chains in Italy and France respectively; Express Holding Srl, a company comprising a portfolio sold by the Italian railways; and Eurobank Properties, the leading real estate investment company in Greece. Papachristophorou joined Deutsche Bank (then Bankers Trust) in 1998. He received a BSc in economics from the London School of Economics and a masters degree from the Business School of Bocconi in Italy.



## PIERRE CHERKI

Pierre Cherki is a managing director and co-CEO of RREEF Europe and MENA, based in London. Pierre, along with Chris, has been instrumental in integrating and consolidating RREEF's alternatives platform in Europe, which now has €24 billion of AUM and eight offices across Europe. Since joining RREEF, Cherki has completed more than 15 transactions with a total investment value of over €2 billion. These transactions include, amongst

others, large sale-and-leaseback and portfolio investments in France, and the investment in a number of significant development joint ventures in the Czech Republic, Poland, Russia, Romania and Bulgaria. Cherki joined Deutsche Bank (then Bankers Trust) in 1997. He received a BA in Management and Economics from Tel Aviv University and an MBA from the Kellogg School of Management of Northwestern University.

the different teams to better access the skills, knowledge and pipeline of each other.

**Dohrmann:** *How does the European region fit into the global RREEF model?*

**Cherki:** Europe is a significant part of the global investment plan and currently accounts for over 40 percent of all of RREEF investments. European headquarters are in London, with seven additional offices across the continent staffed with professionals that are experienced in their markets. Having this local coverage gives us an extremely powerful position.

**Dohrmann:** *How is the arrangement of being co-heads working?*

**Papachristophorou:** Managing the business as co-CEOs is working very well. Pierre and I have grown up in the business together and have a similar mind set, so we are comfortable bouncing ideas and solutions off each other. Our skills and experiences really do complement each other. Most of our decisions are based on collec-

tive thinking, which is very valuable to have in a business of such magnitude and complexity. As an added bonus, having a counterpart gives us both the time to continue to maintain an active involvement on the transaction side.

**Cherki:** Our primary goal is to continue the transformation of our European operation into an integrated business that can operate efficiently in different markets. We have seen very positive results on that front in the past 15 months.

**Dohrmann:** *What are some of your biggest challenges?*

**Cherki:** We are very well positioned to capitalize on the new opportunities that are arising out of the current environment, especially those that relate to market dislocations. But in line with that, one of our biggest challenges is to manage and protect the value of our existing investments.

**Papachristophorou:** We are investing capital, but we need to stay disciplined and only invest when the time is right. But, having

available capital, following these markets and investing extremely selectively when the right opportunity presents itself is not a bad place to be.

**Dohrmann:** *Is the financing climate loosening at all?*

**Papachristophorou:** We are yet to see real evidence of this and large-scale financing is still scarce. In the current lending climate, there is a market for locally financed transactions between €50 million and €200 million. Once over this size you find the large investment banks and other large lenders that used to finance those transactions are still trying to reduce their exposure to the market. However, the tighter lending has presented some interesting opportunities with sellers who are now more reasonable in their pricing. We are also seeing opportunities to buy some junior tranches of their loans, which may not be high performing but will do well if bought at the discount and sometimes offer the possibility of potentially owning the real estate.

**Dohrmann:** *How do you see the transaction climate in Europe compared to transaction climates in other markets around the globe?*

**Cherki:** It's very similar. Price adjustments are quicker in some markets than in others; some lending is tighter than in other places; but in all the markets you are seeing the type of adjustment Chris talks about. Some markets, such as the United States, are beginning to show some softening, but we believe further significant corrections are still to come. It has taken a long time for Asia to feel any impact of the changing market climate, but even there you see slower transaction rates with banks also trying to reduce their exposure to the market. Even if they have not been impacted, they want to protect themselves.

**Dohrmann:** *Are you active in emerging markets such as Asia?*

**Cherki:** Historically, we have been very active in emerging markets, particularly Central and Eastern Europe, India and China. In Europe you have Russia, where we have been active over the last two and a half years. We have been looking for some time at the Ukraine and Turkish markets which, given the size of the countries and their economies, should develop into interesting and sizable markets. In the current environment we do see

transactions of much higher quality as more developers that previously had easy access to capital markets are facing growing liquidity problems and are therefore looking for private investments. Developers in the past couple of years were building high-quality assets and now are facing significant liquidity problems because they don't have access to the capital markets and are looking for private investment.

**Papachristophorou:** We should note, however, that although we have been early movers in many of the emerging Central and Eastern European markets, such as Poland, the Czech Republic, Romania, Bulgaria and Russia and are looking closely at others, the changes in the investment climate during the past few months and the changes in the risk/return scenarios have caused us to back away from some of them. Many of the markets to the west have shifted and pricing has become more attractive, providing better yields with less risk than in the east, where you still have significant risk in terms of the economic, political and legal environments. So now the right thing to do is go back and focus on the Western European markets such as France, Spain, Italy, and the UK. These markets have shifted a lot. There is distress in pricing. So they are becoming more attractive.

**Dohrmann:** *Where are you now focusing your investments?*

**Cherki:** We've been focusing in the markets where we either have a competitive advantage or where there is mispricing and attractive opportunities. Markets where we

have a competitive advantage due to a very strong local platform and good local partnerships — which help us both in the origination as well as the execution of business plans — are Italy, France and Germany. At the same time, we have been one of the pioneers in investing in emerging Europe, and we have established very good partners and a good track record there. More recently, as the markets change and move, we've seen mispricing and opportunities in countries such as Spain and the UK, so we have been active there as well. Despite the challenges, we actually expect to realise more attractive returns in the next five years than we have seen in the last two or three.

**Papachristophorou:** We have an extremely well diversified platform. We cover the entire risk/return spectrum from core, core plus, value-added and opportunistic investment as well as real estate securities. That provides a very strong base to withstand changing market conditions.

**Dohrmann:** *What do you see is the biggest accomplishment of the year so far?*

**Papachristophorou:** The biggest accomplishment for us is the value that we have been able to add to our existing portfolio despite the challenging market conditions. In the past few years, it sometimes seemed to investors that value was added by market movement rather than by the work done as managers. So being able to show that we can add value in both good times and bad is what really differentiates RREEF in the market. ❖

#### CORPORATE OVERVIEW

RREEF Alternative Investments is the global alternative investment management business of Deutsche Bank's Asset Management division. RREEF Alternative Investments consists of three businesses: Real Estate, Infrastructure and Private Equity. Headquartered in New York, RREEF Alternative Investments employs more than 1,400 investment professionals in 17 cities around the world to help investors meet a wide range of objectives — from diversification, to preservation of capital, to long-term performance. Named one of the world's largest alternative investments managers in Global Investor/Watson Wyatt's Alternative Survey, June 2008, RREEF has €55.2 billion in assets under management worldwide as of 30 June 2008.

#### CORPORATE CONTACTS

RREEF

Jon R Thompson

Managing Director – Head of European Client Relations

One Appold Street • London EC2A 2UU England

Tel: +44 20 7545 6000 • Fax: +44 20 7545 7555

E-mail: [jon.thompson@rreef.com](mailto:jon.thompson@rreef.com)

[www.rreef.com](http://www.rreef.com)