



RREEF

Geoffrey Dobrmann, publisher and editor-in-chief of The Institutional Real Estate Letter – Europe, met with Pierre Cherki and Gianluca Muzzi of RREEF. Following is an excerpt of that conversation.

The past two years have been pretty rocky. How has RREEF fared?

Cherki: RREEF has fared relatively well. This has been the result of constant communication and cooperation with our clients, hard work and dedication from the RREEF team, and strong support from Deutsche Bank. During 2008 and 2009, the whole RREEF organisation was focused on preserving the value of our various portfolios. This included, for example, restructuring balance sheets and raising capital for our more highly leveraged funds or assets, giving us more time to manage these portfolios without having to operate under liquidity constraints. Being part of Deutsche Bank was critical for us during this time. Not only did we have the financial backing to keep the team together and thus effectively manage the challenges in some of our portfolios, but in certain instances the bank provided capital alongside our clients to support our funds. As a result we entered 2010 able to work with our clients on new growth opportunities.

You mentioned how important it was to have Deutsche Bank's support. With the implementation of Basel III, will the bank be able to continue to hold real estate assets?

Cherki: There is no reason to believe it won't. Basel III aims to increase the capital reserves that the bank must hold against losses. This seems to have less of an impact on the asset management division, where the bank manages assets on behalf of investors. In the past, strong support from the bank has enabled us to hire and retain our best people, as well as co-invest with our clients to provide alignment of interest. Going forward, we feel very fortunate that we will continue to have very strong support from the bank in achieving our goal

ABOUT THE SPEAKERS



Pierre Cherki is global head of RREEF, where he is responsible for the management and strategic direction of RREEF's global real estate business. Prior to his appointment as global head, Cherki was responsible for managing RREEF's investment management business in Europe, Middle East and Asia Pacific with approximately €20 billion of assets under management across 10 offices. Since joining RREEF in 1997 (then Banker's Trust, acquired by Deutsche Bank in 1998), Pierre has completed numerous transactions in France, the UK and Belgium, and was responsible for the development of RREEF's business in Central and Eastern Europe.



Gianluca Muzzi is head of RREEF, Europe ex Germany and European chief investment officer. Prior to this he was head of RREEF Italy and chief executive officer of RREEF Fondimmobiliari SGR, the dedicated vehicle for the third-party fund management business. Muzzi joined RREEF after heading up the Deutsche Bank real estate investment banking business in Italy for three years.

of making RREEF the best global real estate investment manager.

How have your clients responded to your efforts during the crisis?

Cherki: Clients are reaffirming their interest in sustaining — and in some cases increasing — their allocation of capital to real estate. So we have seen a very good turn-around in fundraising, raising €7 billion in 2010 from RREEF's traditional clients, such as large pension funds and insurance companies in the United States and Europe, as well as from completely new channels, such as institutional clients in Asia and in the Middle East and retail channels in all regions. Our business is global and covers both public and private real estate across the risk spectrum. Very few investment managers are better positioned than RREEF to work with these global clients. When you take into account that the competitive environment is changing very rapidly, with few

managers capable of allocating capital across regions, we believe that the opportunities for RREEF to serve our clients are great.

How are you able to execute on all of your diverse strategies?

Cherki: Transaction volumes are still very low compared to what we have seen in the past, and being able to identify transactions with the appropriate risk/return characteristics is not easy. We have an advantage in that we have a global platform with offices in 22 cities, which allows us to match local expertise to our clients' needs. You simply cannot fly in and out of a region and expect to identify the right investment opportunities. You need to be on the ground. You need to understand the local market, and that's what we offer to our clients.

What types of investments are your clients most interested in?

Cherki: Our clients' real estate needs are quite diverse, covering the spectrum from public to private, and from region-specific to global. This is clearly evidenced in the sources and intended investment strategies of the €7 billion in new capital we raised in 2010. For example, investors looking for liquidity have helped us grow our global securities platform, which is made up of a combination of retail and institutional capital. On the private side, we see our clients wanting to invest in the two extremes — core or opportunistic. Coming out of the financial crisis, managing risk is even more important than it was in the past. It's interesting to see that we have very few clients who want to go global today. A global core mandate doesn't exist, and even global opportunistic mandates are becoming rare. Instead, clients are saying that they want to have more narrowly defined investment strategies. Because we are global, we can work with them to find opportunities in the different markets and execute on these opportunities in the best possible way to fit their strategies.

Are there large differences between investment opportunities in the various regions that you operate in?

Cherki: It depends on the product. Our securities business has become more global in nature, and the differences are not huge between the regions. There is also similarity among the liquid core markets around the world, whether it is Singapore, Paris or New York City. The differences among regions become more evident on the opportunistic side. Opportunistic investing in the United States and Western Europe is focused on distressed assets and owners. There is less emphasis on emerging markets because investors feel they can get yield without taking on emerging market risk. India, China and Brazil are still attracting capital, but there is significantly less liquidity overall in other emerging markets.

Gianluca, you have recently taken on the dual roles of head of Europe ex Germany as well as CIO for the entire European platform. How is that going?

Muzzi: I'm very excited about taking on this challenge and further growing our European platform, as well as providing the highest level of serv-

ice to our clients. We already have a very strong business in Europe that incorporates local knowledge and expertise. We have European offices in France, Italy, Germany, Spain, Poland and the UK, and we've found that this global reach with local roots creates a very strong platform from which to deliver superior results for our clients — and I look forward to growing it even more in Europe.

What types of investors are you working with?

Muzzi: We have a strong and diversified European client base of institutional and retail investors that invest both in Europe and around the world. For example, we are very active on behalf of RREEF's German investors. Last year we acquired over €1.6 billion in property around the world on their behalf, and we expect to acquire a similar amount for them again this year. And in Italy, we recently completed the sales proc-

ess for our Piramide Globale fund, and are aiming to provide our Italian investors with a return of 6 percent — performing above our 5 percent target. We also have US and, increasingly, Asian, investors who want to invest in Europe. In the past, inflows of capital into Europe primarily came from the US, but now we are seeing a lot of Asian capital. In order to better service our broad client base, we have recently hired Paul Vosper as our head of client relations for Europe and the Middle East. I have no doubt that both RREEF and our clients will benefit from his considerable experience in client service, and product development and structuring.

What types of products and strategies are these investors looking for?

Muzzi: More and more investors are wanting to invest across borders, but as Pierre mentioned, they are looking at specific markets and regions rather than globally. Last year we

CORPORATE OVERVIEW

RREEF is the real estate investment management business of Deutsche Bank's Asset Management division. RREEF is one of the world's largest real estate investment managers, investing globally in commercial and residential property, and real estate securities. Its focus is on client relationships with institutional investors, such as pension funds, insurance companies, sovereign wealth funds, endowments and foundations. However, it also manages money for retail and private client investors through alliances with organizations specialising in servicing those client segments. Managed as a global organization, RREEF comprises three main business units: Private Real Estate, Opportunistic Real Estate Investments and Global Securities.

Important Points

- Investment heritage of over 40 years; Currently has €42.5 billion in assets under management globally
- More than 600 employees in 22 offices around the world
- Substantial operating experience in its local markets
- Diverse line-up of investment strategies and products
- Demonstrated track record of delivering value to its clients

Strong Foundation in Europe

- €18.6 billion in assets under management in Europe
- Headquartered in London and Frankfurt with a network of offices throughout the region
- An extensive resource of real estate investment professionals with long-dated experience and expertise in regional specific markets
- A diverse line-up of investment strategies and products

All information is as of 31 December 2010

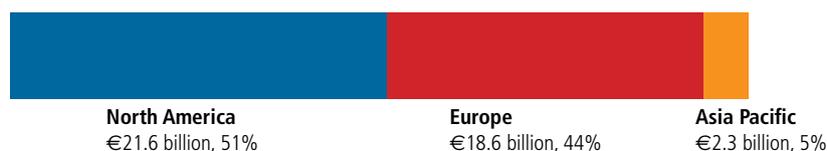
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ASSETS BY INVESTMENT REGION — €42.5 BILLION

Assets under management as of 31 December, 2010



won a large mandate, for example, to invest in the UK from a significant Asian investor, and we have already made an acquisition for them in London. More generally, as fundamentals improve we are seeing a greater appetite for higher-yield investment. RREEF has quite a strong track record in high-yield strategies, which investors are finding attractive. In Europe alone we have completed transactions comprising close to €3 billion of equity in high-yield investments since inception of our opportunistic strategies. But no matter what strategy a client is looking at, we are able to give them access to a full product range across the spectrum, and this is something we are proud of.

How are investors accessing property in Europe?

Muzzi: Investors are looking to access property in Europe in a number of ways — investing directly through separate accounts or unlisted funds, or through securities. With our broad range of products, our clients appreciate that we can tailor solutions to meet their real estate investment requirements, whatever they might be.

Where do you see opportunities in Europe?

Muzzi: We are seeing strong performance in mature core European markets. This has historically been the case, and we think going forward, this will continue to be the case. Specifically, I think what we are seeing with our local teams is that there are attractive opportunities in Germany, the Netherlands, France and Sweden. Of course, the UK will also attract significant investor interest for what still remains an attractive investment proposition for core investors..

Are core investments in the UK becoming overpriced?

Muzzi: Because demand has increased prices for prime properties, you need to be selective on a risk-

adjusted basis, and that applies not only to London, but also to the major cities in Continental Europe. There is a huge demand for core properties in the central locations of nearly all the primary cities. This is true all over Europe, but you are still able to find selectively good opportunities by looking not only at the quality of the building and location, but also at the credit rating of the tenants and a number of other issues. And if you take a broader view and look at more secondary locations, you are still able to find good opportunities there.

Are investors willing to look outside the primary cities?

Muzzi: I think they are willing to invest where the investment manager has a strong track record and experience. We have demonstrated that we are successful in secondary locations, and this gives investors confidence. With our local teams, we are able to invest and manage not only in the capitals, but throughout the countries in Western Europe.

How has RREEF's European business fared in the past couple of years?

Muzzi: I would say we've done pretty well considering how severe the crisis was. Our investors have appreciated our ability to manage the very complicated situations surrounding a few of our investments. The majority of our products have met our expectations, with some outperforming their target returns, despite the crisis. Because we were able to successfully manage our portfolios in the crisis, we were in the position last year to acquire more than €1.1 billion of property on behalf of our clients in Europe.

Going forward now, how is RREEF positioned to take advantage of the opportunities as the world economies turn around?

Muzzi: Our people on the ground in all the European markets in which we operate enable us to understand

regulations and working practices in the different markets. With this knowledge, we can act swiftly and decisively while building an impressive acquisition pipeline. Part of this on-the-ground presence is a strong localized research team that gives us intelligence about where the markets are heading. We have recently hired a new head of European research, Simon Durkin, who will further strengthen our research team in providing in-depth knowledge on the industry and insights on the European markets.

One of the opportunities we are expecting to see will arise from portfolios appearing on the market as banks begin to clear their balance sheets. Some of these are already appearing. For example, one of our major transactions last year was the acquisition of the BBVA portfolio in Spain, which comprised over 1,000 bank branches and several office buildings. This acquisition has further built on our presence in Spain. So overall, I think we are very well positioned to take advantage of the opportunities.

Will the new regulations imposed by Solvency II and Basel III impact the amount of capital you'll be able to raise from European clients?

Muzzi: Pension funds and insurance companies are certainly affected by regulation when investing. However, regulation does not necessarily negatively affect the market. If regulations give the investors a more secure environment in which to invest, then they are more likely to invest. Uncertainty is what undermines the investment environment. In addition, real estate is an asset class that is a top priority because investors have been reducing it over the last three years. Now they are rebuilding their exposure into real estate, and they are starting to move a little bit higher up the risk spectrum as well.

Are investors in general still looking at real estate as a way to increase returns in their portfolio or after the recession are they pretty much seeing it as a diversifier?

Muzzi: I think that they are using real estate as a safe harbour investment for their portfolio, and this is the reason why they are going after less risky assets. At the same time they realize that in order to meet their return targets, they need to increase

returns, and real estate can provide quite a significant upside, especially in the medium to long term.

What are your priorities for 2011?

Muzzi: Our main priority has always been to ensure that our performance is in line with our clients' expectations and objectives, and this certainly continues to be a focus for us. To meet those expectations, we are using our global platform and local presence to take advantage of the opportunities whatever they may be. We will also be concentrating on managing our assets in the most efficient manner to assure performance.

Cherki: Globally, throughout the entire company, we have three key priorities. First and foremost, as

Gianluca highlighted, is performance. Across the board we want to make sure all of our separate account mandates and commingled funds are performing among the top of their competitive set. While many of them are, we want all of them to be. So we have spent a lot of time and resources focusing on how we can improve our investment process and do an even better job in managing the risk and making sure that we construct the best possible portfolio for our clients.

Muzzi: The second priority is transparency. We think we've always done well communicating openly with our clients in good times and bad, and telling them how we're protecting and improving their posi-

tions. But we can always do better. We are investing in our communication tools to ensure we provide quick and accurate feedback to clients.

Cherki: The third is measured growth. Because of our global footprint and the backing of Deutsche Bank, we are able to grow organically more easily than some other managers. That means we can easily enter new markets as current ones mature and develop new and innovative products to meet client needs. For example, we understand and appreciate that the defined benefit business is a mature industry. While we expect to have continued asset growth in that area, we are beginning to look at the defined contribution channel, which is looking to invest beyond traditional fixed income and equity products. When defined contribution managers look at real estate, they look for the benefits of direct real estate combined with liquidity. We are well-positioned to combine our securities and direct offerings to provide these investors solutions to meet their needs.

Bottom line, why should investors look at RREEF?

Cherki: We have a 40-year investment heritage with substantial operating experience in our local markets, a diverse line up of strategies and products, and a demonstrated track record of delivering value to our clients. We have emerged from the crisis strong and stable, focused on delivering superior investment performance, and working with our clients to provide the best real estate investments solutions for their portfolio needs.

Muzzi: One of the things that really makes RREEF different is its culture. It's the job of Pierre and it's the job of the regional heads like me to maintain that culture, which rests on some basic fundamental principles that haven't changed since the early founders. The first is respect and trust for people. The second is promoting teamwork and achievement. The third is maintaining the highest integrity in relationships with company personnel, clients, family and community. And then finally, what we've already talked about, commitment to excellence in everything we do. These are the cornerstones of RREEF. ❖

RREEF INVESTMENT STRATEGIES

At RREEF, we offer a diverse product range, encompassing each of the main categories of real estate investment management, including core and core-enhanced private real estate strategies, opportunistic investments, real estate securities portfolios and structured real estate debt investment programs.

