

Presima

Recently, **Geoffrey Dohrmann**, editor-in-chief of The Institutional Real Estate Letter – Americas, spoke with **Peter Zabierek** and **Stéphane Larsen** of Presima. The following is an excerpt of that conversation.

“Active share” is a new concept for analyzing manager’s portfolios. What is Presima’s active share, and why do you think that it is important?

Peter Zabierek: Active share has gotten a lot of attention lately. It measures how individual stock weights in a portfolio differ from the weights in a benchmark. The higher a fund’s active share, the more an investment portfolio is different from its benchmark. Research shows that higher active share levels are associated with higher levels of outperformance. The corollary is that funds with low active share ratings are in essence closet index funds that underperform after fees. Active share is not a new concept to the Presima portfolio managers. Since the late 1990s, our active share has been one of the highest in the industry, and right now it stands at 75 percent, which is double what the active share is broadly in our competitive set. We strongly believe that this approach, combined with an excellent investment team and a commitment to stay small, will yield superior results for our clients.

Tell us about that commitment to clients to remain a small boutique.

Zabierek: Just to be clear, we would certainly like to grow more, but only to the point where we can still add value for our clients. We are at about \$1.2 billion in assets under management right now, and we have committed to our clients that we will put a hard cap on AUM at one-half percent of the global real estate securities market capitalization. Right now that would indicate a cap of \$4 billion to \$5 billion. Listed real estate is a relatively small, niche market, and liquidity and nimbleness are keys to success. Average daily trading volume in our markets has dropped to half of what it was five years ago. In addition to the performance advantage that we have by staying small, we are able to stay close to our clients. The one-size-fits-all approach to client service does not work, and clients expect more from us. They are looking for bespoke, individually tailored solutions for their needs. We feel the pathway to success is deeper, larger relationships with few clients.

Presima has done well this past year. Why have you been able to outperform?

Stéphane Larsen: We have not done much differently this year — just sticking to our knitting in a very disciplined way. We have continued doing what we always do, which is a high conviction, deep research approach with robust risk management. Importantly, we were able to identify and interpret the trends in the marketplace. If you look at it geographically, we have seen a lot of interesting movement in Asia, especially in Japan and Hong Kong, so we have been taking advantage of pricing opportunities that strayed away from the fundamental values. In the United States, we have



Peter Zabierek, Chief Executive Officer, joined Presima in 2013; he oversees the strategic development, corporate management and promotion of the manager’s global activities. Zabierek has 24 years’ professional experience. Prior to joining Presima, he was Managing Director and Co-Head of Global Real Estate Securities at Urdang Capital Management.



Stéphane Larsen, Portfolio Manager – Global Real Estate Securities, joined Presima in 2002. He is one of the portfolio managers for the Concentrated strategy. He is responsible for top-down market analysis including identification of macroeconomic, monetary, and fiscal trends across the globe. He is also responsible for investment decisions and portfolio construction within the North American region.

benefited from heavy exposure to some of the more knowledge-based cities along the West Coast, plus Boston and New York City. Finally, in Europe, it is a low-growth environment, but there is a lot of interest in real estate. One country where we have been particularly successful is Germany, where we have seen a bit higher growth, but with low inflation.

What are the largest, most important trends in the global real estate securities market right now?

Larsen: One of the most important ones is interest rates. After the interest rates shock in the middle of 2013, most investors came into 2014 with the expectation that interest rates were on a steady path up. But, of course, interest rates have actually come down. The reality is that central banks are still easing, and that is creating a lot of support for real estate, though this easing will be removed over time. The other trend is that REITs generally see acquisitions as really challenging. We have seen cap rates come down, and what they prefer to do now is develop assets versus buying them.

A lot of your competitors boast that they have “boots on the ground” around the globe, and you have one office in Montreal. What is the advantage of a single location?

Larsen: It was a deliberate decision. When the company was formed, we saw advantages in being in one location regarding communication, portfolio construction and risk management. In today’s world, finding information is not the challenge; the challenge is being able to synthesize and make decisions with it efficiently. Being in one location allows us to exchange views and developments, ensure the consistency of our philosophy and process, and even train our analysts most effectively. Our portfolio is a single portfolio and definitely not an assembly of regional portfolios. And

this single portfolio is a combination of our top investment ideas within a robust risk management framework, so risk is managed at the overall portfolio level as opposed to at the regional basis. It is a lot easier to have the investment team, trading team, operations team and compliance team all working within 100 feet of one another.

Zabierek: As you say, some have put boots on the ground, and it works for some. We just decided to create a virtual global footprint. Rather than establish satellite offices in Tokyo or London or Ankara, our team of portfolio managers and analysts have, over the years, created networks of information flow from local real estate brokers, sell-side brokers, private equity contacts, economists, demographers, etc. Sometimes being away from the market noise allows you to step back and focus on the most critical details.

Larsen: And we travel the world quite a bit. Given the research model, our travel budget tends to be higher than most. We do more than 500 management meetings a year all over the world.

What else can you tell us about your investment culture?

Zabierek: Being in one location creates an opportunity for us to create a strong investment culture. It allows for good decision making while also supporting the creativity we have become known for. We do not want to create a bureaucratic process that is so rule-based that we lose our ability to think differently. So to start, everything we do is founded in respect and trust. If you start with trust, conversation has a tendency to go in a positive direction rather than negative. The second element is accountability and responsibility. We have clear guidelines about who is responsible for what, who will be rewarded for what, and that has created a very solid sense of accountability. The third element is an attitude of honesty, candor and curiosity. Presima is a very direct place. When we need to cross-examine our investment ideas or question the consensus, we feel very comfortable doing so. As an example, at the beginning of the year, it was a fait accompli that interest rates were rising. Everyone knew that, and in most places, if you suggested otherwise, you would have been laughed out of the conference room. It would have been easy to pick stocks based on that interest rate consensus, but you would have been dead wrong. Honesty, candor and curiosity allow us to question the market consensus and identify mispricings on an ongoing basis.

What products does Presima currently offer?

Zabierek: We have two main strategies. First is our Concentrated strategy that has 30 to 40 stocks with very high active share that seeks to beat the FTSE EPRA/NAREIT Developed Index by over 200 basis points annually on a rolling four-year basis. We have a track record for this product that goes back to 1999, and we offer it in a number of different product forms, from separate accounts to funds. We also have our Enhanced Yield strategy that focuses on income-producing real estate stocks throughout the globe. The strategy focuses on stocks that generate high dividend yields, and then we also include some option strategies to manage volatility and deliver additional income. From a business

standpoint, our big thing is focus. The Concentrated strategy and the Enhanced Yield strategy are very nice complements to one another in that we are reviewing the same stocks, but examining them from two different investor standpoints. We also offer customized investment strategies, assuming the customized strategy fits within our research envelope. For example, we created a \$100 million bespoke strategy for a large client here in Canada, which is our Enhanced Yield strategy without the options.

How has Presima evolved since its founding?

Larsen: Presima was launched in 1998 as a group within the real estate division of the Caisse de dépôt et placement du Québec. Its mission was to build on the Caisse's foundation as a direct real estate investor to add value in global listed real estate markets. In 2004 Presima incorporated and organized as an independent entity, and we started raising third-party money. After the financial crisis, in 2010, National Australia Bank (NAB) bought Presima from the Caisse. They wanted a global listed real estate investor for their asset management arm, which is now called NAB Asset Management. So we are an independent shop, but we are owned by one of the top global banks.

Zabierek: On a day-to-day basis, we here in Montreal feel very untethered to NAB, and that is the way they like it. They genuinely want us to operate as a boutique and keep our approach to investing as out-of-the-box as it has always been. NAB understands how to ensure that a boutique enjoys independence from an investment standpoint, yet offers the support a larger institution can provide. NAB does own 100 percent of Presima, but it has allocated a significant portion of the firm's profits to the investment team and the executive management team. So the first key area is profit sharing. The second key point is that the client outcomes drive our overall compensation. When the client wins, we win.

How do you characterize your investment philosophy?

Larsen: The most important building block is a strong belief that listed real estate securities will deliver a return over time that is consistent with direct real estate. That said, given the "listed" nature of the securities, mispricings do occur, and these present investment opportunities. To identify these mispricings, we look at three elements: the underlying property assets, the firm management, and the markets in which the securities trade. ❖

CORPORATE OVERVIEW

Presima's only business is the management of global listed real estate strategies, and the firm has assets under management of \$1.2 billion. Presima's investment team is based in Montreal. Clients include pension funds, financial institutions, intermediaries, distribution platforms and family offices.

CORPORATE CONTACT

Peter Zabierek, CEO

+1 514-673-1380 | pzabierek@presima.com
www.presima.com