

How property can contribute to Liability Driven Investing



- The IVBN white paper *De bijdrage van vastgoed aan Liability Driven Investing* examines how property can make a useful contribution to Liability Driven Investing (LDI) within a portfolio. LDI is an investment strategy by which an institutional investor, such as a pension fund, specifically aims to cover its liabilities. Within an LDI approach, investments in the portfolio are divided into those that align particularly well with the pension fund's current and future liabilities (the 'matching portfolio') and those that are held primarily to generate additional returns (the 'return portfolio').
- The authors discuss how the characteristics of property as an investment category combine well with the benefits offered by an LDI investment strategy. Property, due to its ability to generate returns, is often only included in the return portfolio. This paper argues, however, that property can also make a significant contribution to the matching portfolio.
- The paper focuses on those long-term investment characteristics of property that match particularly well with the current and future obligations of (for example) pension funds.
- Taking an LDI approach not only prompts a re-examination of the position of property as an investment category; it can also lead to a reconsideration of the structure of the property portfolio itself.
- LDI is above all a long-term, strategic approach. But it can also be applied tactically to achieve an effect in the short term. Finally, the paper considers the consequences for institutional investors of the current financial crisis.

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