

Run LPTs on their own: research

Michael Bailey

The short-term performance of listed property trusts has no relationship with that of direct property, and only a tenuous relationship with that of Australian equities, meaning LPTs are best managed in separate mandates, according to new research.

Brindha Gunasingham, a former head of private equity research at AMP Henderson and now an independent consultant, scrutinised 18 years of returns from the three asset classes using the 'error correction' model pioneered by Engle and Granger of the University of California, for which the pair won a Nobel Memorial Prize on October 8 this year.

She found that when the LPT index undershot or overshot the All Ordinaries, it took between two and two-and-a-half to return to equilibrium.

The case for LPTs as a diversifier against direct property was even stronger, with a pricing aberration between the two taking an average three years to correct.

Even though Gunasingham said the short-term correlation between the All Ordinaries and the ASX 300 LPT Index was "relatively strong", with a 1 per cent rise in equity performance triggering an average 0.53 per cent rise in LPT performance, there was still a case for separate LPT mandates being a useful

diversifier of a listed portfolio.

Commenting on the research, JANA Investment Advisers managing director, Ken Marshman, said the consultant had found there was a "quite high" correlation between LPTs and domestic shares in the medium- to long-term, and it preferred to let Australian equities managers tilt into and out of the sector at their discretion.

He added JANA's house view was that direct property gave investors a more stable exposure to bricks and mortar, and depending on a client's exposure to unlisted property the consultant excluded LPTs from around half the Australian equity mandates it advises on.

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Clarification

There was a misprint in an article in Issue 425, "Run LPTs on their own: research".

A paragraph in the piece on Brindha Gunasingham's study should have read: "...when the LPT index undershot or overshot the All Ordinaries, it took between two and two-and-a-half years to return to equilibrium".

The article also omitted the correlation co-efficient between the All Ordinaries and the ASX 300 LPT Index - it's 0.688.

Previously head of private equity research at AMP, Gunasingham established FitzBiz Investment Analysis & Strategic Consulting last year, advising mostly alternative investment managers.

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