

**case study:  
performance**

# WILKY

## FUND MANAGEMENT LTD

IPD produced a report in October 2007 investigating the characteristics of out-performing property funds over the last 20 years and the successful strategies they had used.

The research covered funds that had been in the IPD Universe for at least 20 years. Wilky-managed funds were not surveyed. However the conclusions endorsed our long held views on constructing a high performing fund and our strategic approach to maximizing performance.

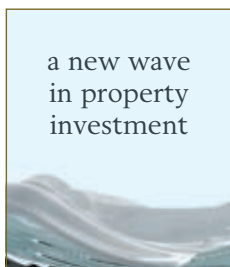
The paper also confirmed many elements of a piece of independent research that we commissioned two years earlier from OPC (now PFR), which highlighted the vital role of stock selection in reducing tracking error and the advantages of smaller lot sizes.

Below we compare the report's conclusions and our approach in more detail. In view of the long term nature of the research, we have concentrated on the two funds that we have managed for the last 17 years.

IPD Conclusions	Wilky
The top-performing funds were all significantly smaller than the IPD Universe averaging £218m at the end of 2006 compared to £686m for the Universe as a whole.	The Wilky Funds were valued at approximately £280m and £43m as at 31st December 2007.
These funds invest in smaller value properties. <ul style="list-style-type: none"> <li>• IPD average lot size £14.7m</li> <li>• MNOPF average lot size £4.3m</li> <li>• MNRPF average lot size £1.7m</li> </ul>	The Wilky team has advocated this approach for many years. As the general average lot size has risen for larger investors it has reduced demand for smaller properties, making them better value. The OPC/PFR research advocated buying smaller lot size properties particularly in the industrial, standard high street retail and out of London office sectors.
The income return of these out-performing funds has been consistently higher than the IPD Universe. <ul style="list-style-type: none"> <li>• IPD income returns : 10 yrs = 5.9% pa</li> <li>• 5 yrs = 5.3% pa, 3 yrs = 4.8% pa</li> <li>• MNOPF : 10 yrs 7.1% pa</li> <li>• 5 yrs = 6.5% pa, 3 yrs = 6.0% pa</li> <li>• MNRPF : 10 yrs 7.8% pa</li> <li>• 5 yrs = 7.3% pa, 3 yrs = 6.7% pa</li> </ul>	Given that 6 of the 7 top performing funds were pension funds, this is not surprising. Our approach for our pension fund clients has always been to opt for a higher than average income return, as their ultimate aim is to invest in assets that provide secure income streams to pay members' pensions, whilst preserving capital.
The funds tend to be overweight in industrials. <ul style="list-style-type: none"> <li>• IPD avg industrial weighting 14.6%</li> <li>• MNOPF industrial weighting 28.9%</li> <li>• MNRPF industrial weighting 33.1%</li> </ul>	Again unsurprising because the industrial sector has always tended to provide higher yielding opportunities. WFM advocates being overweight in industrials not only for their relatively high income return but also their relatively low cost of obsolescence (it is easy and fairly low cost to replace the external "tin" on an industrial unit) and potential for alternative use over time.

*Continued overleaf...*

a new wave  
in property  
investment



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The funds display a degree of expertise in industrial selection.	We have consistently demonstrated this ability and our client's industrial holdings have performed very well compared to the sector average. We are currently involved with applications on a number of industrial investments on behalf of clients with regard to valuable changes of use to office or residential use. Since joining the Wilky Group this expertise has been enhanced because Wilky has been an industrial developer for some 40 years.
The funds have had no exposure to the City.	When we first became responsible for the larger of our three client funds, we inherited a very large office development in the City. This single asset accounted for 22% of the fund's overall investment in property and was completed in 1993 when the City office market was in major decline. This certainly impacted on the fund's performance for a number of years but through the involvement of excellent advisors, prudent letting and management strategies, the property was sold into an improving investment market. Today, neither of our funds has any exposure to the City.
Development has always represented a relatively small proportion of the funds.	The team have also always advocated that speculative development, which is by its very nature inherently risky, represents a level of volatility and risk that is normally unacceptable for small pension funds. However, where risk can be minimized or removed, through a forward sale or pre-let, it can bring significant rewards. We recently negotiated, and completed, a supermarket development on the site of an obsolete office building that brought 60% profit to the fund. Through the Wilky Group, we are also able to arrange the disposal of individual development opportunities at full market value while giving the fund the opportunity to share in superprofits post-completion.
The funds have had a reducing exposure to the West End.	We have sought to reduce our funds' West End exposure because we believe its volatile returns do not meet the need for long-term secure, steady returns.
The funds have proved to be more volatile investors than the IPD Universe, either due to active asset management or fortunate investment timing.	We have always actively managed our clients' assets for "over performance". This strategy is ably demonstrated by recent examples including: obtaining planning consents for change of use from industrial to office and residential use; the supermarket development on the site of an obsolete office block; and the break up and sale of multi-let office and industrial holdings. In each case, the client fund obtained significant financial gain from WFM's positive and active management of its assets.  Stock selection and the timing of investment decisions have long been recognised by WFM as the key drivers of performance. Independent research conducted by OPC/PFR clearly demonstrates our success in these areas.
The funds display a specialisation in retail warehouse and shopping centre investment.	Given the size of the funds surveyed, the relatively small lot sizes involved and the much larger investments required for shopping centres and retail warehousing, it is presumed that the "specialisation" referred to is in the selection of indirect investments rather than direct.  WFM has demonstrated its abilities in direct investment opportunities and the smaller lot size sectors. Moreover, our exclusive research from OPC/PFR clearly demonstrates that combined with appropriate indirect investment in larger lot size sectors, such as retail warehousing and shopping centres, this strategy can provide the optimum portfolio for small to medium size pension funds.

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