

The importance of a Brazil Real Estate Property

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Featuring: **Will Robson** and **Adam Gallistel**

Will Robson: Hi, everyone and welcome to the ninth in our series of MSCI Real Estate Conversations. Today, I'm joined by Adam Gallistel from GIC. He runs the Americas Investment Team for the real estate department. Today we're going to be talking about the upcoming launch of MSCI's Brazil property index, and the context of that from a perspective from GIC, a global asset owner, and how an index like that fits into their investment process. So welcome Adam. Just before we get started, would you mind just telling us a little bit more about your role and the perspective that you bring to this discussion?

Adam Gallistel: Sure. As an employee of GIC and running the region for real estate, I oversee a portfolio of real estate assets that spans basically anything you can stick the word real estate next to, so that runs from ski resorts to traditional office and industrial assets and spans the region, which for our purposes is really the U.S., Canada, Brazil and Mexico and that those are the areas that we find that are large enough and deep enough to be able to accommodate the kind of capital that we look to deploy. Real estate in general - we're a global investor, we're four-quadrant investor, and what I mean by four quadrants is, in addition to being agnostic as to property type or agnostic as to securities wrapper, so we invest in debt, equity, public, private and anything in between.

Will Robson: Okay, great. Thanks Adam. So if I just mentioned a little bit more about what we mean by a Brazil property index, I guess this project started about a year ago when we were approached and started discussions with a group of large global investors, one of which is GIC, who were looking for greater transparency from the Brazilian market, to help them in the way that they approach investments in the market. So we're launching a rolling annual property index that will be published quarterly, and it will be along the same lines as all of our other property indexes, will fit into the global index eventually and sit within the broader market data products. So that's the project. I think it'd be really interesting to our listeners to hear from you. Why, when you think about investing in a market like Brazil, why having an index like this is important and relevant to you as an investor?

Adam Gallistel: Sure. So first of all we want to thank MSCI for going on the journey with us on this because we're super excited to now have an index in Brazil. We've been investing in real estate in

Brazil for well over a decade now and as a firm we've been investing in Brazil for almost 25 years now, and basically, everything we have done in Brazil here before has been off benchmark and so we can tell how Brazil is doing against other global property types but historically we've really had in relative terms no way to assess whether or not we're doing better or worse than the average group who is investing in Brazil. So, a tool like this, as someone who is looking to generate alpha, it helps us assess whether or not we actually are generating alpha. I think, secondarily, indices provide another tool for transparency in any given market, and as a long-term investor we view increased transparency in market places something inherently attracts capital so we were happy to go on this journey with MSCI and work with you to create an index that ultimately we believe will help attract further investment into the Brazilian ecosystem.

Will Robson: Okay. So that's interesting, it's useful to you in a direct way in terms of the way that you want to understand how you're performing relative to a broader peer set in Brazil, but also you hinting at maybe the benefits of an institutionalization of a market like Brazil and having that level of transparency, but also the measurement of that performance in a way that's consistent with all the other markets that you invest in. Does that help not only bring in more institutional capital, but, in a higher level investment process help GIC from a top down perspective, determine how much of Brazilian one's relative to other markets and how the risk return characteristics stack up in a relative value sense?

Adam Gallistel: Certainly on the margin it helps. I think the way we would look at it, I think philosophically, we come from a place where you make what you measure. So to the extent we have additional tools to measure our performance, that inherently will lead us to make better decisions, or at least that's philosophically where we come from. As to whether or not those decisions ultimately lead us to lighten up or press the gas on Brazil, only time will tell.

Will Robson: Okay. And some people may ask the question 'Well why now for Brazil index?' Or what at the moment is it? Are you looking to invest more in Brazil at the moment given a dislocation in the market? Or is it just something that you've been a long term advocate of this market and you need the desire, the extra transparency, to help you continue on that path anyway?

Adam Gallistel: Yeah. I guess I would take that question in the negative - why not now? Right? No time like the present to get started. So, I think that's part of it, I think to your overarching point about - we have, as someone who really does have a long term horizon, having measurable benchmarks is clearly important and we've been committed to Brazil and had boots on the ground for almost six years now and we just view this as part of the evolution of our journey in Latin America. I think that's finally, I would just say, when you take a step back and you look at GDP, Brazil is, depending on how you measure it, 9th or 10th largest country in the world - MSCI today, I think you have in real estate, 32 constituent indices and Brazil has not yet, or was not yet one of them and so it seems to us, on a certain level, from an index perspective, to appropriate a term from the great financial crisis, Brazil is too big to ignore, as opposed to too big to fail.

Will Robson: Yeah, I think that's a really interesting point, it's very large economy in the global context and it being an emerging market and I took a quick look at our numbers - we try to estimate the investable institutional real estate market around the world and, based on our current estimates, within the ranking of the 32 countries now 33 countries that we measure, I think Brazil would come in at somewhere around number 19, so it's interesting that it's a very large economy, but its real estate market is still on an upward swing, to punch in line with its weight, from a broad economic point of view. But there are some markets around the world that are very large real estate markets relative to their economies and vice versa. I guess you would find that more often in the emerging markets that they're trailing behind in terms of institutional real estate markets. But the long term prospects for that rising up the rankings to match its kind of economic weight in the world, um, I guess is, is in some way, part of it, the investment thesis for Brazil.

Adam Gallistel: And that's a great point. I think when we look at this as part and parcel with other developments in Brazil where you have, frankly, for the first time that we've been investing meaningfully in the real estate markets, a cost of debt that is meaningfully different than the cost of equity, we think it's likely that Brazil, as if that difference holds and risk-free rates remain in real terms, lower than where they have been historically, we think the equitization of Brazil is really in its early innings and that you're likely to see meaningful growth in the equity capital markets. You're seeing that even today where, despite what are admittedly challenging economic fundamentals in Brazil at the moment, you have a stock market that's seen a large influx of local capital, and that influx of local capital has really been, in some ways Brazil had historically been under-equitized, just because high real interest rates, incented people basically just to lend to the government as opposed to participate in the rest of the economy, and I think you're seeing a shift in that now as real interest rates have fallen.

Will Robson: Okay. That's really interesting. In the past, IPD before it and MSCI since has grown in terms of its coverage of the markets by tending to partner with local trade bodies and getting together a group of local investors and owners to build the indexes, more recently as we're trying to push into more emerging markets like Brazil, we're finding a lot of interest from the global investors like yourselves, to bring the transparency that they're used to in other markets to those more emerging markets. But the hope is that once we're there, the local market participants, are just as keen to partake in the development of that transparency. So you've mentioned it a little bit there in an institutionalization, linked to the financialization of the market. Do you see a lot of demand from the local investors there for this level of transparency to?

Adam Gallistel: As of yet, I don't know that there's a huge demand from the, uh, local side. But frankly I don't know enough, I haven't spent enough time asking locals on this specific question to be sure, but certainly there isn't a loud drum beat for it. That said, if you look at what's going on in the capital markets in Brazil, you have, in some ways, developments that are analogous to the early onset of the modern Reed era in the United States, and that you have right now a large and growing market, which is, for better, is a rough equivalent to the U.S. - it's like rates. And so you're seeing increased capital flows into that and those capital flows are driven almost entirely by local investors and so I think as local investors, and these tend to be retail investors, not necessarily institutional, but there also have been some, reforms at the pension level, which in a sense - some of the local pension funds to also

participate in the market. And I think as you get a greater critical mass of people investing, data like this will become increasingly relevant to the local marketplace as well.

Will Robson: Yeah. Okay. Well, thanks for your view on the Brazilian market and the relevance of the Brazil index, this model is something that we hope to replicate all around the world and we're finding the demand from larger investors like yourselves and in other markets similar to Brazil. So we hope this trend continues and that we do indeed manage to attract local investors, as well as other global investors into the Brazilian index and grow the sample over time. So thanks again for your time Adam.

Adam Gallistel: Thanks, Will. We're really excited to have worked with MSCI on this, and I'm excited that you guys are launching this new index, so thank you.

Will Robson: So thanks everyone for joining. I hope you enjoyed the conversation and join us next time for the next conversation in the series.

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