



MACQUARIE

Wraps, Platform Masterfunds Conference

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Illiquidity and Platforms

OR



Square Pegs /
Round holes

Agenda



- > Buy/sell spreads – zero is a big red flag.
- > Liquidity spread – given it a thought?
- > Case study – hybrid fund development.
- > Unlisted assets - why bother?

Buy/sell spreads



- > Critical in dislocated market.
- > Avoids cross subsidisation of redeemers.
- > Macquarie practice: Weekly review for any adjustment.



Phone Platforms immediately/publish on web

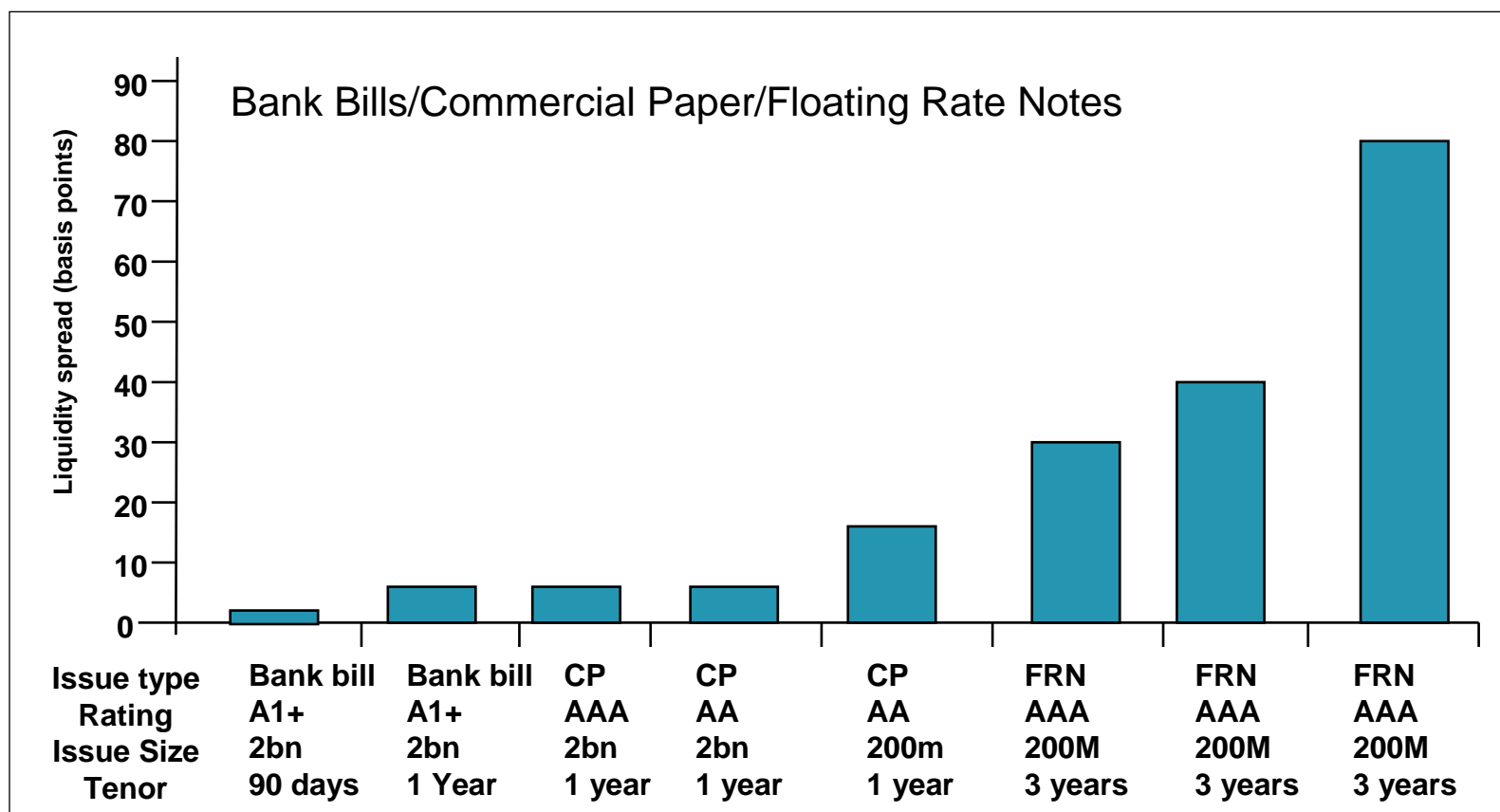
Sell spread maximum since Lehman failure

Retail clients/platforms		Comment
Income Opportunities	0.15%	True to label – liquidity pool
Diversified Fixed Interest	1.50%	Defensive – pay to exit

Liquidity Spread – given it a thought?



Definition: **Liquidity spread** = buy/sell spread x “duration” x turnover
Liquidity spread can be massive on illiquid, “long duration” assets



Case Study – hybrid fund development



Infrastructure securities fund

- > Demand for up to 20% direct infrastructure assets.
- > Maximum holding at 12% allows for 40% market fall before breaking 20% limit.
- > @ \$400m fund size, direct infrastructure holding is maximum of \$48m.

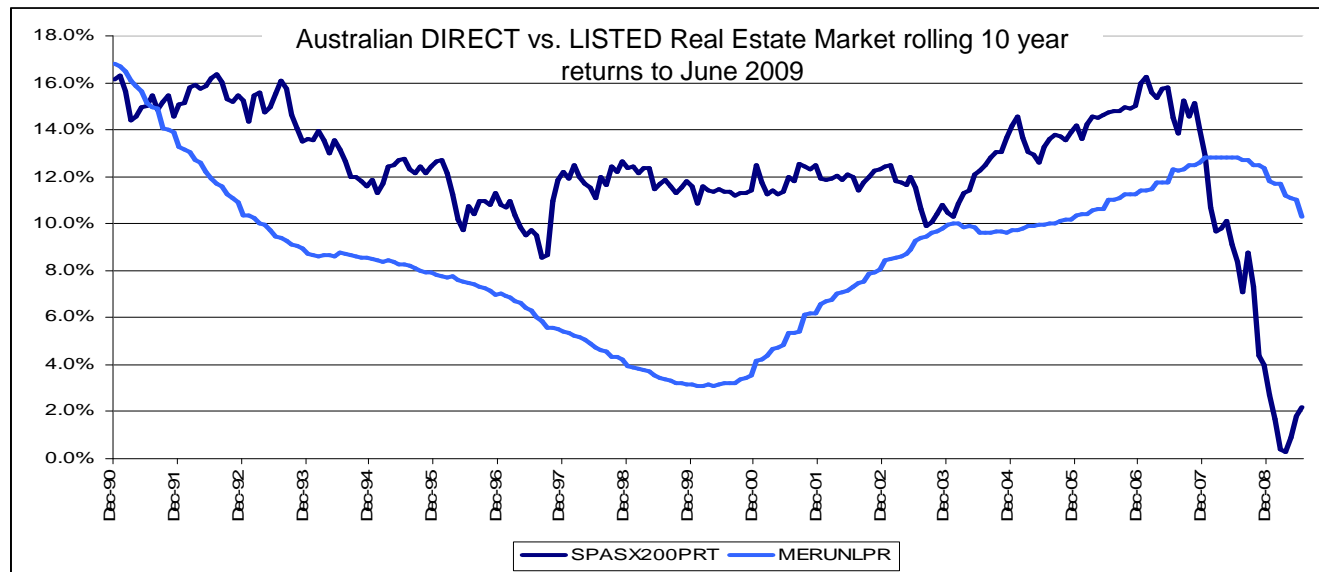
Consider

- > Impracticality of funding infrastructure assets that small.
- > Potential “stock concentration” issues – are you happy with a single unlisted exposure @12%?
- > Liquidity situation when compounded by currency hedging cost.
- > What percentage direct property do hybrid property funds hold?

Unlisted assets – why bother?



- > Listed Real estate returns have historically outperformed direct property
- > The current discount of listed property provides the opportunity for investors to enter the market



“Unlisted and listed property markets will produce similar performance over rolling 10 year periods.” “.....this is consistent for Australia, the United Kingdom and the United States”

Conclusion



- > Buy sell spreads are critical
- > Unlisted assets
 - > Warrant a significant liquidity premium
 - > Potential for major “stock concentration” risk
- > Question on liquidity – question platform suitability

**Square pegs,
round holes**

