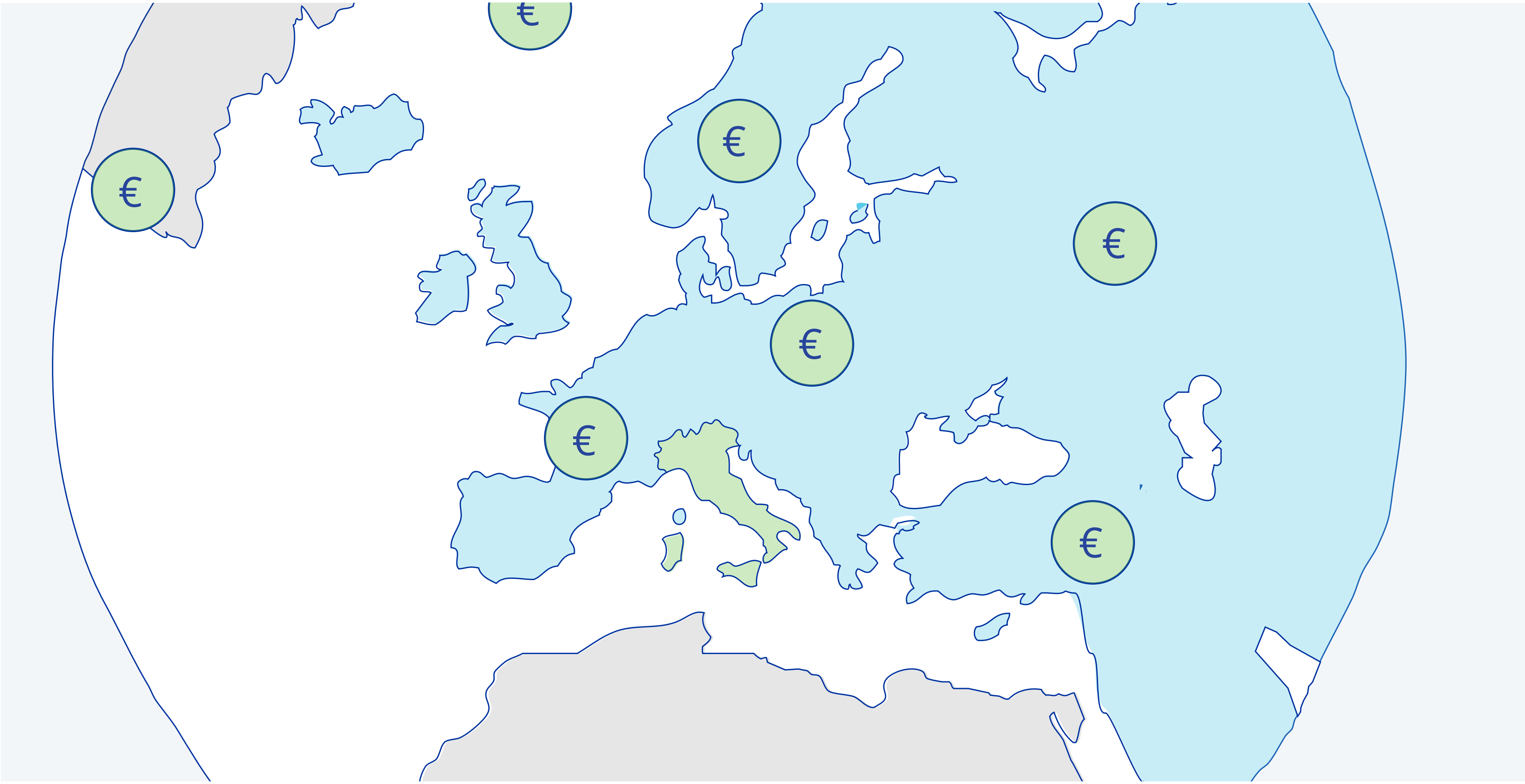

Investor Universe Italy Study **2019**

Research

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate vehicles for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

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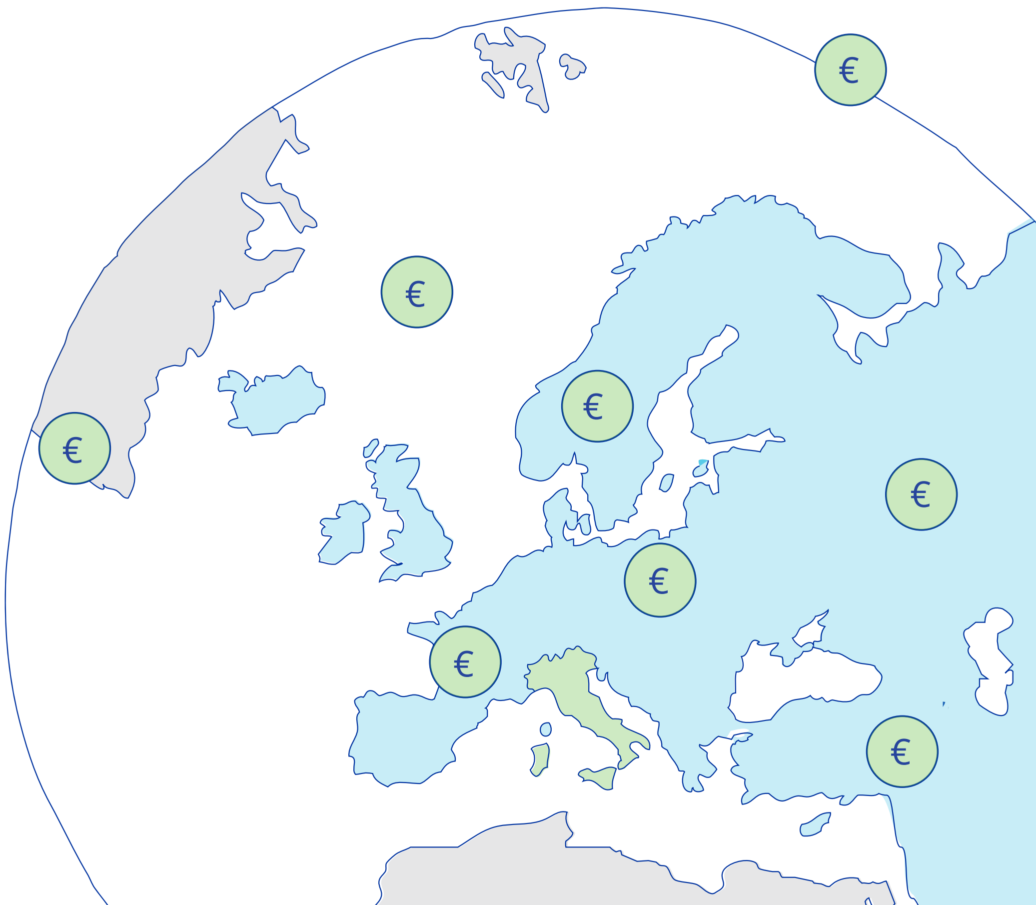


Contents

Executive summary

- The Italian investment universe is dominated by insurance companies and pension funds
- Real estate forms an estimated 4.2% of the overall portfolio, lower than the European norm
- Real estate investment is mainly in the non-listed sector, giving access to expert management

This study examines the part real estate plays in Italian institutional investment, describing the overall investment landscape and then investigating investors' motivations for holding real estate and the ways these are being implemented in practice.

The Italian real estate investor landscape is dominated by insurance and pensions organisations, and therefore the focus of this study is on how investors from these two groups approach real estate investment.

The respondents to the survey were either insurance companies, family offices or pension-related institutions, in the first and second pillars of the Italian pension system, covering €550.8 billion of such institutions' assets under management (AUM) as of October 2018 (estimated to total €990.7 billion). The respondents to the Italy survey jointly manage real estate investment holdings with total AUM of €31.9 billion (universe estimated to a total of €41.1 billion).

Italian investors' current exposure to real estate (estimated at 4.2% of total AUM) is lower than that of European investors more widely (11.2%). Italian survey respondents indicated they intend to lower their real estate allocations, contrary to their European counterparties.

The main reason Italian investors invest in real estate is to diversify risk in the overall portfolio. Income return is also important for these investors, to cover outgoings for pensions and insurance liabilities. Risk-adjusted performance is another important reason for investing in real estate.

Italian investors' exposure to real estate is mainly implemented via non-listed real estate. They are attracted to the non-listed sector due to its capacity for accessing new markets, expert management and risk/return profile compared to other asset classes. Most investors are confident about investing directly in domestic real estate, but value the support of local asset managers externally.

Italian real estate investors allocate most of their capital to office, retail and residential sectors. While allocations to retail and residential are closely in line with the European averages, Italian investors in the sample have more than half of their real estate in offices. There has been a shift from residential to commercial real estate in the last few years and this trend is confirmed for the future.

Section 1

Introduction

1. Introduction

Objectives
The Italy Investor Universe Study explores the Italian institutional investor landscape, the size of the institutional universe, the motivations for investing in real estate and the hurdles that prevent investors from doing so. The study has a particular focus on investors domiciled in Italy and their investment into non-listed real estate vehicles. It describes the allocations Italian institutional investors are making to real estate, while also identifying the key influences behind these allocations and the preferred routes for implementing them.

A further aim is to understand the strategies behind investors' real estate asset allocations, the form these investments take, and how these strategies may change in the future. This survey looks at the total real estate universe with a special focus on non-listed real estate funds.

The first Italy Investor Universe Study was published in 2012.

Methodology
This study has been conducted in collaboration with Assoimmobiliare, the Italian real estate association. The quantitative data for the study was collected through a comprehensive online questionnaire during the fourth quarter of 2018. The questionnaire was supplemented with four face-to-face interviews elaborating on each institution's allocation, investment objectives and organisational processes. All interviews were based on the assumption of anonymity.

Some data has been collected from reliable publicly available sources such as ADEPP, the Association of the Italian Private Pension Foundations, Ania, the Association of the Italian Insurance Companies, Assofondipensione, the Association of the Italian Closed Pension Funds, Nomisma, a private research institute and regulatory bodies including COVIP, the Pension Funds Authority.

Universe and sample
The institutions covered by the survey and interview responses form a sample of seven Italian decision makers in total, four pension funds, and three others, including insurance companies and family offices. The seven respondents jointly have total assets under management (AUM) of €550.8 billion. The Italian investor universe is estimated at €990.7 billion and includes private pension foundations (€85.3 billion, source: ADEPP),

pension funds (€132.5 billion, source: COVIP), individual pension plans (€37.3 billion, source: COVIP), insurance companies (€689.9 billion, source: ANIA) and bank foundations[1] (45.7 billion, source: ACRI). These figures may not be consistent and are underestimates as they only reflect the holdings of members of the associations concerned, which do not represent the whole universe of investors.

The total real estate investment holdings of the sample stand at €31.9 billion (including foreign assets), of which 86.3% (€29.3 billion) are managed by insurance companies. Pension funds (I and II pillars) hold a further 7.8% (€2.6 billion). Including investors outside the scope of this survey, the total real estate investment universe is estimated at €41.1 billion.

The European sample includes survey responses from 103 companies in total, 94 investors and 9 funds of funds. Together they represent real estate AUM of €509.0 billion as at end 2018 and total AUM of €5,673.3 billion. The European sample is consistent across all the 2019 Investor Universe Studies. For the purpose of this study, ‘all institutional investors’ refers to all investor types including funds of funds.[2]

Aggregate results are shown only when there is a minimum sample size of three for any category.

Acknowledgements
INREV would like to thank all participants for their contributions to the study, both to the online survey questionnaire and to the interviews, which provided valuable insights for the study.

This research was carried out with guidance and support from the project focus group: Maurizio Grilli, Head of Investment Management Analysis and Strategy at BNP Paribas Real Estate and Simone Roberti, Head of Research at Colliers International.

INREV thanks the participants and the focus group for their contributions to this study and Professor Giacomo Morri, SDA Bocconi Associate Professor of Practice in Real Estate Finance, for his support.

[1] Bank foundations have been included in the landscape even if they had not been very active in the last years.

[2] Although there may be potential for double counting, this is limited due to the differences between investors that responded to the survey and those that invest in funds of funds.

Section 2

Real estate within the multi-asset framework

2. Real estate within the multi-asset framework

Insurers and pension funds dominate the Italian real estate market

The universe of insurance companies In Italy comprised 213 entities at the end of 2017, according to Ania, the Association of the Italian Insurance Companies. In September 2018, all insurance organisations accounted for €689.9 billion in asset value, of which 42% was invested in Italian government bonds, 20% in corporate bonds, 12% in corporate participations, 9% in foreign government bonds, 2% in structured securities, 12% in funds, 2% in stocks, 1% in real estate and 1% in other categories of investments.

The universe of Italian pension funds can be divided into three pillars under Italian law, each having its own conventions and regulations in relation to real estate investment. The investment rules governing Italian pension funds have changed significantly over the last 25 years. More information on the Italian pension fund system may be found in Appendix 1. The three pillars are:

- Public pension bodies and private pension foundations
- Pre-existing and new pension funds
- Individual pension plans

There are only two state pension funds (first pillar) active in the market. In 2008, to comply with EU directives on expected investment performance for public bodies, state pension funds were asked to respect a 7% threshold for real estate allocations as part of their total investments. They are still undertaking the partial disposal of their direct real estate investments to comply with this limit, and are no longer investing in real estate.

According to ADEPP, the Association of the Italian Private Pension Foundations, the total value of private pension foundation investments, also in the first pillar, was €85.3 billion at the end of 2017, of which €19.4 billion is invested in both direct and indirect real estate.

According to COVIP, the value of second pillar pension funds' total investments was €132.5 billion in December 2018, of which €3.5 (2.7%) is invested in real estate.

In June 2018, the total value of individual pension plans' investments (third pillar) was €37.3 billion. These had no investments in real estate, apart from any shares in property companies included in their equity allocation.

Real estate investment is restricted by regulation

As already noted, the Italian real estate investor landscape is dominated by the pension industry and insurance companies, and therefore the focus of this study is on how these actors approach real estate investment. The survey is purely devoted to the asset owner's perspective, not that of fund managers or consultants.

Table 1 briefly summarises the investment restrictions of insurance companies and pension funds in Italy. All players, except new pension funds, are allowed to invest directly in real estate, while they are also allowed to invest indirectly, including in non-listed real estate funds. Nonetheless, there are some restrictions in place.

Insurance companies can allocate up to 40% of their total investment in real estate with a maximum of 10% in indirect real estate investments.

Pension funds that existed prior to 2007 may invest in direct and indirect real estate to a maximum of 20% of their total assets and can manage their asset allocation without a third party manager. Funds that exceeded that threshold when the law became effective in 2007 were granted a five-year period to reduce direct investments to the new threshold.

Table 1: Permitted forms of real estate investment

	Insurance companies	Private pension foundations (1st pillar)	Pre-existing pension funds (2nd pillar)	New pension funds (2nd pillar)
Direct investment	Yes	Yes, with no specific limit	Yes, maximum allocation 20% of the total assets	Not allowed
Indirect investment	Yes, limit 10% total asset	Yes, with no specific limit	Yes, maximum allocation 20% of the total assets	Yes, maximum allocation 20% of the total assets and maximum single investment accounting less than 25% of the value of the real estate fund
Note	The total amount cannot exceed 40% of total investments		Direct investment exceeding this threshold may be conferred to real estate funds with no limit	

Sources: IVASS, COVIP

[3] ISVAP Regulation (now IVASS) №36, page 15: https://www.bpmvita.it/assets/0000/0377/Regolamento_n.36.pdf

[4] COVIP, page 65: http://www.covip.it/wp-content/uploads/FondiPensionePrees.pdf

New pension funds are permitted to invest up to 20% of their assets indirectly and up to 25% of the asset value of the individual real estate portfolio through non-listed funds.

The investor interviews reveal that new pension funds invest with external asset managers, often appointing them for a three-year mandate, or through non-listed funds.

The Italian indirect real estate market is structured as follows:

The listed property market in Italy is very small and comprises just six REITs (SIIQs) with a total market value of around €9.2 billion. Covivio, by far the largest, has recently been created by the merger of the French REIT Foncière des Régions and the Italian REIT Beni Stabili. It is listed in both countries, with a total market value of around €8.1 billion. Property shares are often included in the general equity allocation of Italian investors.

According to Nomisma, there are 541 non-listed real estate funds in Italy (of which only 17 are open to retail investors) with an estimated total AUM of around €77.8 billion.

Table 2: Market capitalisation of listed REITs in Italy

SIIQ	Market cap (€ million)
Covivio	8,145.7
IGD	669.2
Coima RES	298.0
Nova RE	44.2
AEDES	41.4
Restart	17.2
Total	**9,215.6**

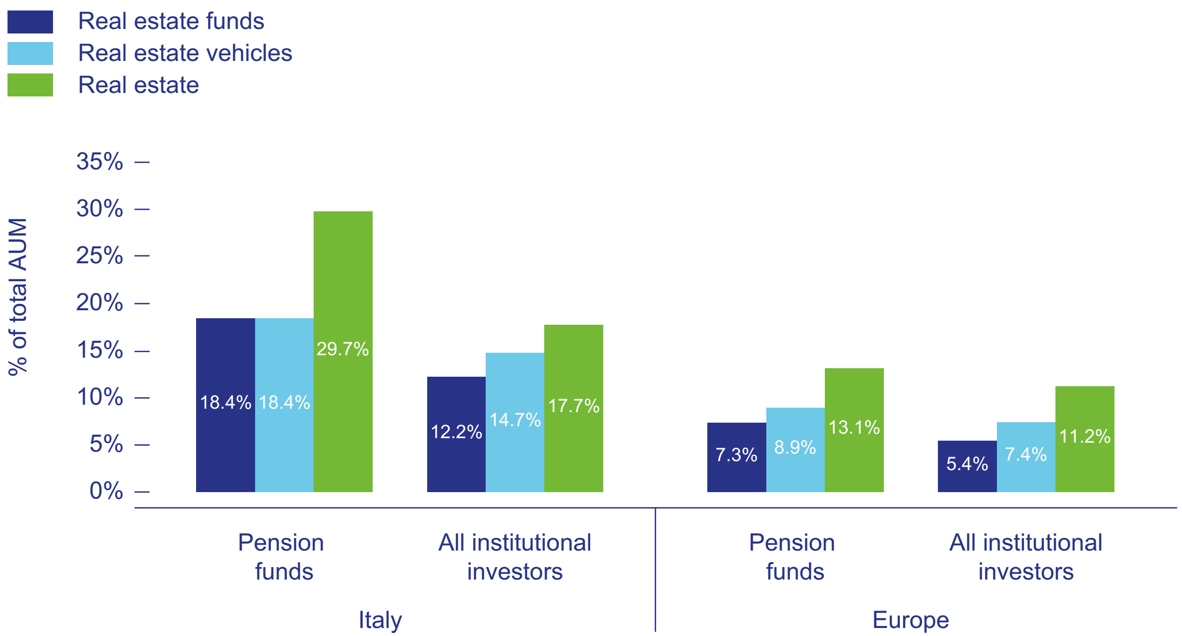
Source: Borsa Italiana, 17 July 2019

Real estate asset allocation lower than European norms

Real estate comprises 4.2% of all assets held by Italian institutional investors, based on estimates from ADEPP, COVIP, ANIA, and ACRI. First pillar pension funds have the highest allocation, at 22.7%. Meanwhile, private pension funds do not invest in real estate altogether.

At 17.7% of total AUM, the survey sample of Italian investors' current exposure to real estate is larger than that of European investors more widely (11.2%). This is especially the case for Italian pension funds, where the gap is wider – 29.7% for Italian and 13.1% for European investors.

Figure 1: Survey sample's current allocation to real estate (equally weighted)*



* excluding companies with allocation to real estate larger than 50%

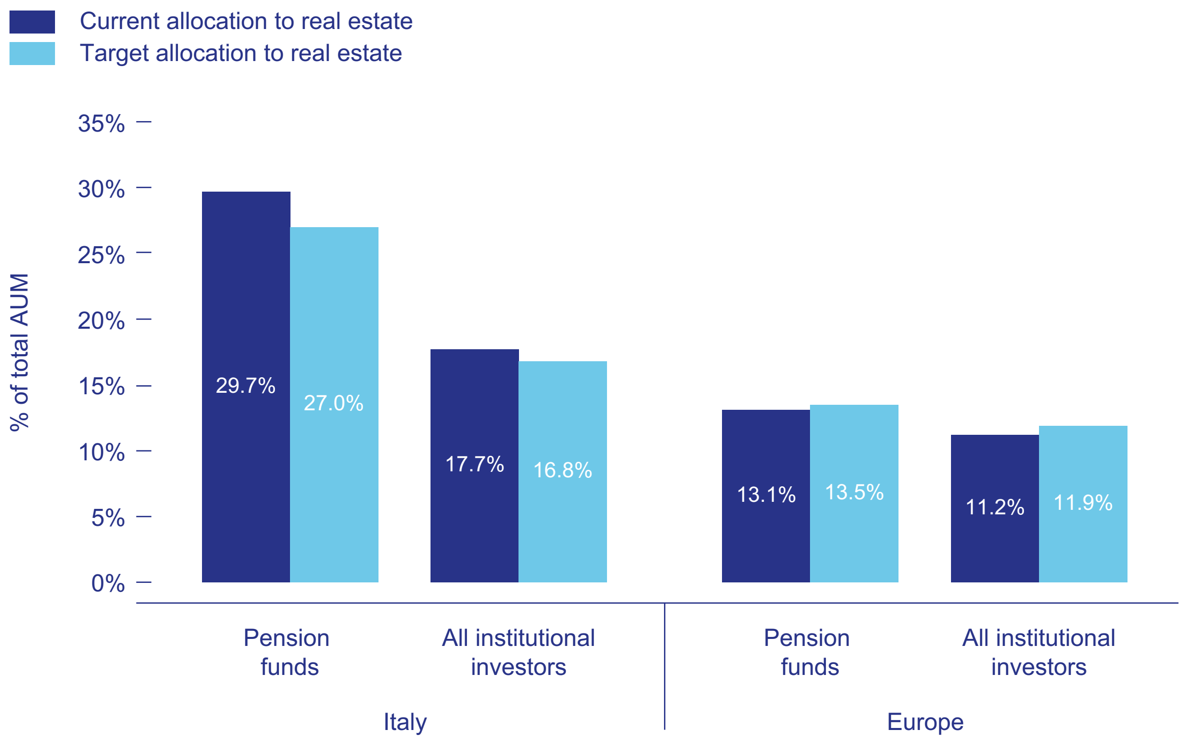
Table 3: Estimates of AUM and real estate allocation of Italian institutional investors

	AUM (€ billion)	Real estate (€ billion)	Real estate allocation	Source
Pension fund foundations I Pillar	85.3	19.4	22.7%	ADEPP
Pension funds II Pillar	132.5	3.54	2.7%	COVIP
Private pension funds III Pillar	37.3	0	0.0%	COVIP
Insurance companies	689.9	15.9	2.3%	ANIA
Bank foundations	45.7	2.24	4.9%	ACRI
Total	**990.7**	**41.1**	**4.2%**	

Investors in the survey sample are looking to reduce their allocation to real estate, from 17.7% to a target level of 16.8% on average. Due to high historic inflation rates, Italian investors used to invest heavily in real estate, including residential assets. This was especially the case for pension funds. Nowadays, those with an over allocation to real estate are seeking to reduce their current high level of exposure.

Italian investors' exposure to real estate is mainly implemented by investing in non-listed real estate, with little difference across the various types of investors.

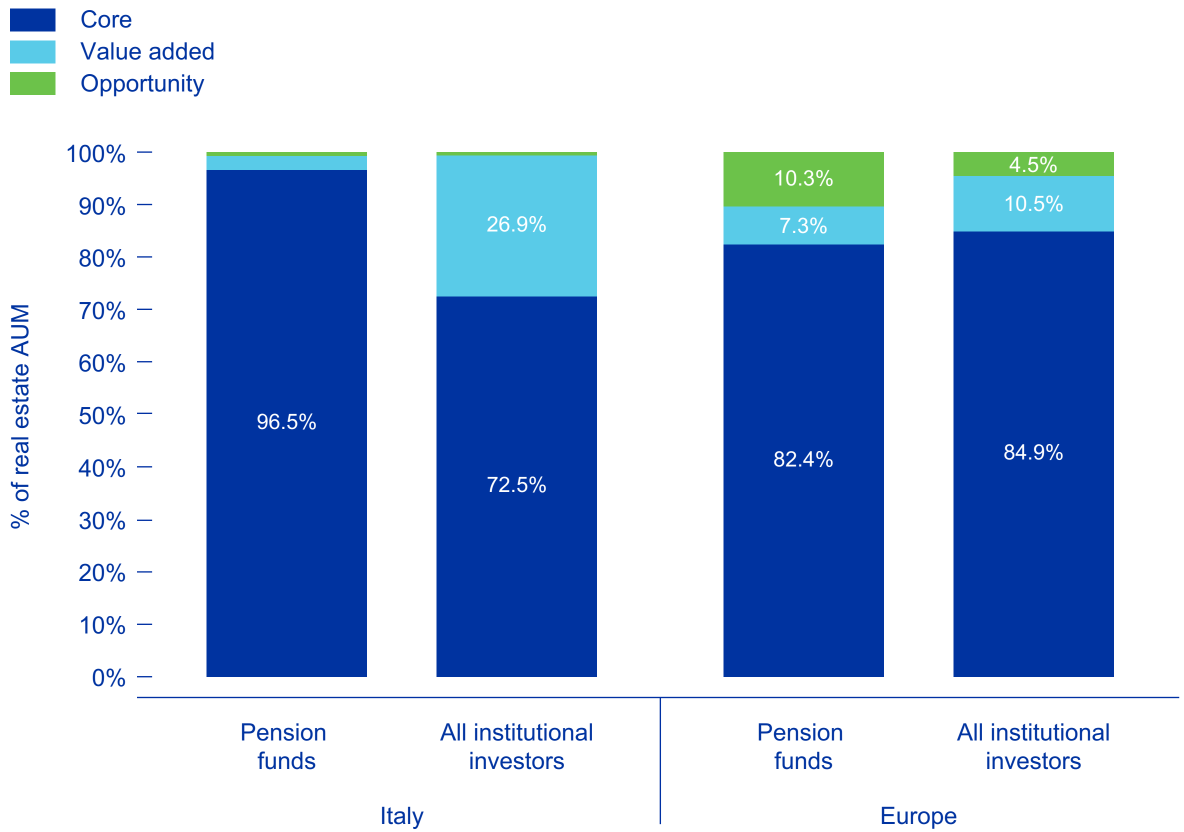
Figure 2: Survey sample's current and target allocations to real estate (equally weighted)*



* excludes companies with allocation to real estate larger than 50%

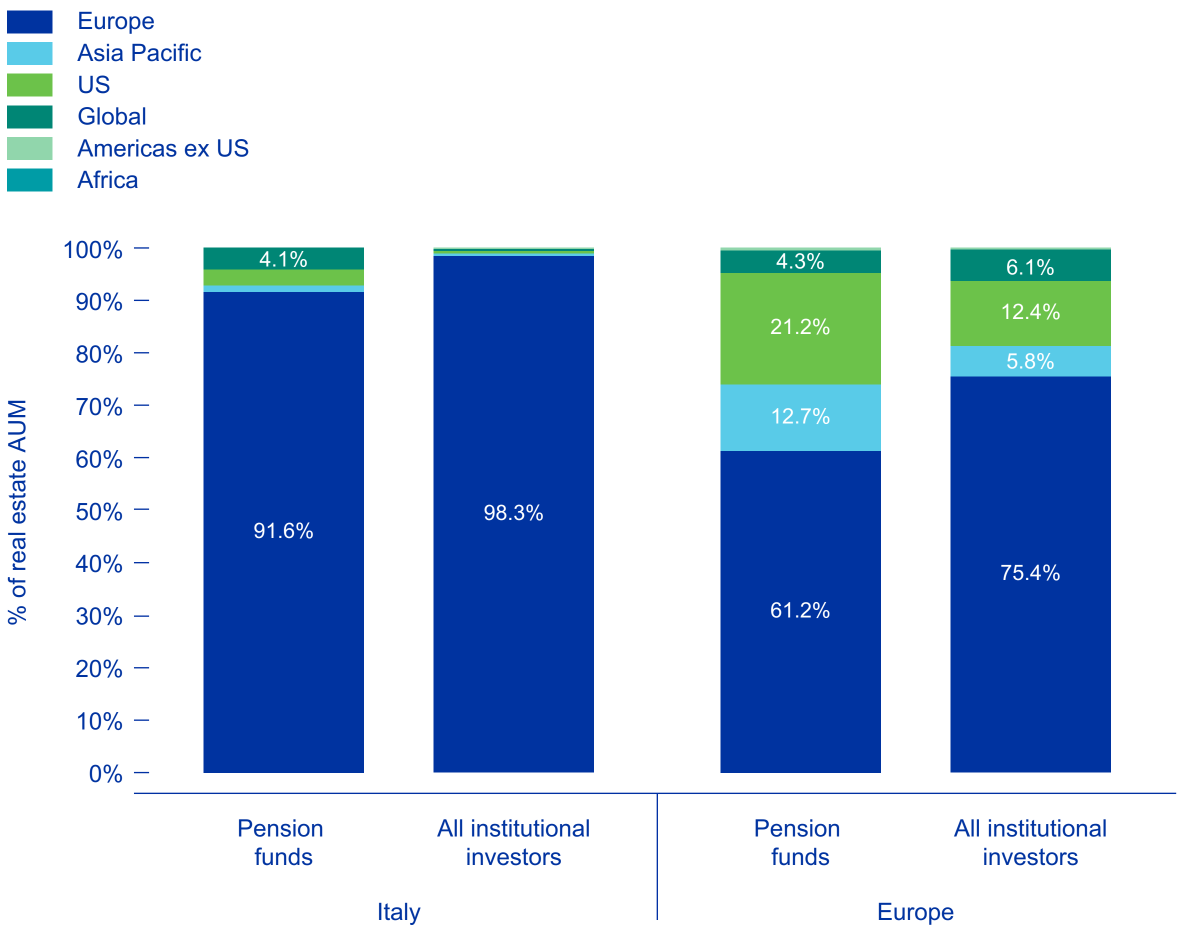
Italian pension funds are reluctant to take on higher risk investments and have thus allocated more to core (96.5%). Meanwhile, other investor types in the sample have indicated a higher percentage of assets in value added strategies, driving the Italian average (26.9%) above that of European investors more widely (10.5%). Very few of Italian investors' real estate holdings are in opportunistic strategies, unlike European investors (4.5%), particularly European pension funds (10.3%).

Figure 3: Current allocations by investment style



Historically, Italian investors invested in Italian real estate. Since most investments were in direct real estate, these were easier to manage in the domestic market, using local internal property management structures. Only in the last few years have they been investing abroad, based on an understanding of the importance of risk diversification and the weak performance of the Italian real estate market. They have begun this process in those countries with which they are more familiar. The sample of Italian investors holds 1.7% of real estate outside Europe.

Figure 4: Current allocation by target region



Asset allocation process less quantitative than elsewhere

Italian investors invest in a wide range of asset types, from the liquid public asset classes to more illiquid private assets. However, the complexity of the allocation analysis process varies between the investors.

For allocation modelling, the majority of investors apply some form of asset-liability matching framework, in line with the type of investors involved in the survey. However, Italian investors do not use highly quantitative models in the allocation process and they also make a number of qualitative considerations when reaching their final allocation decisions.

Italian investors have different lengths of real estate investment horizon, but most fall in the medium term (5-10 years). At the same time, the frequency of strategic real estate allocation reviews is similar to that of European investors.

Figure 5: How quantitative are investors' approaches

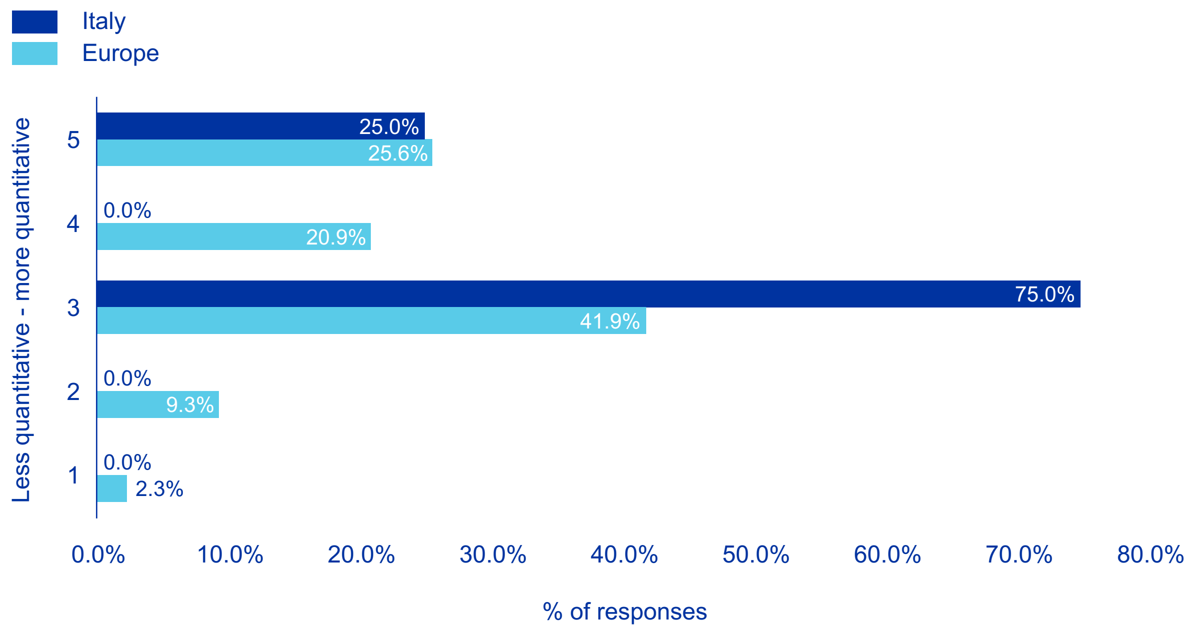
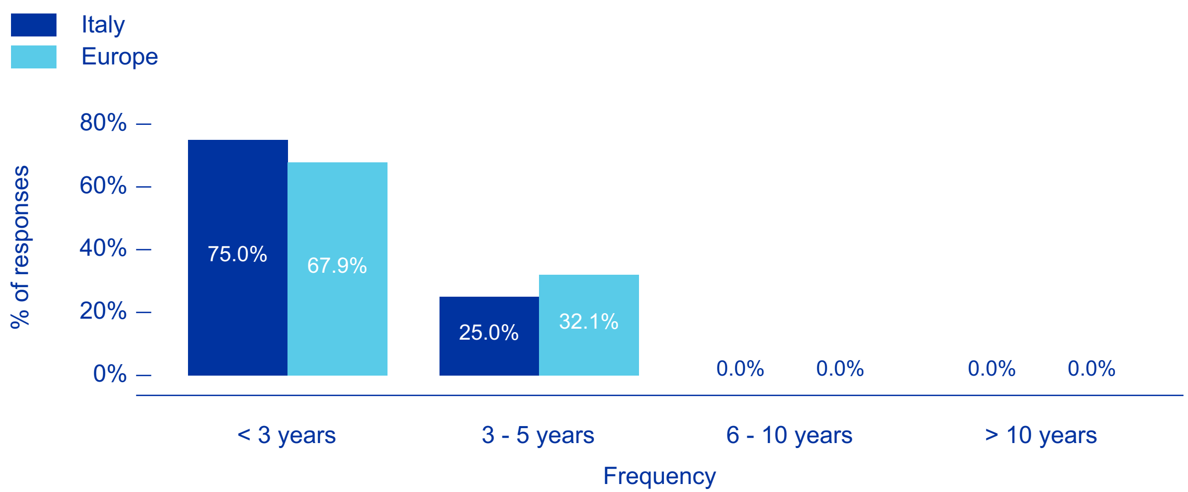


Figure 6: Frequency of strategical real estate allocation reviews



This is also the case for tactical allocation reviews. Half of Italian investors have a target allocation that is set as a range, in line with the pan-European average. The other half have a specific target allocation. Across Europe, about a fifth set a maximum limit to their real estate allocations.

Figure 7: Frequency of tactical real estate allocation review

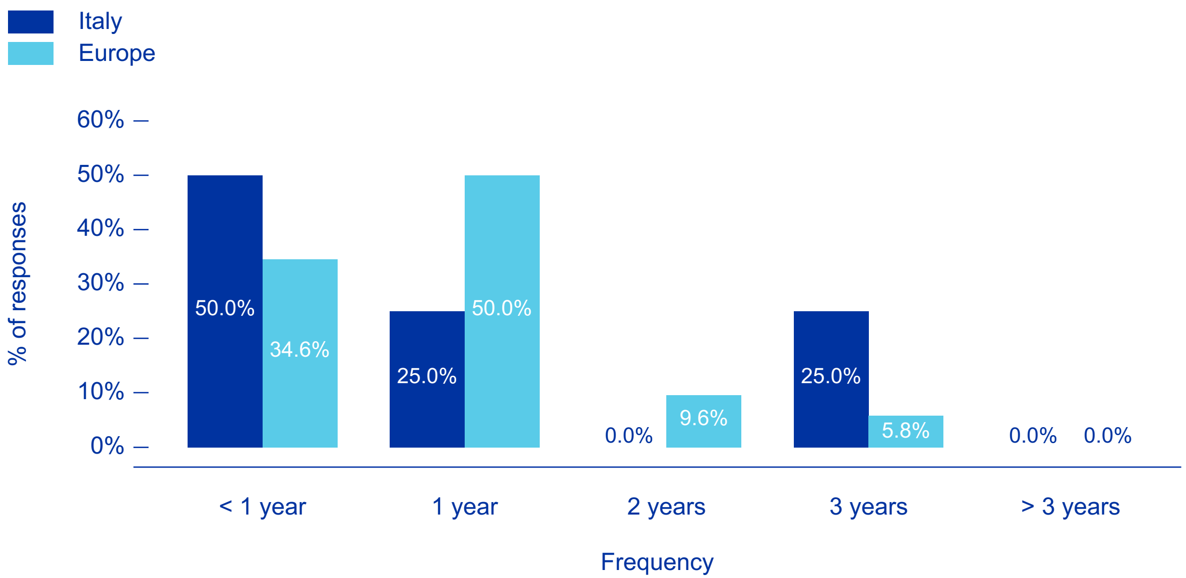
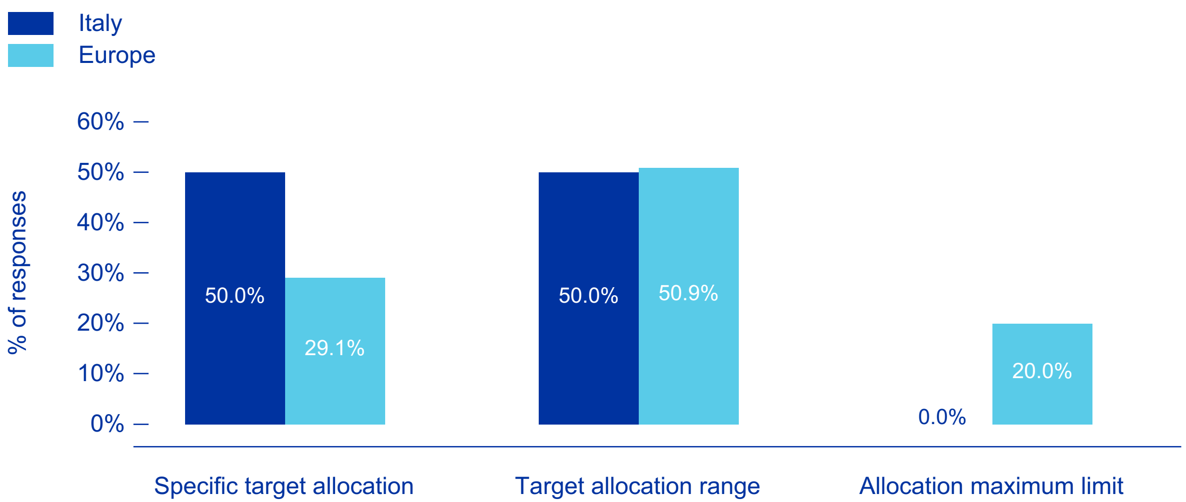


Figure 8: How investors set their real estate allocations

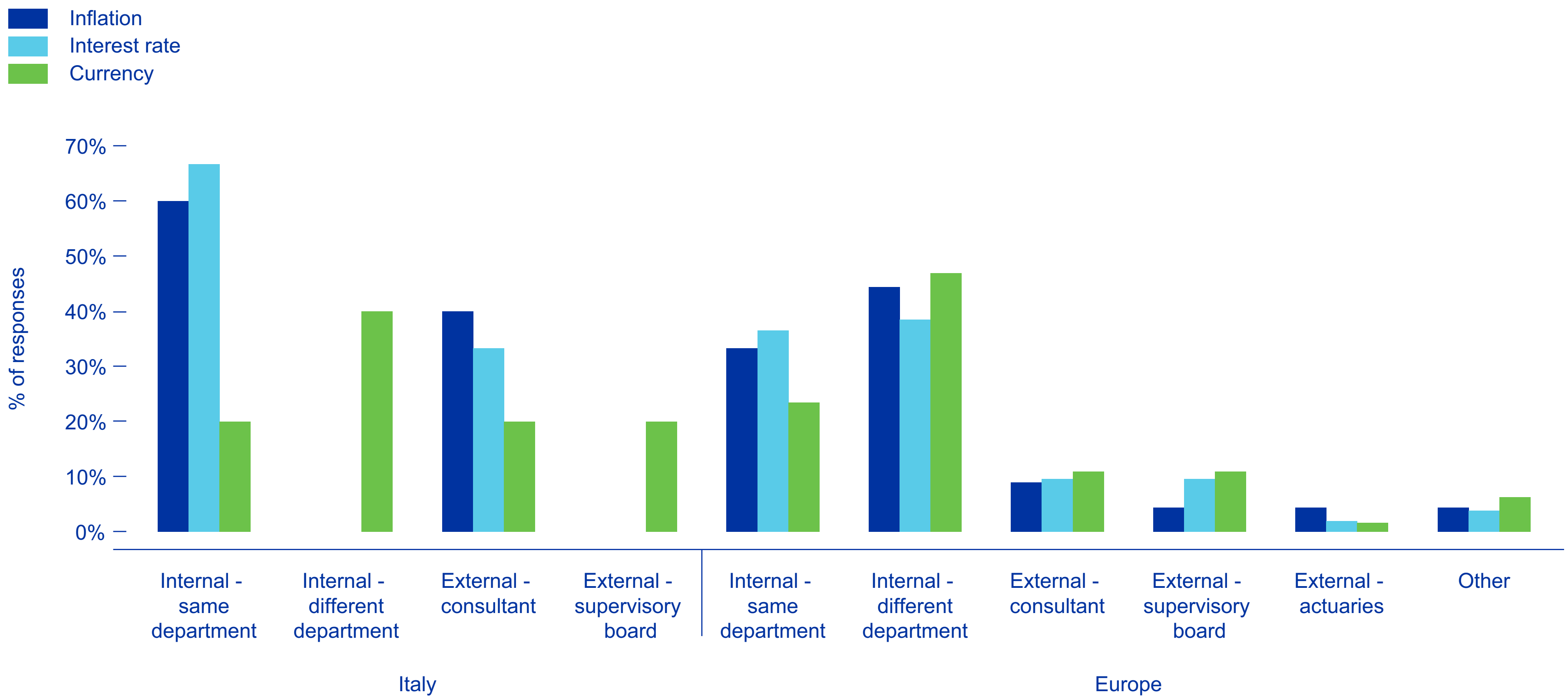


The interviews indicated that Italian investors usually hedge against currency risk when investing outside the Euro zone, since they want to take on only real estate risk and avoid the effect of any currency rate change. Hedging decisions are taken internally within the same department, except in the case of those entities that invest via a mandate with external asset managers.

The majority (71.4%) of the investors treat real estate as an asset class in its own right, while the remainder see it as part of alternatives. None of the investors interviewed treat real estate as private equity, private markets or real assets.

In terms of benchmarking activities, Italian investors rely mainly on absolute returns and inflation, with only few adopting third-party provided direct indices.

Figure 9: Who makes hedging decisions



Section 3

Why invest in real estate?

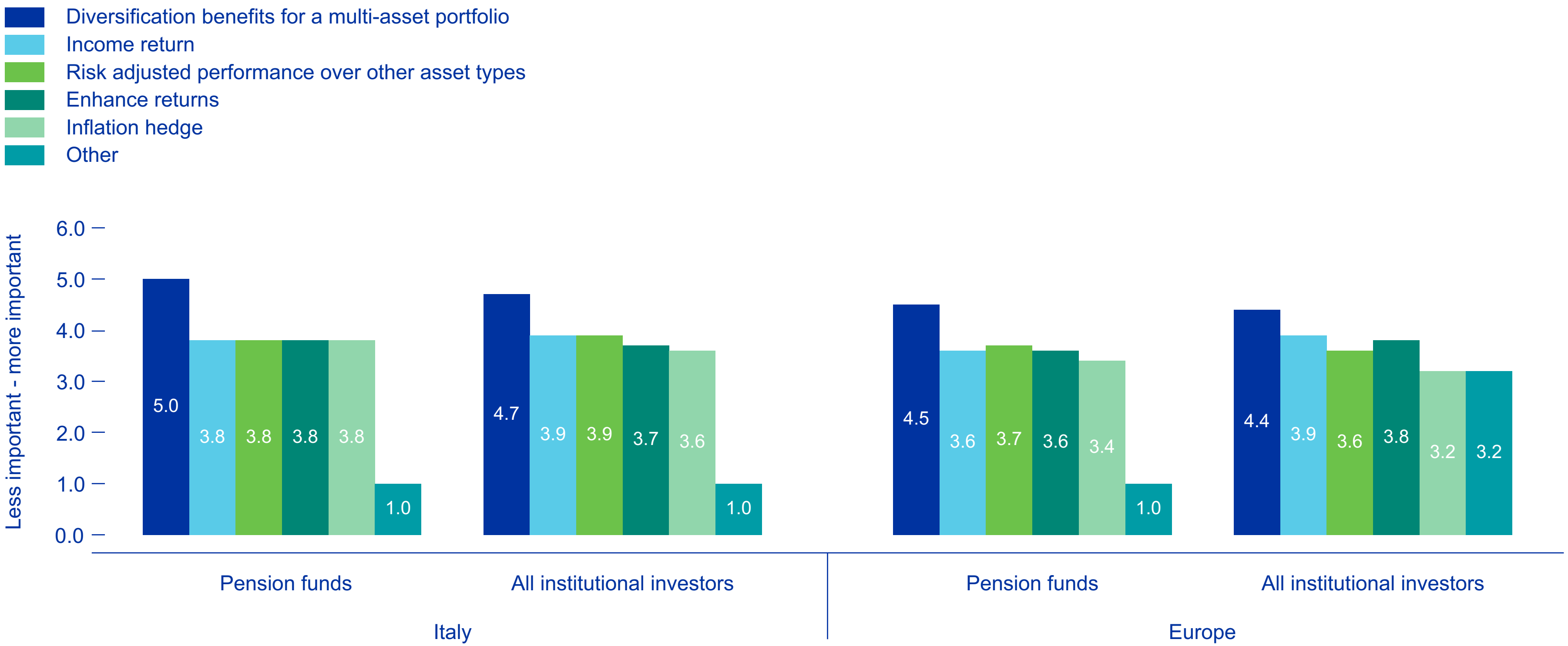
3. Why invest in real estate?

Diversification the main reason to allocate to real estate

As for other European investors, the main reason Italian investors invest in real estate is to diversify risk in the overall portfolio. According to the survey, risk-adjusted performance and inflation hedging are also significant reasons. Not surprisingly, income return is also important for these investors, since current income is necessary to cover outgoings for pensions and other insurance liabilities. The interview responses confirmed that real estate is generally expected to offer diversification benefits for the overall portfolio, and to provide attractive risk-adjusted returns and returns above inflation. Real estate's performance over the last two years, as well in the long run, is seen to have confirmed these positive views of the asset class.

It emerged from the interviews that Italian pension funds are focused on investing in those sectors that support economic growth. Some pension funds focus their real estate investments in those sectors that stimulate the

Figure 10: Reasons to invest in real estate

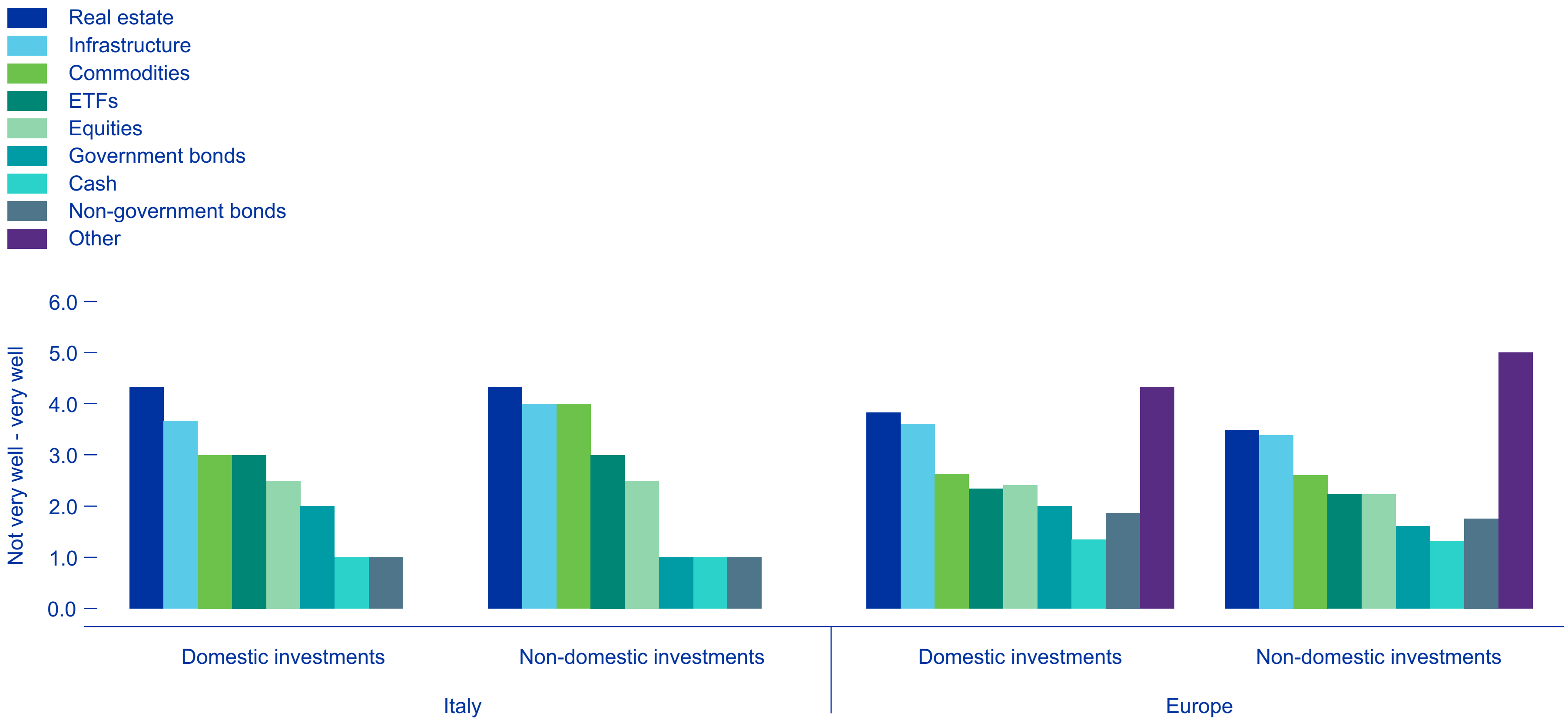


particular professional group that the funds represent, either by creating job opportunities or facilities catering to that group.

The interviews also indicated that those pension funds which are allowed to invest both directly and indirectly consider direct investment mainly for investing in core or core plus properties, while avoiding opportunity assets, which tend to be more complex to manage. Another major issue pension funds face when investing directly is the need to execute investments rapidly in the current real estate market, something they can find difficult to achieve internally. Finally, since the supply of space in the occupational market is now relatively strong and public sector demand has weakened, some investors prefer to rely on professional asset managers to limit vacancy risk.

A number of investors mentioned that when choosing asset managers, the fund's track record of historical performance and its governance are key issues in the selection process. Some use a questionnaire based on the INREV Due Diligence Questionnaire in the fund selection process.

Figure 11: How well do asset classes hedge against changes in domestic inflation?

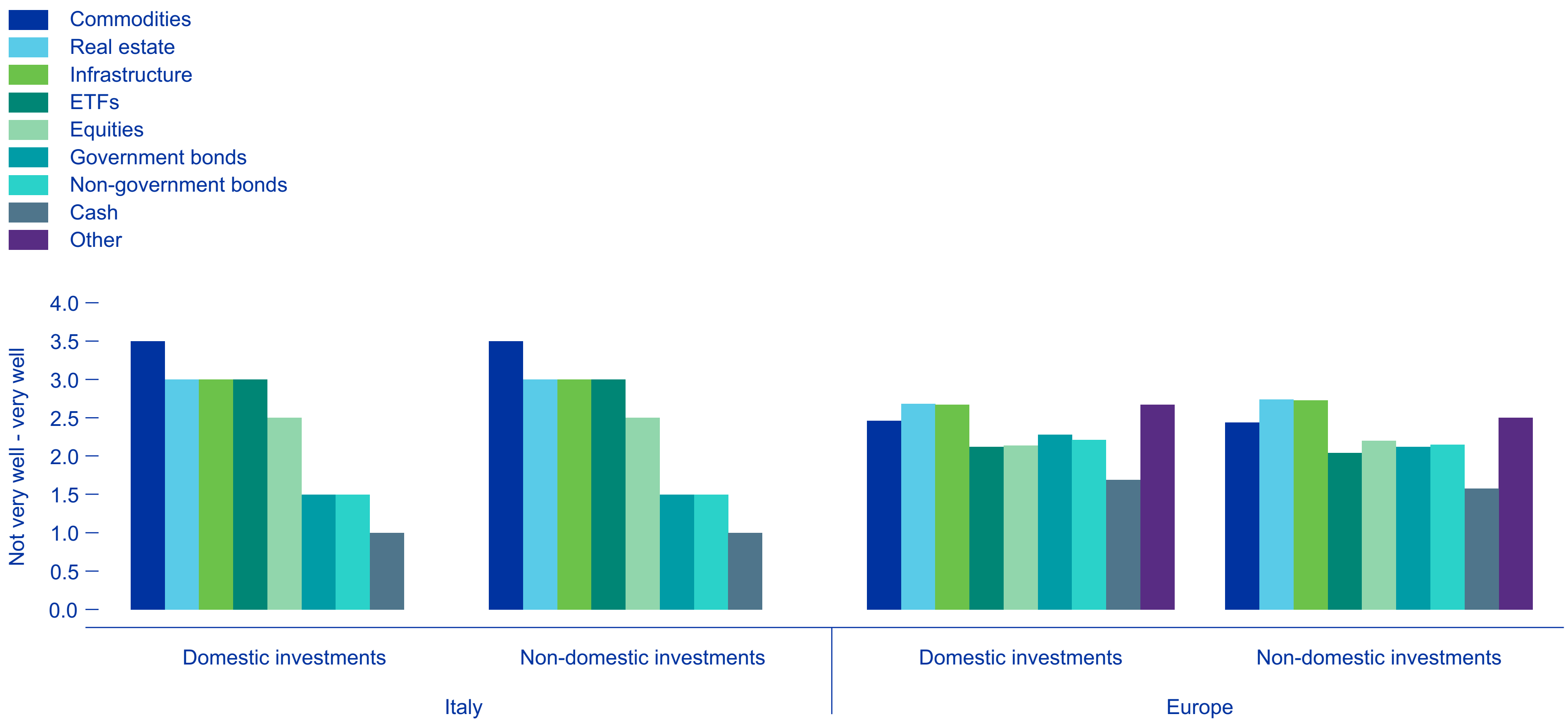


A focus on hedging

To a greater extent than for European investors as a whole, Italian investors nearly all consider real estate to be the best asset class for hedging against inflation, both for domestic and international investments. One might expect this finding, as before adopting the Euro Italy was characterised by high inflation rates, which investors – both private and institutional – hedged via high real estate allocations. Infrastructure and commodities are also considered good asset classes for hedging, especially for non-domestic investments.

Unlike other European investors, Italian investors consider real estate and infrastructure good asset classes for hedging interest rate changes, both for domestic and non-domestic investments, although they consider commodities better in both cases.

Figure 12: How well do asset classes hedge against changes in domestic interest rates?



Non-listed brings local know-how

Among possible reasons for investing in non-listed real estate funds, Italian investors attached equal importance to their capacity for accessing three factors: New markets, expert management and specific sectors. Digging below the surface in the interviews, it emerged that most feel quite confident in investing in domestic direct real estate, but when investing non-domestically, they value the support of local asset managers. This can also apply when investing in real estate sectors that require specific management skills, for example hotels.

Another factor highlighted during the interviews was that investing through real estate funds offers better possibilities for rebalancing the portfolios of different insurance companies belonging to a group, as indirect investments provide greater financial flexibility and lower transaction costs than direct investments.

Italian investors find the most challenging obstacles when investing in non-listed real estate funds to be regulatory issues and the resources (financial/personnel) needed to acquire the necessary knowledge and/or to execute a strategy. The availability of suitable products, liquidity, associated costs, alignment of interests and current market conditions were seen as less important.

Over the last three years, European investors have cited the availability of suitable products as a challenge when investing in non-listed funds, but this does not appear to be a major concern for Italian investors.

During the interviews, some investors did not raise any concerns about funds and agreed with all the proposed advantages. Generally, the whole group had a positive opinion of non-listed real estate funds. This was confirmed by the fact that most of their new real estate investments have been through non-listed funds.

Some concerns arose regarding the selection of the fund managers, as most interviewees pointed to this as the key point in choosing a fund to invest in. Past performance, reputation and size are the most important qualities they look for.

Section 4

How to invest in real estate?

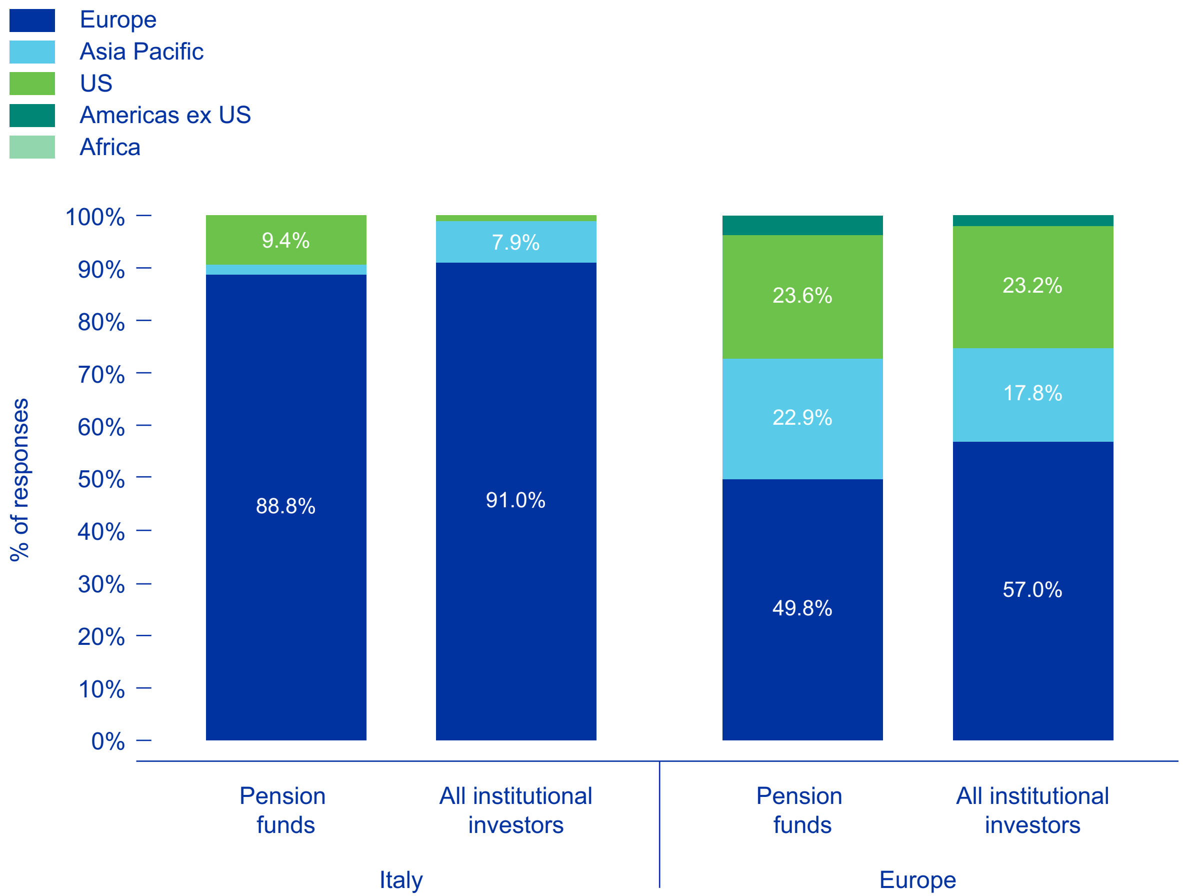
4. How to invest in real estate?

Focus on core and value added funds in Europe

As noted above, the maximum real estate allocation is regulated by the supervisory authorities. Subject to this constraint, private pension foundations determine their allocations internally. In contrast, pension funds use external consultants, with those that are new only permitted to invest indirectly via investment mandates with asset managers or by investing in funds.

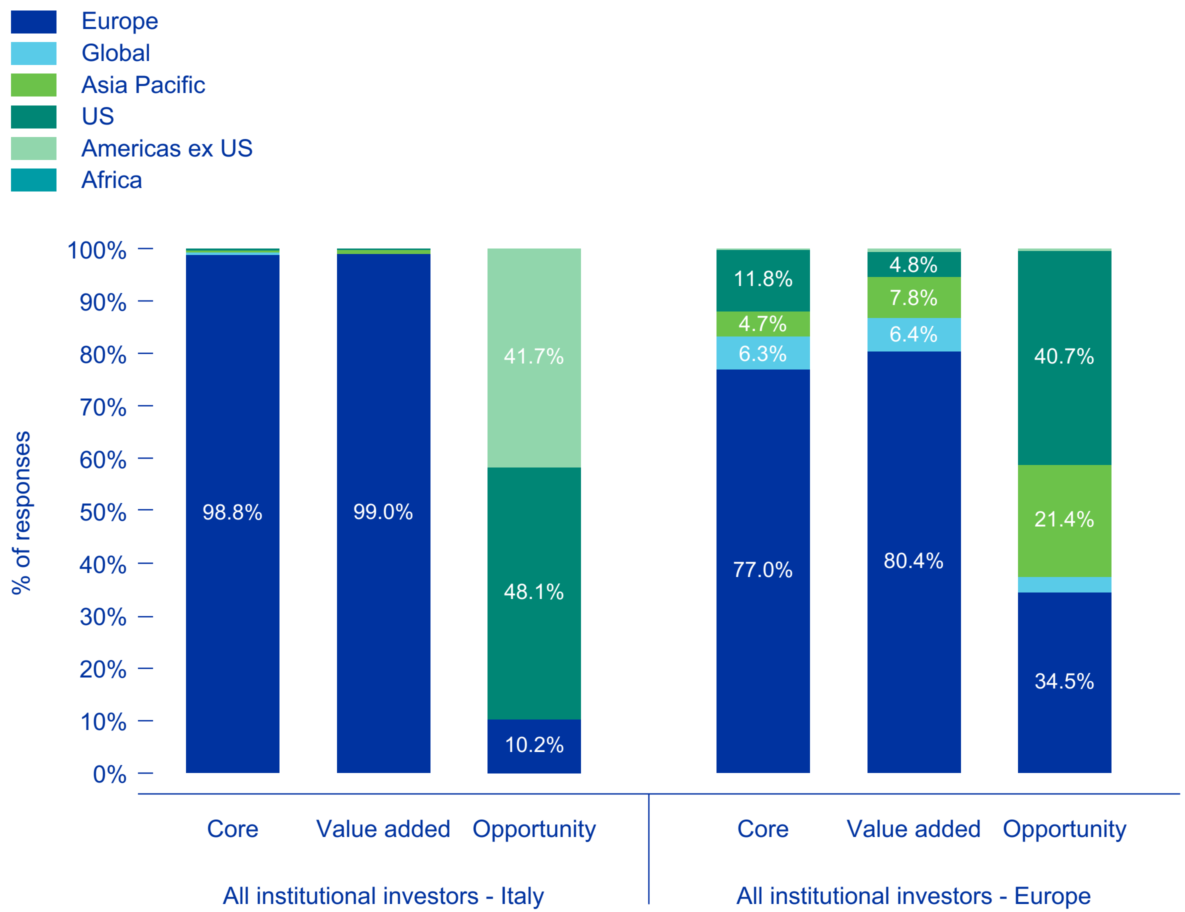
In 2019, Italian investors, particularly pension funds, expect to invest their new capital mainly in European funds. This contrasts with the intention among European investors more broadly to allocate almost a fifth of new capital to the US and in total almost half outside Europe. This discrepancy is not surprising, as until recently Italian investors allocated nearly all new real estate capital to domestic investments, most in directly-held assets.

Figure 13: Capital expected to be invested into real estate in 2019 by geography



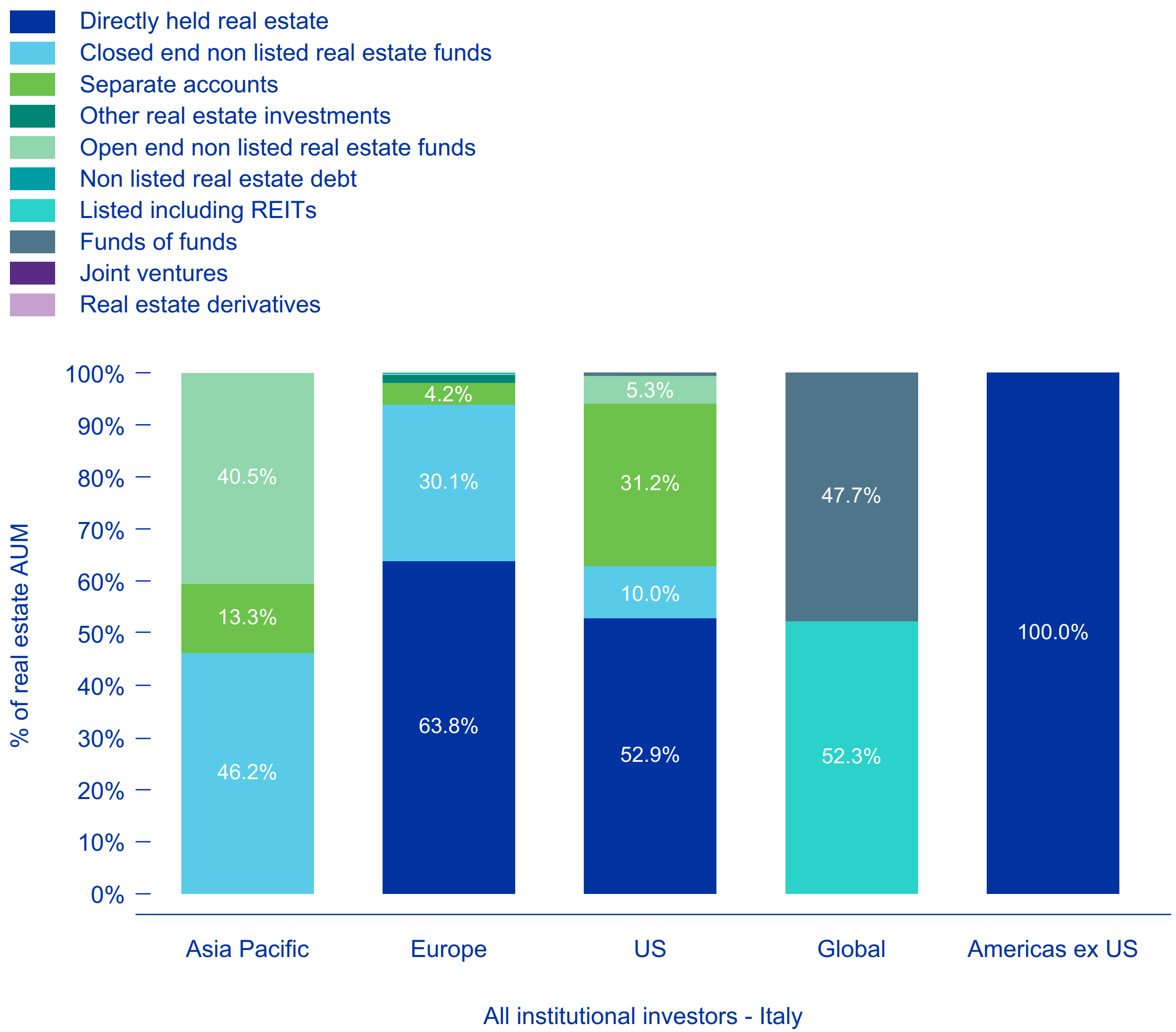
When investing in Europe, Italian investors mainly allocate their capital to core and value added funds, while they invest in opportunity funds outside Europe. This trend, though more pronounced, is in line with that among European investors in general.

Figure 14: Allocation by target regional strategy and investment style



Italian investors mainly use funds of funds and REITs to invest globally, while only a few of them invest directly in the European market only. According to the interviews, most of the Italian investments are indirect to take advantage of the fiscal and accounting rules. Any investment in Asia is made via open end non-listed real estate funds, due to the relatively small amount allocated to this strategy and the desire for diversification in such holdings.

Figure 15: Investors' allocations by vehicle type



Offices and retail still favoured

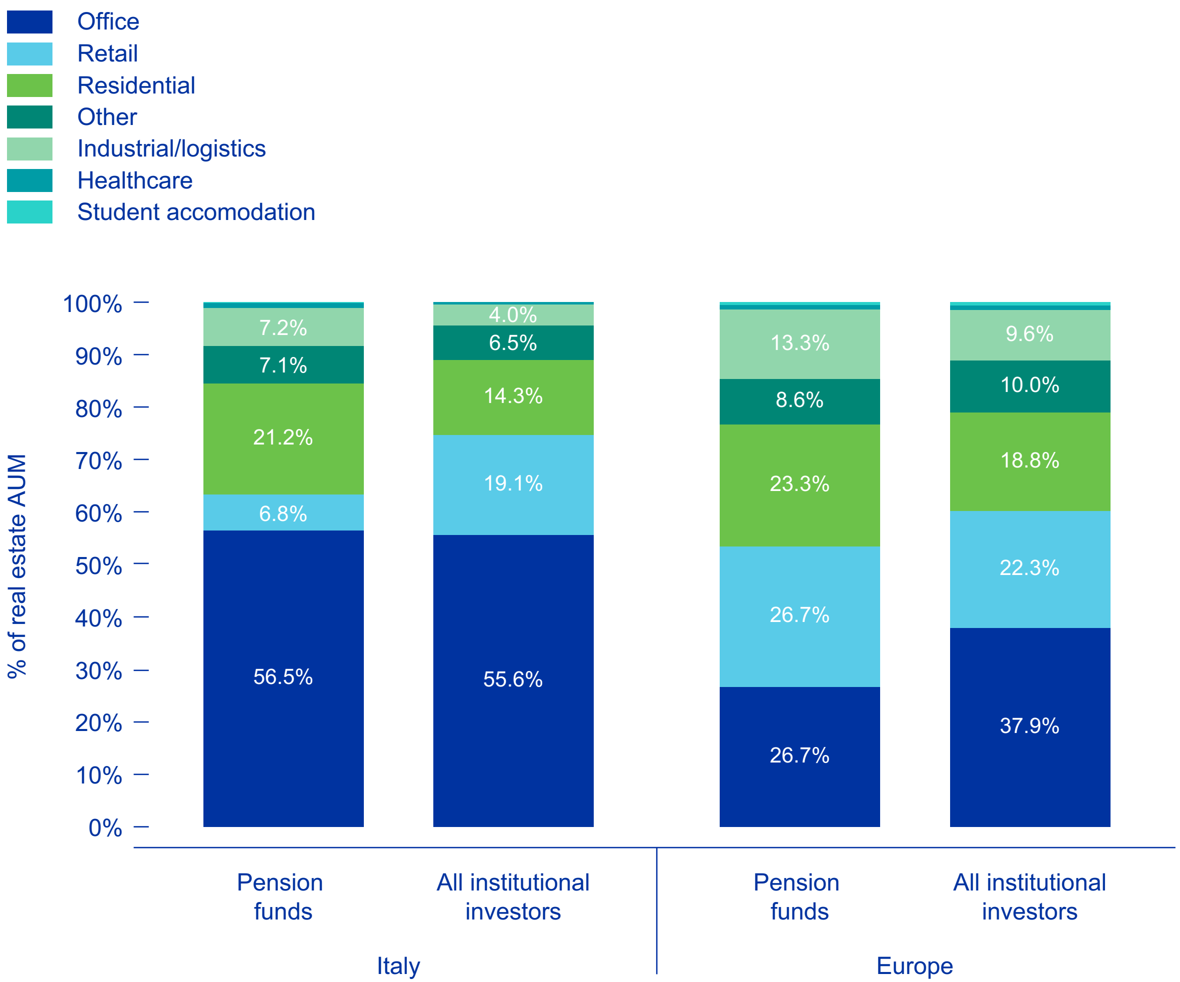
Italian real estate investors allocate most of their capital to office, retail and residential sectors, closely in line with their European peers. At a more detailed level, Italian pension funds have higher allocations to residential than other investor types. There are two main reasons for this. Some of these funds invest in social housing to reflect their social mission, while others were created for the purpose of divesting their residential portfolios more efficiently than via direct disposals, with the ultimate aim of reinvesting the capital in commercial real estate funds.

From the interviews it clearly emerged that all Italian investors have been shifting from residential to commercial real estate in the last few years. New investments, except for development projects and social housing, will not be allocated to residential.

When asked about their relatively high allocation to offices, many Italian investors cited the high availability of product and some mentioned ease of management compared to other sectors. Related to this point, some suggested the benefit of investing indirectly in sectors other than office and retail due to the complexity of management involved.

In Italy, 'alternative' real estate sectors such as healthcare, student accommodation and industrial are less developed than in other European markets, so that investors' allocations are limited due to the lack of product.

Figure 16: Current allocations to real estate by sector



Overall, Italian investors plan to reduce their real estate allocation. However, shifts within their real estate portfolios can be expected.

The survey indicated that Italian investors expect to increase their holdings of direct real estate, joint ventures and club deals, non-listed real estate funds and private REITs.

These categories are the most common among Italian investors and the trend to continue investing in them reflects the European norm.

Figure 17: Italian institutional investors' expected changes to real estate allocations to Europe by vehicle type (equally weighted)

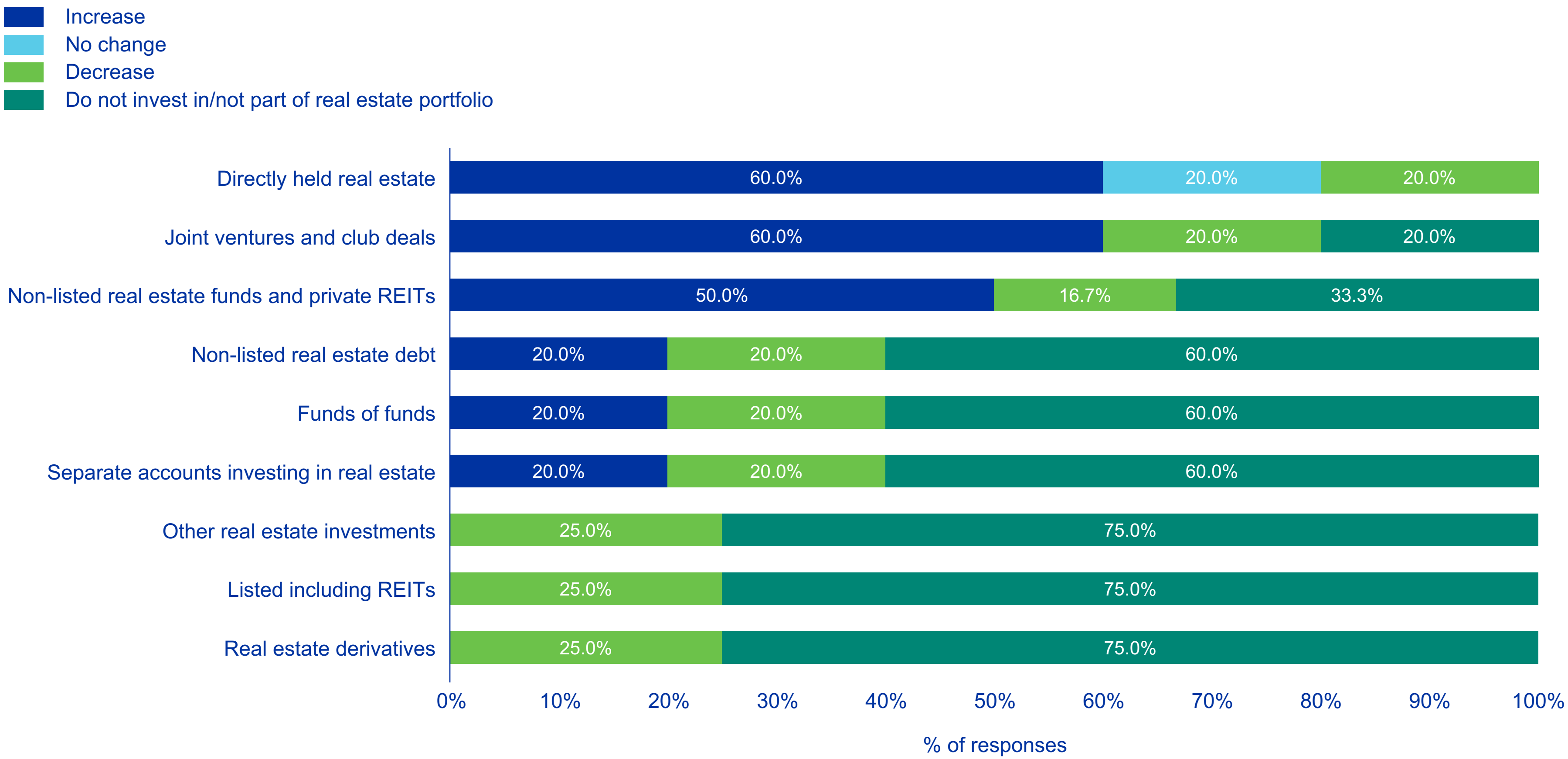
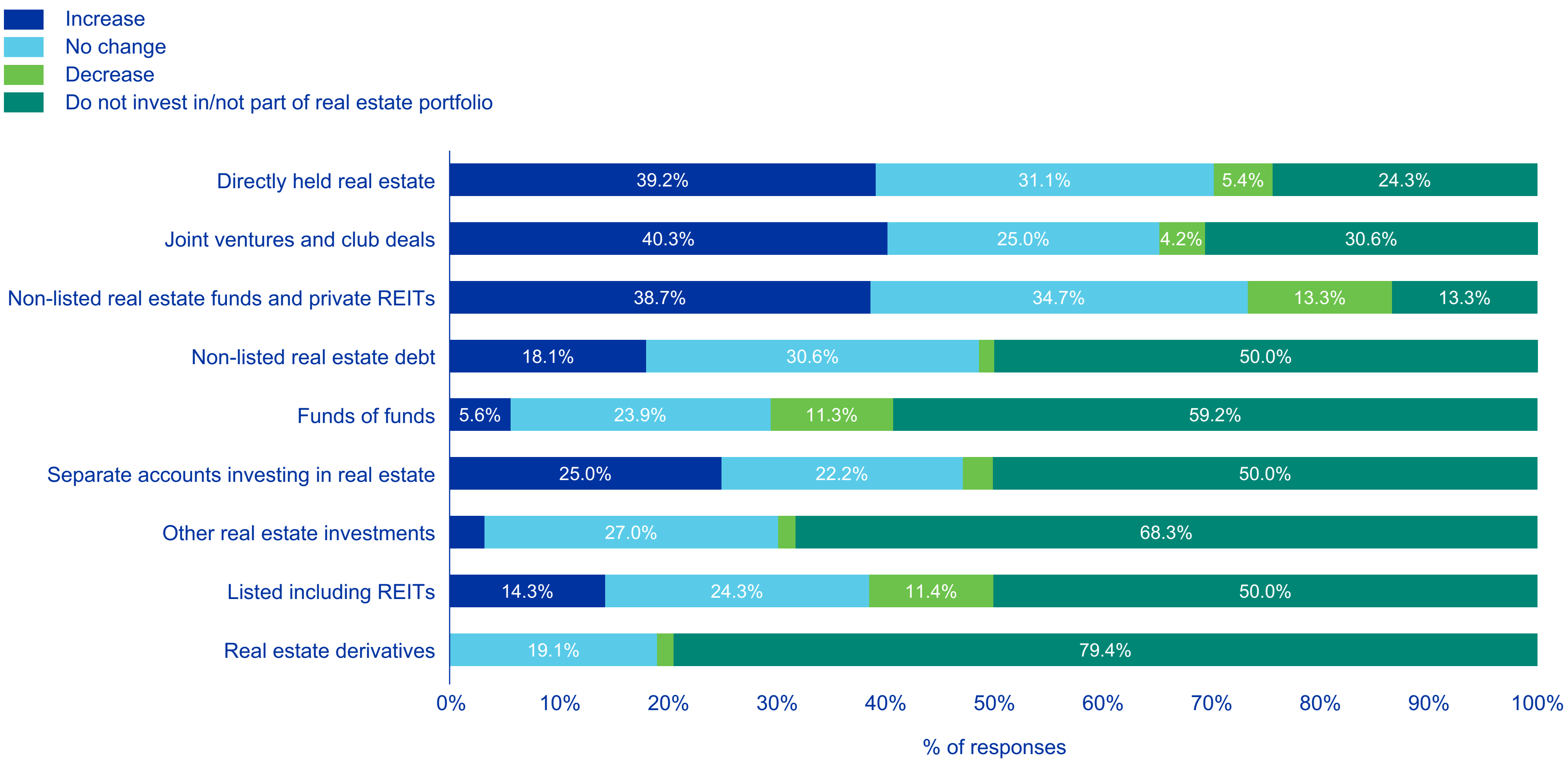
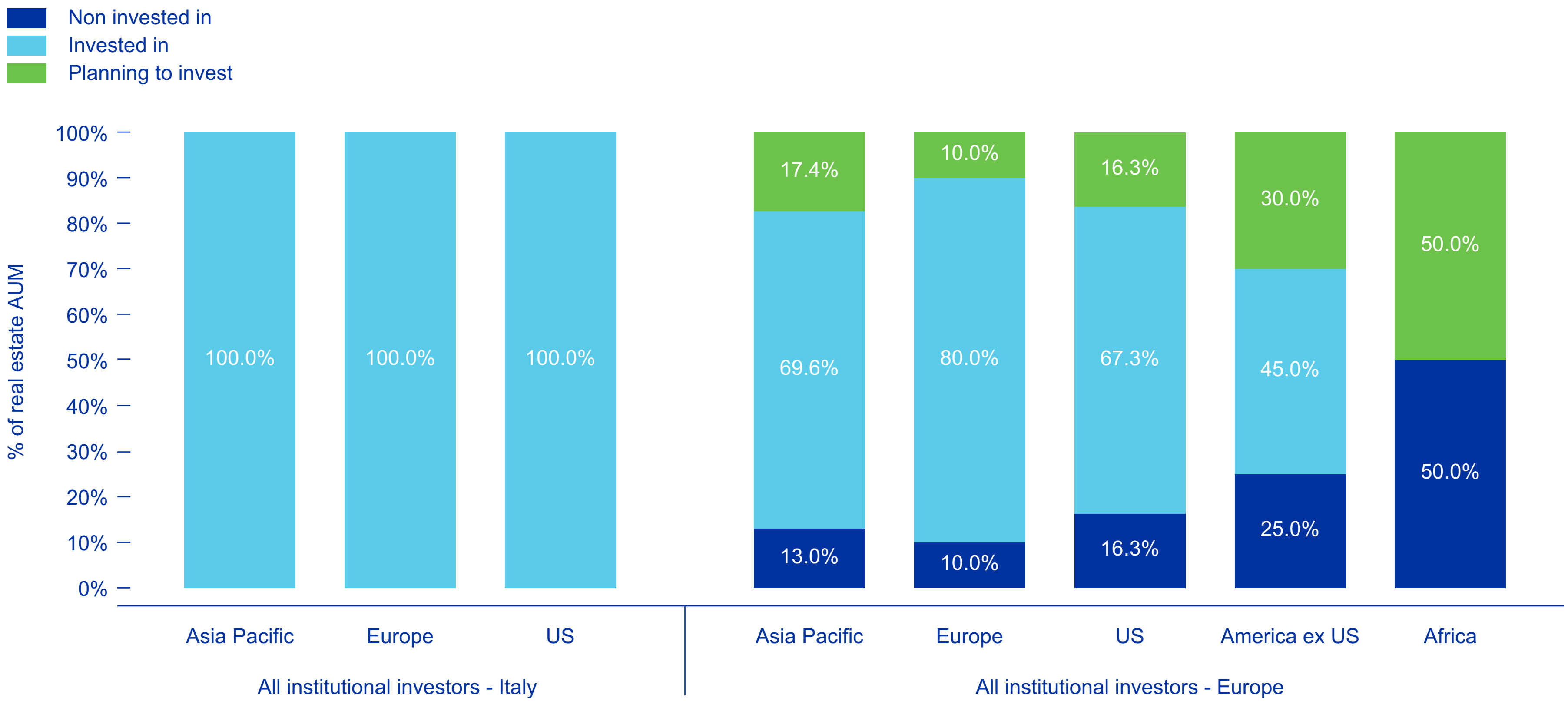


Figure 18: European institutional investors' expected changes to real estate allocations to Europe by vehicle type (equally weighted)



All participants in the survey confirmed that they have committed to invest in non-listed real estate funds in the next two years.

Figure 19: Investors plans to invest in non-listed real estate funds over the next two years



Section 5

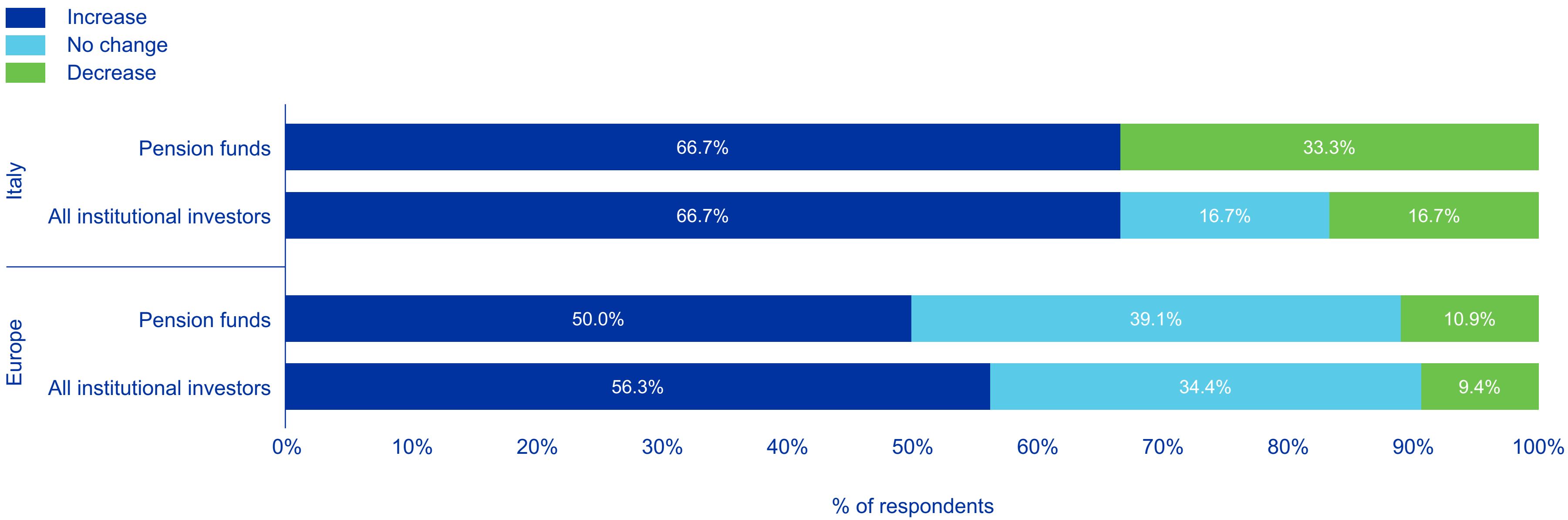
Trends and concerns

5. Trends and concerns

Italian investors remain positive about real estate

Italian investors expect to increase their exposure to global real estate in the next two years, a trend particularly evident among larger investors in the sample. A third of pension funds however expect to decrease their global exposure.

Figure 20: Expected changes in global real estate allocations over the next two years (equally weighted)



This trend is consistent with the desire of investors to broaden their portfolios to include a larger non-domestic component. Historically, most just invested directly in Italy, with cross-border investment only becoming more common in the last few years. Moreover, the weak Italian economic environment suggests there are likely to be benefits from a more international exposure to real estate.

Figure 21: Expected changes in global real estate allocations over the next two years (weighted by AUM)

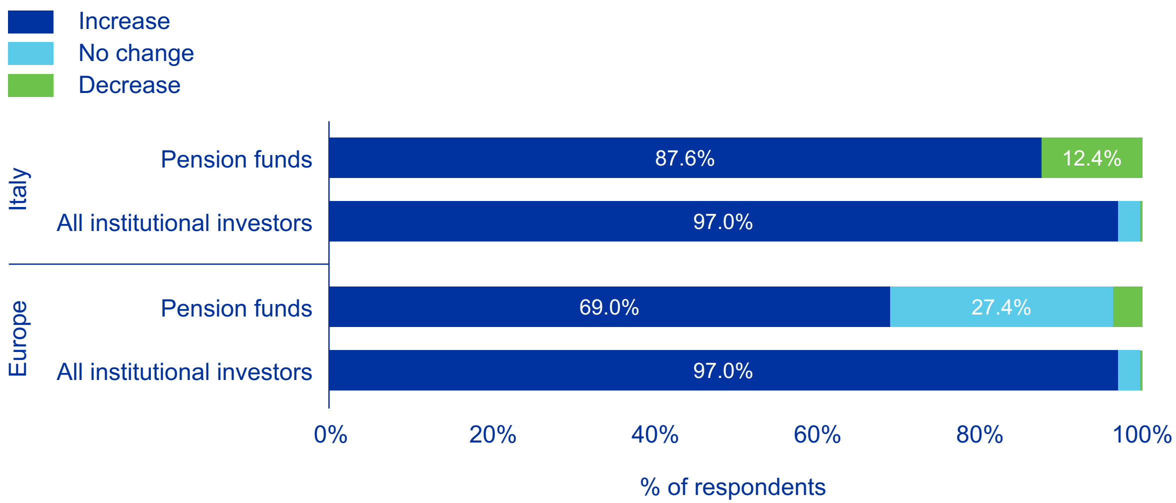
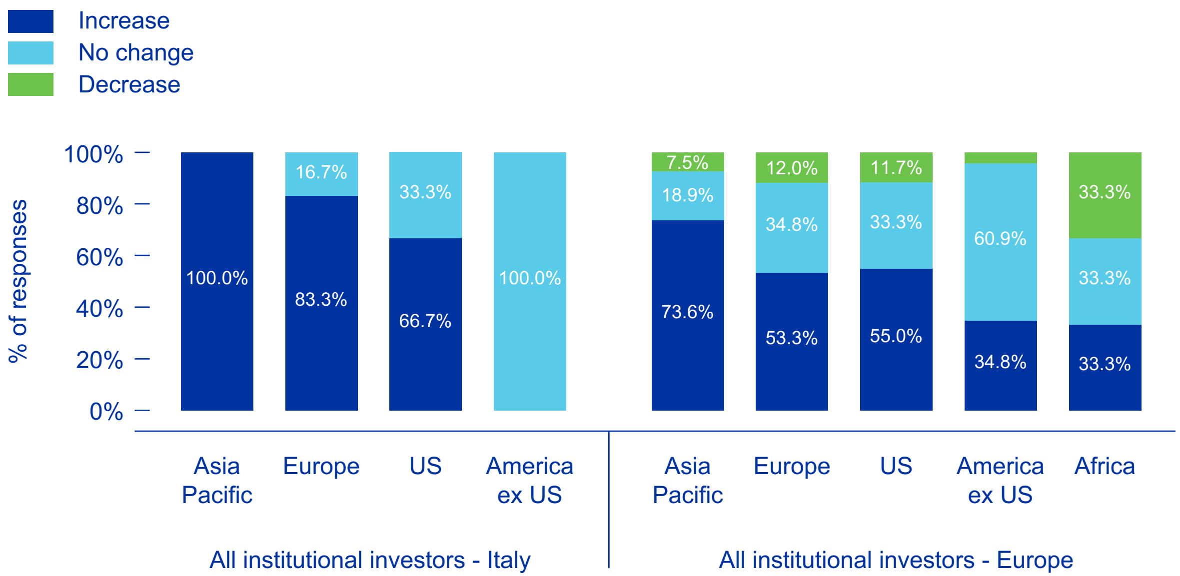


Figure 22: Investors' intention to invest in real estate by region over the next two years



Of those investors surveyed, 77.2% stated their intention to invest in real estate over the next two years. This was mostly consistent with the European trend, with a third of respondents intending to invest.

In terms of their financial plans, the surveyed investors intend to invest a total of €2.62 billion in 2019. This amount equates to 6.8% of the current real estate AUM of the sample and is split almost equally between core and value-added assets. A third of investments into Asia Pacific are set to be value added. Overall, Italian investors do not intend to invest in opportunistic styles.

Figure 23: Expectations to make investments into real estate in 2019

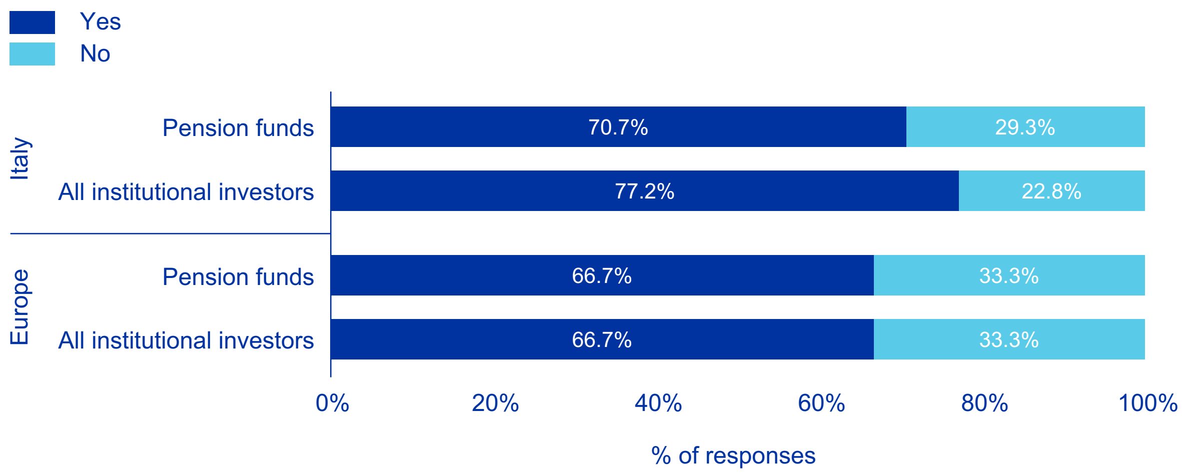
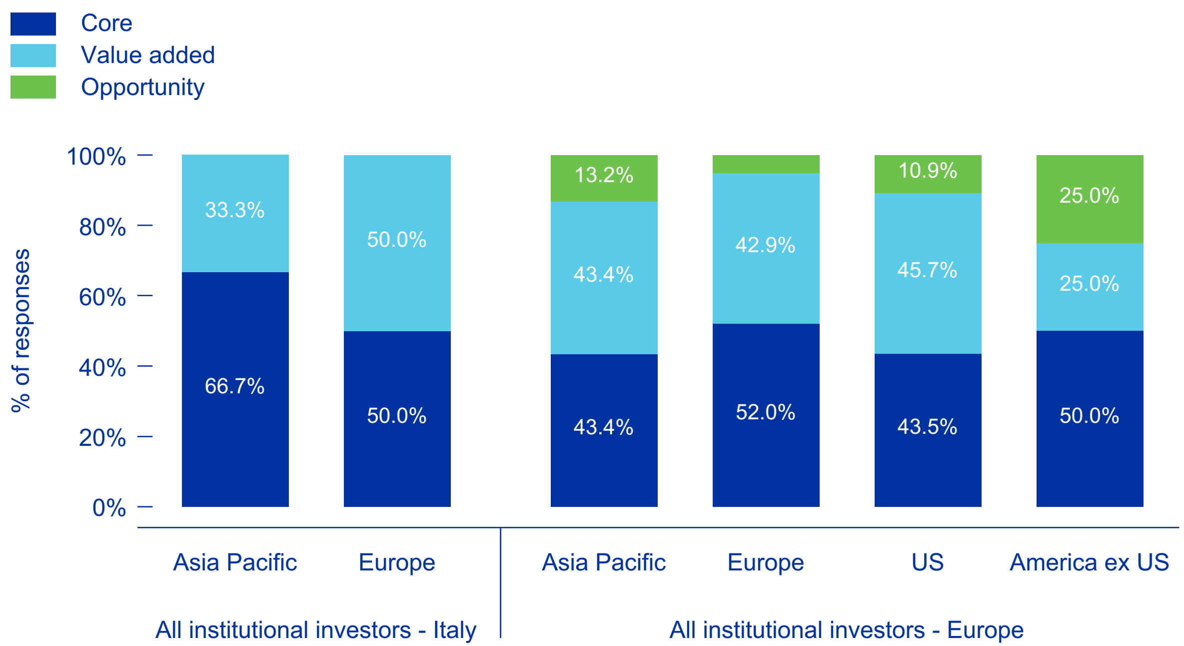


Figure 24: Expected investment styles over the next two years

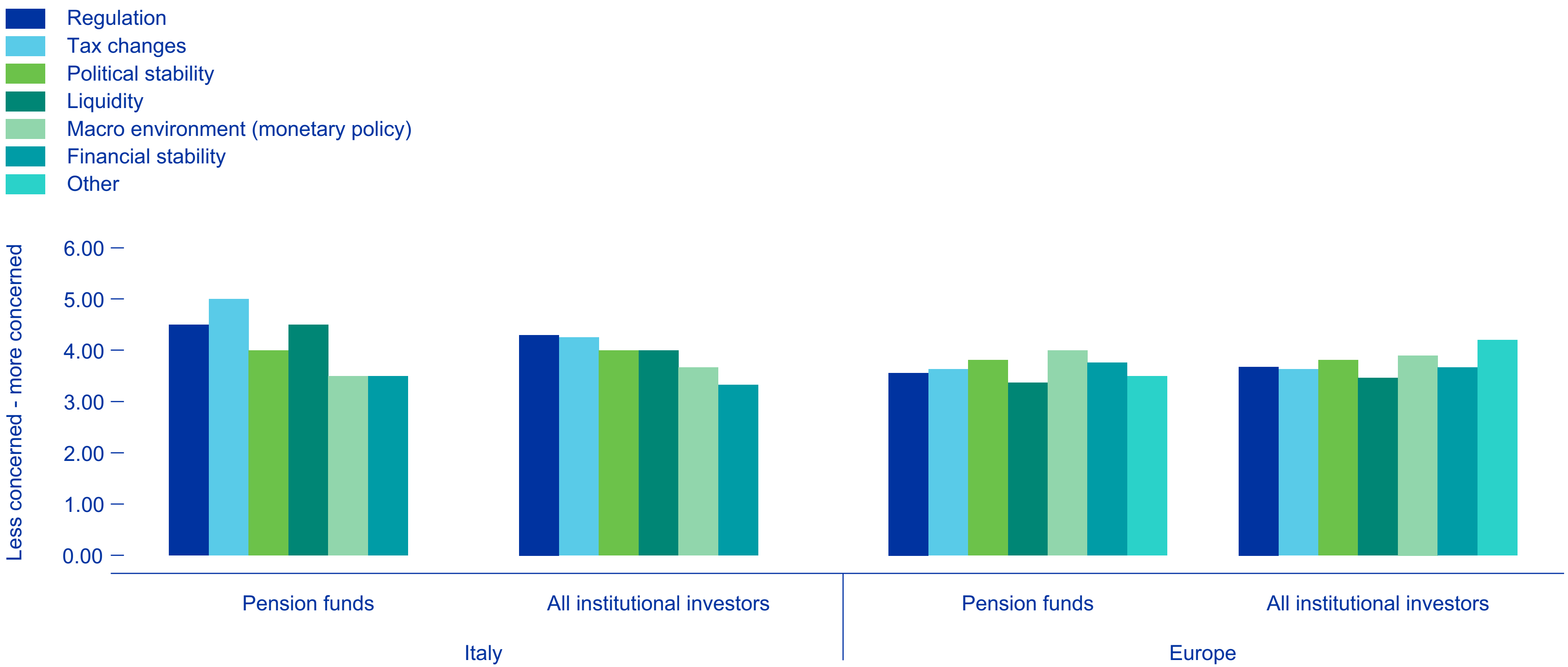


Regulatory issues a concern for real estate investing

The biggest concerns of the surveyed sample of Italian investors relate to regulation in the widest sense, including tax changes. This contrasts with the rest of Europe, where such issues are considered of secondary importance, but reflects the long-standing reality of investment in Italy, which has been characterised by continuous changes in regulation and tax rules, especially in the relatively new real estate funds industry.

Economic issues, including the macro environment and financial stability, are seen as less important. Not surprisingly, political stability is a continuing concern, given the unstable political climate in Italy.

Figure 25: What drives investors' concerns with respect to their investment portfolios



Sustainability high on the agenda

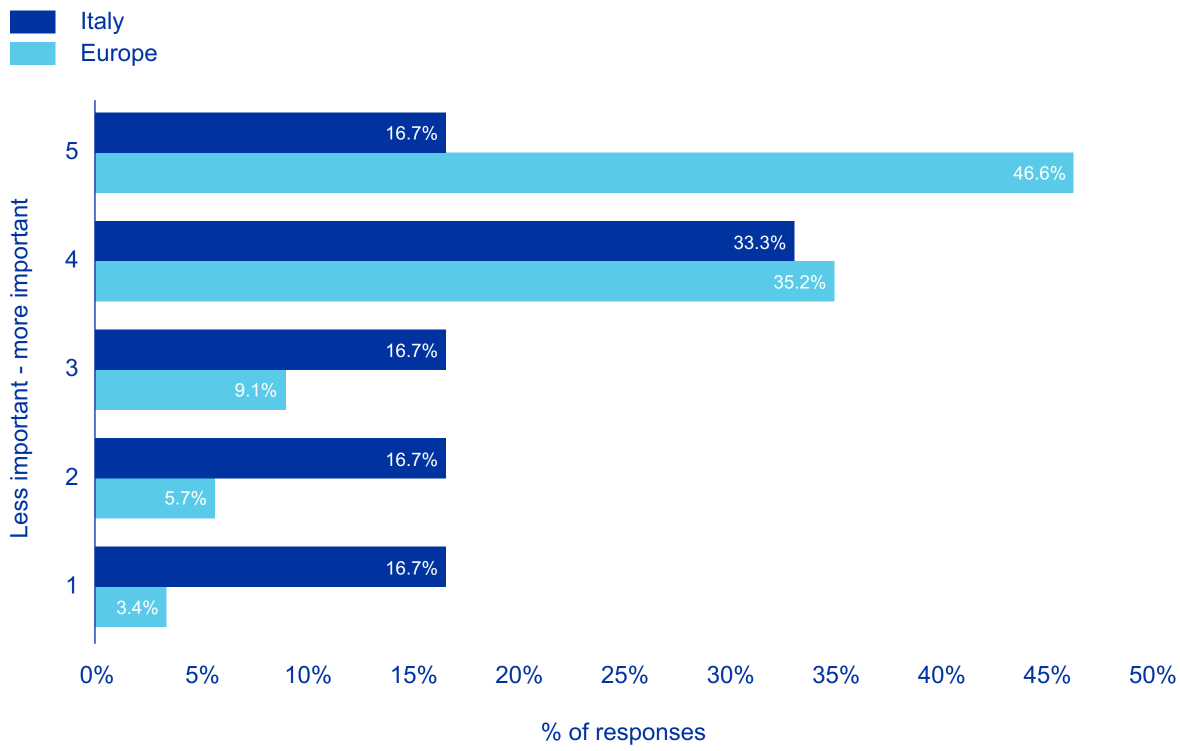
Sustainability is an important topic on the European investor agenda. Although the survey suggests it is considered less critical among Italian investors, the interviews indicated that investors who do not currently consider this issue explicitly in their strategies still invest in ESG compliant funds. The managers of these funds stress the importance of sustainability and the steps they take in their portfolios. Those investors most concerned about sustainability only invest in GRESB rated funds and explicitly ask the asset managers to focus on the ESG agenda.

Pension funds consider sustainability particularly important because of its effects on the generations to come – these will be their future members.

Finally, a number of investors regard sustainable real estate as an attractive investment due to its potentially greater liquidity and stronger exit values. Such assets are also perceived as less risky since they are more attractive to tenants.

The sustainability agenda is mainly internally driven, especially by the real estate department. There was only one exception in the Italian survey, where it was seen to be driven by the supervisory board.

Figure 26: Importance of sustainability



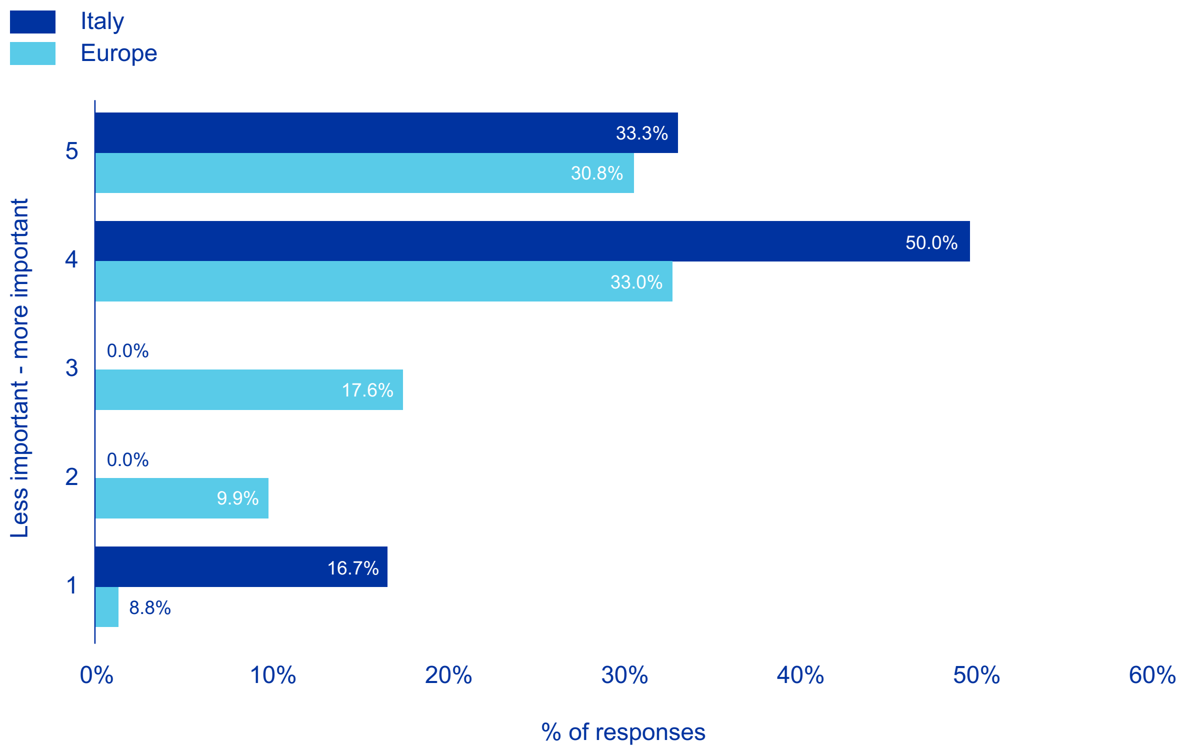
Diversity is an important issue for Italian investors, with only a small minority of the survey sample deeming it unimportant. Like most investors across Europe, the majority of Italian investors consider it highly important.

This is consistent with the national focus on national diversity policies (‘quote rosa’, literally ‘pink quotas’) that are seeking to establish equal opportunities for both sexes. Nevertheless, the majority of director roles in Italian real estate are still occupied by men.

There are no references to cultural and ethnic diversity, since these are not relevant issues in the real estate industry in the country.

As with sustainability, the diversity agenda is mainly internally driven within organisations, and usually by the real estate department itself.

Figure 27: Importance of diversity



6. Concluding remarks

> Italian investors expect to increase exposure to global real estate, but lower overall real estate allocation
> Unusually in Europe, their main concerns about real estate investment are regulatory
> Sustainability has risen up the agenda, not only for ethical reasons but also to help reduce risks

The Italian real estate investor landscape is dominated by the insurance and pensions industries. The seven respondents to the survey are mostly pension funds, covering an estimated 55.6% of total assets under management as of October 2018. The respondents jointly manage real estate investment holdings with a total AUM of €31.9 billion.

Italian investors invest in a wide range of asset types, from the liquid public asset classes to more illiquid private assets. For allocation modelling, the majority of investors apply some form of asset-liability matching framework. However, they do not tend to use highly quantitative models in the allocation process and include qualitative considerations when reaching their final allocation decisions.

The majority of Italian investors treat real estate as an asset class in its own right, while the remainder see it as part of alternatives. For benchmarking, they rely mainly on absolute returns and inflation, with only few adopting third-party provided direct indices.

Italian investors expect to increase their exposure to global real estate in the next two years. This trend is consistent with the desire of investors to broaden their portfolios to include a larger non-domestic component.

Their biggest concerns about investing in real estate relate to regulation in the widest sense. This contrasts with the rest of Europe, where such issues are considered of secondary importance, but reflects the long-standing reality of investment in Italy, where there have been continuous changes in regulation and tax rules. Economic issues, including the macro environment and financial stability, are seen as less important.

Sustainability is rising up the Italian investor agenda, though it is not viewed as important as across Europe as a whole. Those investors most concerned about sustainability only invest in GRESB rated funds. Pension funds often consider sustainability particularly important for its effects on the generations to come, as these will be their future members. A number of investors also regard sustainable real estate as attractive due to its potentially greater liquidity and stronger exit values. Such assets are also perceived as less risky since they are more attractive to tenants.

Diversity is considered highly important by most Italian investors, as it is across Europe. As with sustainability, the diversity agenda is mainly internally driven within organisations, usually by the real estate department itself.

Appendices

1. Italian pension fund typologies

The universe of Italian pension funds is defined based on their core activity and can be divided into three pillars, according to Italian Law:

- Public pension bodies and private pension foundations
- Pre-existing pension funds and new pension funds
- Individual pension plans

First Pillar: Public pension bodies and private pension foundations

The 'First Pillar' is the oldest of the three types and comprises only compulsory pension services, both public and private. There are a number of pension funds (Inps, Inail, Inpdap and Enpas) that belong to this pillar, and these have always been allowed to invest directly in real estate. In 2012 Inpdap and Enpas merged to become Inps. However, since these are not private investors, they are not included in this study.

Since 1996 these funds have been reducing the size of their property portfolios, in line with legislation that forbade new direct investments in real estate, except for the pension fund's own use. In 2008, to comply with EU directives with respect to expected investment performance for public bodies, state pension funds were asked to respect a threshold of 7% real estate as a proportion of their total investments. To comply with this limit, since then they have been disposing of some of their direct real estate investments, mainly offices and residential buildings, either by selling them completely or by moving them into real estate funds and selling units.

Private pension foundations are entities that provide pensions to self-employed professionals, and act in the public interest. Participation is compulsory.

Second Pillar: Pre-existing and new pension funds

In 1993 a complementary pension system, the 'Second Pillar', was introduced. Since 1996, all these funds have changed their legal form into private foundations or associations and have therefore gained autonomy in investment decision making and management. They must however submit their balance sheets to COVIP, a public regulatory authority, within three years. As long as they maintain a balanced and prudent allocation of their assets and are able to meet future liabilities for pension payments over the long term, they do not have to work within any legal constraints.

This pillar consists of pre-existing and new pension funds, which in turn are divided into contractual and open pension funds. Contractual pension funds are reserved for certain categories of workers, while open funds are freely available to all workers both on an individual basis and as a group. Pre-existing pension funds are those created before 1993[5], which are allowed to invest both directly and indirectly in real estate and represent an important player in the market. New pension funds started to operate at the end of the 1990s. They are only allowed to invest indirectly, but so far they have not invested in real estate, as revealed during the interviews.

Third Pillar: Individual pension plans

The 'Third Pillar', introduced later, is the *Piano Individuale Pensionistico* (PIP), which translates as individual pension plan. In general, these funds cannot invest in direct real estate and only invest in financial assets. They may however have some property company shares in their general share allocation.

[5] Decreto legislativo n. 124 - 1993

2. Participants

INREV would like to thank the following companies, which participated in this study and gave permission for their names to be published.

Generali

Societa Cattolica di Assicurazioni

3. Glossary

Fund
A vehicle where capital is pooled together and managed as a single entity with a common investment objective.

Fund of funds
A real estate fund of funds is a collective investment vehicle that uses a strategy of holding a portfolio of investments in other real estate funds rather than investing directly in real estate.

Vehicle
The overarching term for any kind of investment structure, including funds, joint ventures, club deals and separate or single accounts.

For more definitions visit the
Global Definitions Database.

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