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Lucerne betting on on debt winner Down Under

Unique fund aims to cash in on topping up property loans while sister fund takes a solid stance with small caps

IT'S SAFE TO SAY THAT THERE ARE TWO PRIMARY requisites to being a successful investor in real estate - wealth and patience. Asians seem to have both in abundance, which is why Lucerne Investment Partners see an opportunity to tap with their new fund.

Asian outbound investments into global real estate markets totaled $60 billion in 2016, according to property consultancy CBRE.

INDAKA NANAYAKKARA
Lucerne Investment Partners

However, Lucerne's investment tool isn't your run-of-the-mill purchase of homes or commercial real estate. Lucerne Investment Partners, originally from Australia, has come to Singapore with two of its Cayman Islands funds, the Lucerne Property Debt Fund (LPDF) that seeks to raise AUM for property debt financing in Australia and the Lucerne Composite Fund, according to Indaka Nanayakkara, Lucerne's CEO in Singapore.

Highly leveraged The LPDF is aimed at filling a void created by a regulatory change that cut the lenders loan- to- value ratio from 75 per cent of project value to between 50-55 per cent depending on the nature of the project. Australia's four major banks, ANZ, Commonwealth Bank, National Australia Bank and Westpac Banking Corporation, who are all regulated by the Australian Prudential Regulation Authority (APRA), were told by the authority that they were too top heavy on property lending, which prompted the new rule to come into force.

The cutback in developments funds was a catalyst for the creation of the LPDF, with the fund being able to step in and top up the shortfall for developers or arrange greater financing.

"Real estate is an asset class that people living in Southeast Asia and North Asia appreciate, but they may not always be aware of certain ways to gain exposure to real estate except perhaps through REITS," Nanayakkara said. "LPDF is a property debt fund, particularly appealing to those looking for yield. It is in our

interest to let investors know who Lucerne is and what we have to offer."

Uniquely, the LDPF is a debt-financing platform and does not buy properties, Nanayakkara, an Oxford alumni with more than two decades of quantitative equity research, portfolio management and trading experience focusing on Asia Pacific markets, added.

Local specialist "As much as I am very fond of various types of global funds, we tend to underestimate the value that can be provided by country specialists, and our specialty at this point in time is Australia," Nanayakkara said.

Lucerne has partnered with Wingate, an Australian national realtor and fund manager, to develop and promote LPDF. "Wingate is essentially our investment advisor/ partner when it comes to running the fund, with Lucerne helping to raise AUM," Jian Yuan Tan, Lucerne's head of business development in Singapore said. "We also provide the structure, which is the Cayman Islands vehicle, and Wingate helps with the IP and due diligence, while sourcing of the deals. It's very much a partnership."

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Lucerne also introduces potential partners to Wingate, whether it is concerning direct funds in addition to investing via the fund, Nanayakkara added.

With a significant amount of development pertinent to the fund growing around the fringes of Australia's major cities, Wingate is finding little difficulty in finding smaller property developers who need a helping financial hand, Nanayakkara said, adding: "They have their niche, and they are a huge niche player outside Melbourne, Sydney, and other areas of residential and mixed use."

Risk averse While Lucerne sees Singapore as a touching point for the rest of Southeast Asia to seek AUM clients out with Australia; it is very clear where the fund's targets are.

JIAN YUAN TAN
Lucerne Investment Partners

"You don't invest in a fund like this if you want daily liquidity, it's not possible," Nanayakkara said. "The average tenor of the lending period is about 18-24 months and you should expect that you would have to wait that long at most."

The fund does tend to leave about 5-15 per cent of its AUM in cash for operational purposes and to meet redemptions, given the long average tenor of the lending period. Lucerne's management has also identified the typical client for its equities product, the Lucerne Composite Fund.

"If you are risk loving, and you want 50 per cent returns at very high volatility then we don't have the funds for you," Nanayakkara said. "This is not the type of client we are trying to cultivate."

The Lucerne Composite Fund performs at around 11-12 per cent, in US dollar terms, which is a healthy return, given that it has exposure to only one country, with Nanayakkara reminding potential clients they need to favour being risk averse.

Nanayakkara believes that, within the specialist market of property debt financing and small cap equities, Lucerne's returns and track record have been bordering on the spectacular and he expects this to continue.

With the success of the Lucerne Composite Fund and the swelling of the LDPF through the Australian property market boom, Nanayakkara believes the near future will see his firm add more headcount to help launch new funds. ■