

Talking Points

Opportunities with multi-managers – September 2021



Eric Byrne
Head of Multi-Managers

Investment opportunities with multi-managers

In the following interview, Eric Byrne, Head of Multi-Managers at UBS Asset Management, Real Estate & Private Markets talks about the role of multi-managers in today's investment environment.

Investors have lots of choices when it comes to accessing the market. Why would an investor want to invest with a multi-manager?

In reality, the very large investors, such as pension funds and sovereign wealth funds, have lots of choices. Other investors, however, typically find their choices limited by cost, resources, experience and time. Using a multi-manager can solve many of those problems.

Can you explain?

The very large investors can afford to have an in-house investment team sift through the more than 600 funds plus thousands of direct property deals, co-investment opportunities, secondaries and recapitalizations available at any one time. However, most investors don't have the skillset, resources or capital to build a globally diversified portfolio with direct investments or individual funds. That is where the multi-manager strategy comes into play. Investors can outsource the job of sourcing, analyzing and investing in funds and property- or portfolio-level deals to a multi-manager with a dedicated team that is focused on assessing the investable universe on a constant basis and constructing the portfolio the client wants.

Don't consultants do the same thing?

Some very big consultants might have similar services, but the majority of consultants have smaller teams that can do the basics in terms of advising clients on which of the big, diversified funds to invest in. However, they don't have the very large, sophisticated teams that can sift through all the specialist and new funds, and lead complex co-investment, secondary and recapitalization transactions. If, as an example, you decide to hire our multi-manager business, you would get instant access to a business with USD 21 billion in assets under management, 60 professionals, each with an average of 15 years of experience and many with a direct real estate investment background, in six locations around the globe.

How do clients work with a multi-manager, such as UBS?

We have a lower-risk strategy that investors can use to get instant access to a very diversified portfolio of high-quality stabilized assets across the developed markets. This is an ideal first building block for an investor in unlisted global real estate. We also manage separate accounts for clients who are looking for or need a more bespoke approach. In addition, we are launching a higher returning strategy focused on co-investments and specialist funds. Our advice is tailored to each individual client, so the first step is understanding the client's needs in terms of risk/return profile, diversification, investment style, liquidity, etc. and designing a set of investment guidelines that shape the portfolio construction.

Then what?

Once the guidelines are set, the multi-manager will source appropriate investments. Multi-managers operate on a full open architecture basis. That means that we can invest with any third-party manager or operating partner around the globe, which results in a lot of potential deal flow. With the help of our research team, we'll identify the best sectors and regions to invest in and then filter through the opportunities to find the best investments that meet the portfolio requirements. Thus, the challenge isn't sourcing opportunities. The skill is trying to decide which of the investments best fit the client's profile.

What else can investors expect?

The next part of the service involves investment execution and monitoring. After we have identified a number of investments, we perform a detailed due diligence to make sure that they really are the best opportunities for our clients. We will spend time with the manager/operating partner assessing their track record, review and visit the properties, assess their business plans and cashflow models stress testing the variables, compare against similar opportunities, and negotiate the best terms for our clients.

Once the investments are executed and the portfolio is up and running, we begin ongoing monitoring. That ongoing monitoring is often forgotten about by the investors, but it is fundamentally important because funds do change, have challenges around style drift, have key person changes or may be invested in certain countries and sectors that were outperforming when we made the investment, but may underperform sometime in the future. Therefore, you need to make a decision as to whether you exit the fund at some stage or not.

Is ESG a component of your due diligence?

Absolutely. ESG has many facets, so it is a significant and growing part of our due diligence. For example, we look at the data around the consumption of energy and water within the buildings, and what can be done to reduce it. On the social side, we look at how we can promote the health and wellbeing of tenants, as well as how we can use the asset to engage the community, possibly through the use of communal space.

We are also involved in making sure that our assets are governed ethically and with ESG metrics in mind. One of the tools we use to assess ESG compliance is the GRESB sustainability benchmark – we were a founding member of GRESB and are still on the board. Using this benchmark, we can assess how managers are performing and help underperformers improve their performance. We also have our own early filtering and exclusion investment assessments that ensure the tenants meet client requirements.

For example, some investors do not want to invest in properties that have tenants with poor human rights records or a link to coal-related real estate or engage in other activities that they believe do not fit their own investment profiles. Incorporating ESG metrics is an evolving process, but we are keeping up with it by developing our own bespoke questionnaires on top of using the GRESB sustainability benchmark.

Why has the multi-manager strategy become more attractive?

Investing has simply become more complicated, which means the individual investor needs more skills and resources, and a multi-manager can often fulfill that need. But another important reason is that the multi-manager is now offering many more ways to access the market. Ten years ago, we were mainly focused on investing in funds. Now, we are doing more co-investments, as well as more fund formations. In this context, the multi-manager is taking the lead as the seed investor in a new fund in order to get access to assets and operating partners that you could not get in the open market.

We are participating in recapitalizations of old funds, where multi-managers have been the seed investor to recapitalize a high-quality pool of assets that they want to get access to, as well as being active players in the secondary market. Many investors can access much more sophisticated strategies through multi-managers than they could execute on their own. For example, using a multi-manager to go global – which may provide increased diversification and risk-adjusted returns – is particularly becoming more common.

How are fees structured?

Investors are often wary of paying what they see as double fees, but I think it is important to note that we are often able to negotiate significant discounts and fee reductions in the underlying investments, which are passed on fully to the clients. So, the actual fee load of using a multi-manager is significantly reduced, such that sometimes the costs are fully offset. In addition, any extra cost is usually offset by the savings of having a multi-manager doing all of the work that in-house staff would have to do. Therefore, there shouldn't be this fear of a double fee layer, and we have hundreds of institutional investors from small to large to support this.

Investors are looking to do more co-investments. What is the multi-manager real estate business doing here?

From our perspective, our clients are doing a lot more of these types of investments. Our role in this process is to first make sure that a co-investment makes sense from their risk/return profile and portfolio construction, and then find the appropriate investment. This is where a multi-manager can give clients access to strategies that they could not execute themselves. For example, we have a large portion of our USD 21 billion of AUM invested with some of the biggest managers around the globe.

Regularly, they will come to a large investor like ourselves with the offer to invest alongside them in a very large asset or portfolio of assets. Often, we can negotiate discounted fees, because we are helping the underlying manager execute on a transaction that is too large for them to do within their own fund. These larger assets or portfolios are harder to access, so we're helping our investors get access to a concentrated bet in an asset they normally would not have access to.

Investors are also using value-add strategies to complement their core real estate holdings. What are your views on this?

The traditional value-add approach has been to take a good property in a good location that simply needs some renovation or repositioning. That is still very much a valid approach. In today's market, however, we are seeing other value-add opportunities, such as acquiring assets at a discount because, during and after the pandemic, there are some operating partners with cashflow challenges or assets in their portfolio that they are looking to exit from.

We are also seeing more value-add investing around recapitalizations. Some of the closed-ended funds that were launched 10 years ago are coming to their end. However, some investors might like the assets and don't want the manager to sell, while others want to get out. That creates an opportunity for us to recapitalize that portfolio by buying out the investors that want to leave and form a club deal or a new fund with the remaining investors. So, value-add investing today is not only complementary to the core holdings, but provides high-quality risk-adjusted returns.

What is one thing would you like to leave our readers with?

One of the main attractions of using a multi-manager is that it reduces the complexity of investing and makes even complicated strategies, such as global or more concentrated direct-like investments, accessible to a wider range of investors. Global investing, fund formations, co-investments and other sophisticated strategies are no longer reserved for just the largest investors. Today, multi-managers are opening the doors for a multitude of investors at a justifiable cost.

Note: All data as of 30 June 2021, unless otherwise mentioned. Past performance is not a guarantee for future results.

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