Keynote Address - Nick Wall, Associate, MVision

2013 has seen an increasingly bifurcated market, with the largest players able to raise sizeable offerings, but many others struggling to raise capital. How do you see the fundraising market developing in 2014?

We expect that the largest players in the market will continue to attract capital if the performance in their previous funds continues to be strong. Household names such as Lone Star – who recently raised $7bn – and Blackstone who is out raising what is expected to be the largest ever Europe-only fund exceeding €5bn, which comes on the heels of raising the largest fund ever in 2011 exceeding $13bn – will continue to attract capital from large investors who write big checks.

Foundations, smaller endowments, family offices, and funds of funds who seek to build a diversified portfolio of managers will look to smaller niche players in the market who are local heroes in their respective regions or strategies. While fundraising for small- and medium-sized funds remains challenging, those groups with strong track records, seasoned teams that have worked together for a meaningful amount of time, and those that have stuck to their expertise should see an uptick in interest as we head into 2014. The last point is critical. In the aftermath of the global financial crisis, some groups expanded or shifted their investment parameters to take advantage of the then current opportunities. Investors are very sensitive to style drift risk and managers who stuck to what they know should be rewarded.

Does being a specialist in a particular sector or geography make raising capital easier?

Yes, overall, being a specialist in a particular sector or geography makes raising capital easier. The key is having a competitive advantage. However if managers are too focused in their strategy they may face limitations in their ability to fundraise. Managers with niche strategies often face the challenge of only appealing to a small subset of investors. When a manager only invests in one property type in a certain submarket, the list of potential interested LPs diminishes quickly. This is not necessarily a negative; it means that managers must be that much more aware of the appetite for their fund strategy and should have a pre-identified group of LPs who are serious targets before going to market.

As Preqin noted in its December Real Estate Spotlight, sector-specific fundraising in the US has increased in the last several years. In 2010 there were 37 sector-specific funds closed and 54 in 2011. In 2013, there are 46 that have reached a final close. However, total capital raised for sector-specific funds in 2013 is at a peak since 2007 – at about $16bn. Managers who strike the balance of sector specific but not too niche have the ability to position themselves well to raise capital in a competitive market.

How do first-time fund managers stand out and position themselves for a successful capital raise in today's market?

Investors have a high bar for first-time fund managers. There are three key factors we believe help first-time funds stand out and position themselves well in today's market:

First: *First-Time Fund, but not First-Time Team*. Although the group may be raising a first-time fund, investors look for teams that have worked together in the past but perhaps under a different corporate entity. Teams that have spun-out of firms that have a track record that is attributable to at least a few members of the first-time fund manager GP have a much stronger position in the market than a first-time fund run by a new, unproven team.

Second: *Provide LPs Visibility*. Warehousing assets with balance sheet money or friends and family capital that are in line with the fund's strategy provides investors with visibility into what they could be buying into if they were to invest. This mitigates the 'blind-pool' fear that investors often have and provides not only a concrete asset that investors may want to access but also provides investors with the opportunity to analyze how the GP sourced and executed this deal.

Third: *Getting to a First Close*. Lining up capital from existing relationships or investors to drive to a first close exponentially improves a first-time fund's ability to gain fundraising traction. Whether the group did one-off deals with friends and family capital or separate account mandates from strategic partners, a first-time fund GP who can rally its existing investors to have them come into a first close will have greater success attracting new investors. Getting to a first close has two important results: 1) new investors see that the GP has support from its previous relationships, and 2) the GP can start investing, providing increased visibility into what LPs will be accessing if they invest.

We have seen a lot of investors moving up the risk/return curve in 2013. Why is that happening and how do you expect that to evolve into 2014?

Post 2007, many investors flocked to core real estate as a proxy for fixed income. Since investors could not achieve high single digit returns in the bond markets, they looked to core real estate to provide current income. As core real estate has generally become fully- or over-priced, investors have moved up the risk/return spectrum to value-add and opportunistic strategies. While these strategies do not provide current income (with the exception of some debt strategies), investors are increasingly looking to managers who can buy well below replacement cost (either because the building is in some form of distress or the owner is in distress), add value at the property level, and transform the asset into a cash flowing asset ready to be sold to a core buyer. We expect to see investors continuing to look to value-add and opportunistic strategies across markets if they are looking for longer-term higher total returns rather than in-place cash flows.

How do you expect to see interest in emerging markets from investors continue to evolve?

We expect to continue to see increased interest from investors in emerging markets. The market for US, and less so European managers, is crowded. In 2013, there were 108 funds that had final closes in the US and 25 in Europe, while only 29 combined for the rest of the world. For a long time, investors could only access emerging markets through allocations to global allocator funds. In general, savvy investors want to find local sharpshooters who are experts in their regions. As more local groups become institutional quality, we expect to see further interest from investors wanting to access local emerging market GPs.

What are you seeing in terms of the dynamic of real estate fund management fees?

Since the global financial crisis, investors have been in the driver's seat in terms of agreeing to reasonable management fees. What is key is that firms are not using management fees as a cash generator and that GPs are truly incentivized by fund performance. Investors have more flexibility in management fees for emerging manager funds as investors want emerging managers to be able to build and grow their teams. Investors want strong alignment of interests with their GPs and finding groups who are incentivized and rewarded by performance is a definite plus for LPs.

How do you decide which real estate managers you work with?

We look for local expertise across the managers we consider – in real estate, private equity, real assets, infrastructure, and credit, but it is particularly important in real estate. Real estate is a local business. Two office buildings across the street from one another that look the same and have a similar type tenant base can have very different valuations. Successful real estate managers understand that local dynamic and know how to navigate a market better than groups who are making investment decisions from afar. Local groups have local knowledge, which translates into better sourcing, better ability to negotiate with banks and tenants, and more flexibility to adapt to market conditions.

There are four key criteria that we look for in managers we want to work with:

Seasoned team with deep experience investing together. The necessity for a team that not only has invested well together but also gets along, has had low turnover, complements one another, and sticks to their strategy is critical.

A track record consistent with proposed fund strategy. We want to advise and raise capital for groups so they can become even better at what they already do and have a track record to prove it. There can always be carve-outs for some opportunistic strategies within a fund, but we avoid groups that think they can raise capital for an untested and unproven strategy.

Committed to transparency with LPs. GPs must have the reputation for communicating well with their investors. GPs with open, transparent relationships with their investors will be that much better equipped to keep their existing investors and to attract new investors.

Pioneers in their market. We like groups that were early movers and have created a distinct role or position in their market. Finding groups that are clear leaders in their space and have a good thing going but need help to get to the next level is right in our sweet spot.

Thank you for your time.

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MVision has a long-standing reputation for working with winners - the firm's clients are current and future market leaders across the globe. MVision firmly believes that fund-raising is far more than a one-time event; it continues to assist clients with the on-going task of funding and growing their businesses effectively, managing issues such as positioning, growth and performance.

The MVision team of over 50 professionals provides a global service to clients covering institutional investors worldwide. Together the team represents 17 nationalities, speak 20 languages and operates out of offices in London, New York, Hong Kong and Sydney. The depth of the team's expertise across all areas of the market allows their clients privileged access to the strategic industry insights vital to achieving success.

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