Sticking with the familiar

Investors are less likely to take a chance on new manager relationships amid market uncertainties. By Alicia Villegas

Investors continue to be reluctant to invest in first-time funds, a trend that has been accentuated by a penchant for risk aversion in light of current market conditions. Almost half of institutions polled for *PERE's Investor Perspectives 2021 Study* do not back first-time real estate managers. Among those backing first-timers, 21 percent are less likely to invest in a new manager without a direct track record in the year ahead compared with the past 12 months.

"Investors have always been somewhat more hesitant to invest in first-time managers versus those with a more established platform, given the perception of greater risk," says Anna Morrison, senior director, private markets at investment consultancy bfinance. "This reticence is likely exacerbated in the current covid environment, with in-person diligence impacted via an inability to travel. As a result, in the near future you would expect first-time managers to be a more challenged part of the fundraising landscape."

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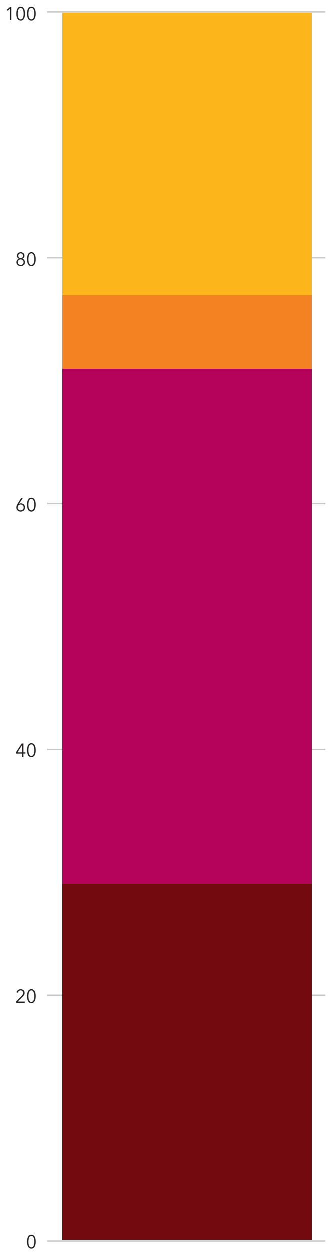
SIMON VARDON
Sanne

As challenges for new managers are more severe, allocations have been leaning toward existing larger managers that investors are familiar with. However, hurdles for new manager relationships might be temporary. "There's no reason why first-time managers shouldn't be an interest to investors once it becomes easier to complete diligence on them – a challenge in 2020," says Simon Vardon, global head of real assets at fund administrator Sanne. "Some of these managers are niche players, offering something different, which should be of interest when seeking out the best opportunities."

When it comes to current manager partnerships, 29 percent of investors are open to increasing the number of manager relationships they maintain. However, 42 percent want to maintain the same number of relationships and 6 percent would like to decrease it. Importantly, more than 75 percent of investors somewhat or strongly agree they have sufficient information from managers to assess the performance

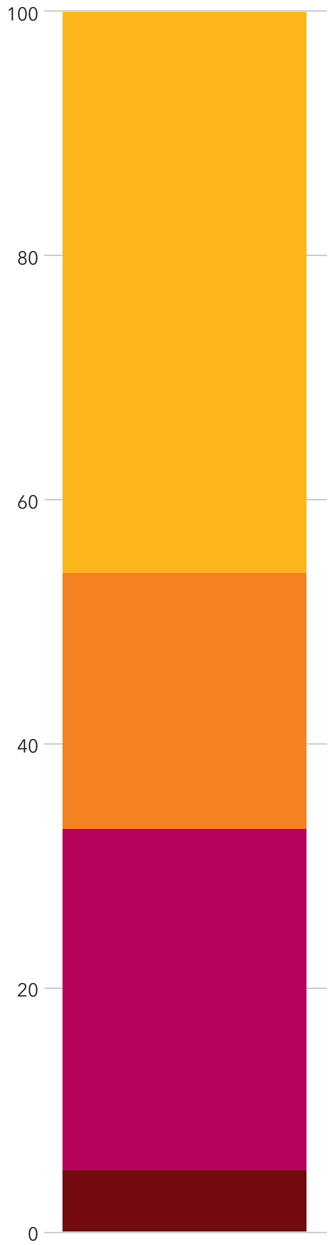
Thinking of your current fund manager relationships, do you plan to increase, decrease or keep the number of relationships the same? (%)

Do not invest
Decrease the number of relationships
Keep the number of relationships the same
Increase the number of relationships



How likely is your institution to invest in first-time managers in the next 12 months compared with the previous 12? (%)

Does not invest in first-time managers
Less likely
Just as likely
More likely



Source: PERE's Investor Perspectives 2021 Study

29%

of investors plan to increase the number of manager relationships in 2021

5%

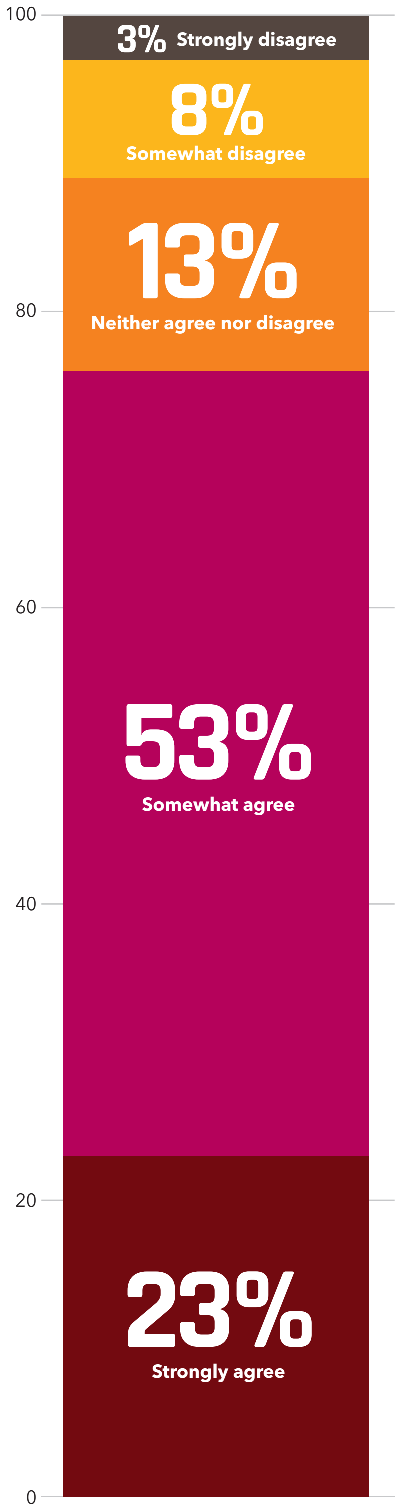
of investors polled say they are more likely to invest in first-time managers

of their private markets investments. "The whole world is moving toward greater transparency. This ties in with the current trend of fewer managers raising larger funds. The large managers have a huge infrastructure to deal with manager reports and reporting requirements from investors across the world," says Steven Cowins, partner at law firm Greenberg Traurig.

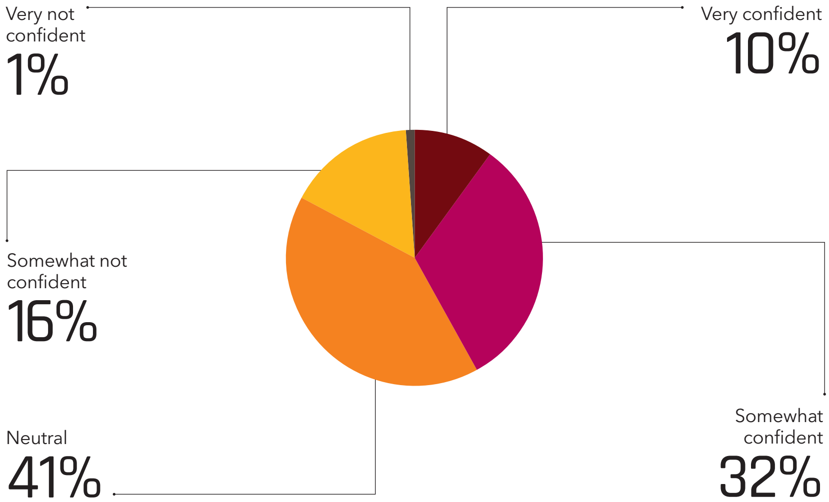
There are, however, mixed views on whether managers have been structuring deals sensibly enough to withstand the downturn. A significant minority – 32 percent – of investors are somewhat confident about this, with 41 percent neutral and 16 percent somewhat not confident.

"Many managers learned the hard way through the global financial crisis, subsequently becoming more focused and thoughtful about their approach to structuring," says Morrison. "However, forecasting the impact of a covid-type scenario as part of prior underwritings will have been at the more extreme end of stress testing. Coupled with the lack

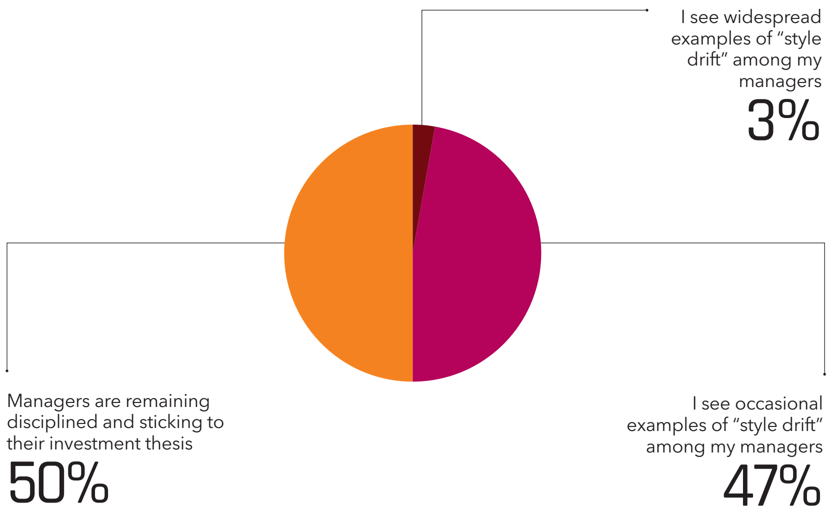
To what extent do you agree that you have sufficient information from managers to assess the performance of your private markets investments?



How confident are you that your managers' deals have been structured sensibly enough to withstand the downturn?



Which of the following best describes your assessment of manager investment behavior in the last 12 months? (%)



Source: PERE's Investor Perspectives 2021 Study

of insight on the end of covid, this will leave some portfolio companies and some fund strategies more challenged than others."

Nevertheless, managers are viewed to be broadly disciplined in regard to their strategies, as only 3 percent of investors have seen widespread examples of 'style drift' in the last 12 months. While managers have largely stuck to their investment thesis, some of them have sought to give themselves more flexibility by extending their investment period by one or two years in order to take advantage of a downturn in the market, notes Matt Posthuma, real estate funds partner at global law firm Ropes & Gray. ■