Keynote Address - Nick Wall, Director, MVision

What are the prospects for firms attempting to raise capital in 2015? How can they differentiate themselves?

Managers with strong track records that have stuck to their core competencies should be well-positioned to raise capital in 2015. The timing of when managers come back to market is important. Coming back too quickly can raise concerns from existing investors around where the team is spending their time, and coming back after several years can raise questions around why there is such a gap in timing and what that means in terms of returns of the most recent fund. The three most important factors that managers should consider before going to market are:

1. Realizations or the path to realization of current portfolio – investors want to see proof of concept (particularly for smaller funds and funds in emerging markets);

2. Actionable pipeline or seed assets in the fund – allows investors to know what they would buy into and can allow them to conduct more meaningful diligence; and

3. Strong support from their existing investor base – support from existing investors provides important momentum that often drives a successful fundraise.

What trends are you seeing in terms of investor appetite for Latin America?

Over the past year, we have seen a number of investors in the US and Europe decide to increase their portfolio allocations to Latin America. Historically in Latin America, investors only looked at, and invested in, Brazil. Over the past several years, with a shift in the macroeconomic climate in Brazil and the emergence of more opportunities in other Latin American markets, we have seen investors that either only invested in Brazil in the past, or had never invested in the region, take a serious look at other markets such as Peru, Colombia, and Mexico.

While Brazil will still continue to attract capital in real estate, the bar is higher and managers must bring something innovative to the table, different from the strategies from five years ago. Pan-regional funds in Latin America are a good solution for investors looking for broader diversification, particularly for investors new to the region. Country-specific funds can do well, but are typically more attractive to larger groups that are willing to make a more concentrated investment. The largest investors will continue to look for opportunities for joint ventures or direct property acquisitions across their target markets, including in Latin America.

How can emerging managers raise capital successfully?

Investors hesitate to partner with emerging managers if they cannot get comfort around the team or a track record that is attributable and repeatable. Emerging managers are best positioned for success if the team includes individuals that have invested together before (within a different organization) – ideally in the same or similar strategy proposed by the fund, if that track record is truly attributable to the team members of the emerging manager, and if the strategy is something that can be repeated. If the strategy seems too opportunistic and could only be successful in certain market conditions, managers will have a hard time getting over the finish line.

For the most part, investors want to partner with groups where that relationship will last many fund cycles, so groups looking to take advantage of a one-off opportunity should expect a more challenging fundraise.

Do you see interest in separate accounts increasing?

Yes. Investors often seek to partner with managers where they have dedicated, specialized mandates with more attractive economics. Where we see this most frequently is from investors with more capital to allocate who are in a position to negotiate a more attractive arrangement with a manager given the size of their ticket. Managers are already accustomed to working with these groups to be able to accommodate them if possible in order to secure their capital. Emerging managers should be prepared as they consider coming to market to look for a strategic partner such as a separate account investor – this can help put newer groups “in business” building a track record that can help in marketing to investors more broadly.

Is it important for a manager to offer its investors the opportunity to co-invest and what difference does this makes to a fundraise, if any?

Yes it is important. Managers, if they feel there will be opportunity for co-investment, should offer this to their investors. This provides, particularly the larger investors, an opportunity to invest alongside the manager in a deal which they would not have been able to access without the commitment to the fund. Offering co-investment can be a compelling selling point to investors when choosing a manager with whom to partner.

How are regulatory changes such as the AIFMD affecting the real estate fund market?

Real estate funds are not alone in the challenges that the AIFMD can present. Our clients – particularly the smaller managers – across real estate, private equity, and infrastructure outside of Europe – are faced with barriers to entry to market in Europe with these developments. Also, managers are having to address AIFMD regulations country by country. Regulations are not standard across Europe and ultimately managers have to make a call on as to how much capital they could realistically raise in each country and if it is worth the various registration processes. What we have already seen is an emergence of groups that can help managers navigate this process – such as an outsourced group to handle the administrative work. Overall, the AIFMD regulation has had an impact and we are spending considerable time with our GPs across asset classes in conjunction with their counsel on how to best navigate this.

What are the key qualities you look for in fund managers you work with?

The key qualities we look for in fund managers with whom we decide to work with have been consistent since we started 14 years ago – and is generally the same across asset classes. The difference in real estate is that how local the group is becomes more of a factor in our consideration given how inherently local a business real estate is. The four main criteria we look for are:

Seasoned Team: The most important factor we consider is the team. This includes the senior management team, the day-to-day investment professionals, and the strength and institutional quality of the finance and operations teams. When we look at managers, we have our LP hats on. Evaluating the strength, dynamic among, track record, and tenure of the team is a critical part of investors' decision whether to invest – and therefore our decision making process as well.

Proof of Concept: Investors need to be able to examine a manager's track record to determine whether there is high enough conviction to believe the strategy is repeatable. This includes senior members of the team that came from different organizations with their own track record, but what most institutional investors like to see is something that shows that the proposed investment strategy for the fund is not a 'flavor of the month' or something with which the manager has not proven itself.

Good Partner: Investments in funds are long-term commitments – and hopefully and ideally are more than just commitments to one fund, but a commitment to a series of funds. We evaluate managers' ability and history of acting as good fiduciaries. This includes maintaining transparent and frequent communication with investors and maintaining institutional finance, accounting, and reporting practices.

Pioneer: Whether a manager is a Latin American specialist in real estate, or a venture fund, or a spin-out private equity fund, we look for pioneers in their market that we can help take to the next level as a business. In a crowded market, investors spend so much of their time determining what makes managers tick, what differentiates them from their peers, and just as our investors do, we seek to work with experts in their space who can become long-term partners.

What is important to you when you work with sector specialists in real estate?

The issue here really is more about a successful and attributable track record that is in line with the proposed investment strategy of the fund than if a fund is a specialist or a generalist. We have traditionally worked with more specialist-like funds in real estate – local heroes as we like to call them – in their given markets. We do this because the investors with whom we speak are often looking to diversify their portfolios with high performing, niche players who are on-the-ground, giving them what we believe is a competitive advantage to larger funds who often do not have on-the-ground teams in each market. However, it is the combination of being a specialist with an attributable and attractive track record that positions these funds well to raise capital. Where specialists can run into challenges is if they drift from where they have historically been successful in order to try to raise more money. Investors need to have high conviction that when they invest with a specialist, these groups are sticking to where they have been successful in the past. We look for specialists who are truly local – not just setting up shop in a given market to take advantage of a near-term opportunity – and who have demonstrated proof of concept of what they are trying to accomplish with their next fund.

Have you seen any changes in the role of the placement agent in the last few years?

Placement agents have to be increasingly more flexible in how they work with fund managers. We are nimble in working with our groups in arrangements that fit their needs as a business – whether that is a global mandate, advisory work, materials development, investor diversification mandate – because each manager is in a different place in their fund series, their investor relations functions, their investor base, etc. A good placement agent can add value across a fund manager's organization, not just in investor distribution.