Expertise combined, opportunity multiplied: why I created a real assets business

"The future is already here – it's just not evenly distributed". - William Gibson

Gibson's quote speaks to a truth lying behind all trends – people experience and even recognise change at different speeds. While we are not the first asset manager to create a real assets* business, we will go further in terms of integrating the component parts into a genuinely unified platform that can deliver better outcomes for our clients. We are placing a stake in the ground; highlighting our intention to shape the future of the real asset investment landscape.

Delivering better client outcomes

Increasingly outcome-oriented in nature, clients will differ in their current and future investment preferences for real assets – both in terms of the assets themselves and the vehicles providing access (single strategy or blended multi-asset). However, the trend toward them is undeniable. A report last year by PwC predicted that alternative asset classes – in particular, real assets, private equity and private debt – will more than double in size, reaching US$21.1 trillion by 2025.[1]

It is easy to understand why. Starved of yield and in search of diversifying assets that provide stable cash flows capable of protecting against volatility and inflation, investors are increasingly drawn to real assets. Our own Alternative Income Study found that pension funds and insurers across Europe are planning to increase their allocations to alternative assets in the coming years.[2]

In the case of pension funds, with a relatively low regulatory burden, illiquid assets are attractive to enable the continuation of de-risking journeys and the closure of funding gaps. Insurers, who despite facing far tougher regulatory hoops also continue to allocate to real assets and, in the main, plan to increase their allocations.

Many investors are seeking expert consultants, advisers or partners to help them allocate effectively to what is an opaque asset class. A Greenwich report in 2014[3] confirmed clients want help in bridging the knowledge gap as well as consultancy support when crafting solutions to their challenges.

Enhancing performance

Meeting this growing client need was the driving force behind the creation of a real assets business. Given the level of pent-up client demand, with a large amount of money chasing a limited number of opportunities, the ability to originate quality real asset deals is critical. Furthermore, real assets are unique compared to liquid markets as a fully-transparent marketplace does not exist; deals must be sought out and negotiated directly.

The first tangible benefit a combined business brings to clients is improved insight on deals. With equity and debt teams working collaboratively, we are able to gain a competitive advantage. A perfect example of this is in real estate. On the equity side, we have a strong location strategy where we focus our efforts and investment in core cities where people want to live, play, work and learn. As a result, we have established deep knowledge, relationships and ultimately an information advantage that can be utilised when making lending decisions.

Second is our speed in deploying capital. Clients who wish to access these asset classes want to have their money invested in a timely fashion without sacrificing strong risk underwriting. Having access to more types of assets better equips us to deploy capital faster to a given risk appetite.

The third benefit relates to the market side of real assets. The ability to offer equity and debt financing means we can offer owners of real assets or borrowers looking for financing far more flexible solutions. A property initially considered for sale could instead benefit from a loan or a commercial ground rent solution, so there are a huge variety of ways in which we can structure deals for existing owners. This ultimately allows us to access off market or unique transactions our competitors would struggle to replicate.

Scale and efficiency: combining perspectives and expertise

Combining our real estate and alternative income businesses brings obvious cost and operational synergies. In terms of governance, risk and reporting, we can also simplify existing committees and reporting requirements.

But there are many other similar activities to consider – for example, a development project in infrastructure and a development project in real estate have similar risks and require similar project management and supplier governance. We can also have a single credit risk team working collaboratively across real estate and alternative income to more effectively assess tenant covenants, deal structures and overall risks. Furthermore, our combined research team now has a more holistic view of real assets and can analyse relative value across the capital structure as well as between sectors. This will help us anticipate thematic trends and improve portfolio idea generation and risk management.

Then there are the scale benefits. Having scale enables us to offer our clients unique deal flow as well as co-investment opportunities – with existing large clients (including Aviva plc). Our fair allocation policy ensures all our clients are treated consistently, aligning long-term interests and demands. Similarly, our reputation as a long-term investor facilitates the re-financing of existing debt and the development of existing real estate assets, creating off-market deal opportunities.

Relationships are built on trust and our reputation is extremely important. Being known as a good partner to work with puts us ahead of competitors when having conversations about purchases, refinancings or the development of an asset. By combining perspectives and expertise internally we will be better able to maintain relationships across the complex origination and asset management ecosystem.

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Changing the world we live in: Societies of the future

What is clear is that the real estate and infrastructure projects we invested in the last twenty years will be very different from those we invest in over the next twenty.

The long-term and illiquid nature of real assets means it is critical to consider a wide variety of sustainability factors when investing as the cost of "changing your mind" down the road is prohibitive. This underwriting discipline is similar across all real assets and is another beneficiary of merging our platform. As such, integrating environmental, social and governance factors into all our real asset investment decisions and reporting is high up our agenda. Benchmarking ratings like GRESB & BREEAM enable better assessment against sustainability criteria – but we impact many non-financial outcomes and need to report on those also.

And while renewable infrastructure projects may be green and sustainable by definition, we must also balance future sustainability projects with their impact on local communities. The point here is that there is wide support for positive environmental and social initiatives as long as they don't impact our way of life too much. Such thorny issues are not easy to solve, but by establishing stronger links with communities, politicians, councils and local interest groups, we can better understand and meet their needs.

Helping to build the infrastructure and physical surroundings that will support future growth is a responsibility we relish; something we aim to do while affecting positive societal and environmental change at the same time.

FOOTNOTE

[1] PwC: Asset & Wealth Management Revolution: Embracing Exponential Change, October 2017 [2] Source: Aviva Investors 'Alternative Income Study 2018' [3] Real Assets: An increasingly Central Role in Institutional Portfolios, Greenwich Associates, 2014 *Real Assets Definition: As Real Asset definitions can vary wildly, we provide ours for clarity "Real Estate and Infrastructure and associated financing".