Fund selection is an important part of portfolio construction

- Specialist funds outperformed generalist funds on average over the period 2001 to 2017
- Generalist funds have grown in presence over the past 15 years
- Higher leverage was associated with weaker performance

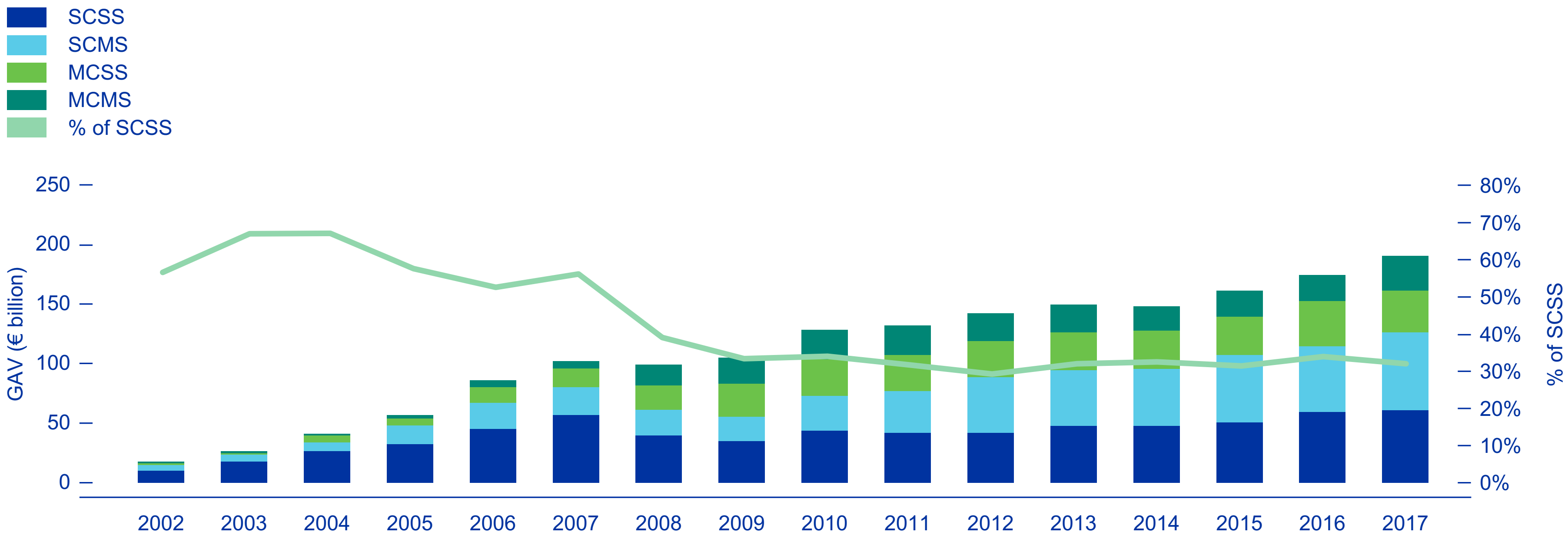
A fundamental part of portfolio construction in real estate investment is to determine whether to invest in a selection of specialist funds or a handful of generalist funds, or even a combination of both. However, does specialisation lead to improved investment performance?

That is the question that this research attempts to answer. For the purposes of the study, a specialist fund is defined as a fund with a strategy to invest in a single country and a single sector, whereby a generalist fund is one with a strategy to invest across multi countries and multi sectors.

The European non-listed real estate funds universe has seen rapid growth over the past 15 years. Whether measured by number of funds or by total GAV, the market was dominated by specialist funds in the earlier years, with very few generalist funds on the market.

Over time degrees of generalism has manifested itself in the growing presence of single country and multi sector funds as well as multi country single sector funds. The number of multi county and multi sector funds also increased and, the market share of single country single sector funds dropped.

Figure 1: Four categories of funds across time



Initial findings show that single sector funds outperformed multi sector funds over the research period, while single country funds outperformed multi country funds. When taking into account degrees of specialism preliminary results show that single country single sector funds outperformed all other categories of funds, while multi country multi sector funds underperformed all categories. Single country multi sector funds delivered stronger performance than multi country single sector funds over the past 15 years.

However, the performance of funds can be impacted by drivers other than the fund's country sector strategies, therefore the study also explored the effects of fund characteristics and market factors on performance. These included the markets where the funds were invested in, as well as a fund's size, leverage, vintage, structure, and style.

The analysis found that open end funds outperformed closed end funds during the crisis period and that high leverage was associated with lower performance.

Furthermore, smaller funds tended to underperform while funds launched after 2008 outperformed, arguably these funds missed the downturn of the global financial crisis.

The analysis was based on a sample of 445 funds from the INREV Annual Index over the period 2001 to 2017, and included 2605 observations.

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Table 1: Summary Statistics

	Weighted Average	Mean	Standard Deviation	First Quartile	Median	Third Quartile	Min	Max	N
Panel A									
Full Sample	5.6	3.5	12.9	-1.9	4.7	10.3	-50.6	42.4	2605
Single Sector	6.1	4.1	12.9	-1.2	4.9	11.0	-50.6	42.4	1456
Multi Sector	4.8	2.7	12.7	-2.5	4.5	9.8	-49.3	41.7	1149
Single Country	6.6	4.3	12.7	-0.6	5.2	10.9	-49.3	41.5	1657
Multi Country	3.5	2.2	13.0	-3.9	3.7	9.0	-50.6	42.4	948
Panel B									
SCSS	7.4	4.5	12.9	-0.6	5.0	11.2	-45.9	41.5	1009
SCMS	6.2	4.0	12.6	-0.6	5.6	10.7	-49.3	40.9	648
MCSS	5.7	3.3	13.1	-2.8	4.5	10.4	-50.6	42.4	447
MCMS	4.4	1.2	12.8	-4.5	2.8	7.9	-48.4	41.7	501