

## ANREV / INREV / Funds of Funds Study **2019**

Research

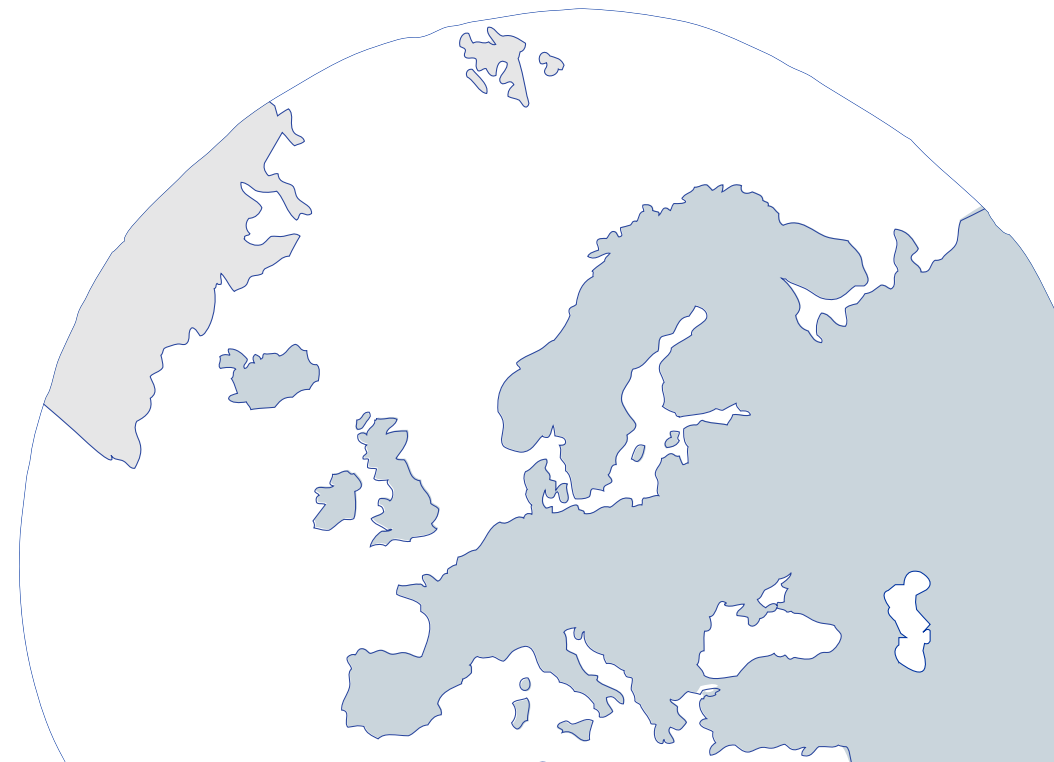
INREV is the European Association for Investors in Non- Listed Real Estate Vehicles. Our aim is to improve the accessibility of non- listed real estate vehicles for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non- listed real estate industry.

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# Executive summary

- > At least a fifth of investors are looking to maintain or increase their exposures to funds of funds
- > As a group, funds of funds delivered positive returns of 6.7% in 2018
- > Global strategy vehicles represent the largest share of funds of funds

## Positive intentions

This year's study further strengthens funds of funds' proposition as an important vehicle within the non-listed real estate universe. According to the global [Investment Intentions Survey 2019](#), at least a fifth of investors are looking to maintain or increase their exposures to funds of funds.

## Capital still flowing in at record levels

Funds of funds attracted similar amounts of capital to last year, which saw the highest level on record. Results from the global [Capital Raising Survey 2019](#) show that €7.9 billion of new equity was raised for investment into funds of funds globally, only slightly below the €8.1 billion in the previous year. Both 2018 and 2019 surveys show a significant jump from historical values.

According to the global [Fund Manager Survey 2019](#), AUM of funds of funds globally amounted to €27.5 billion at the end of 2018, a record compared to previous surveys.

## Core outweighs others by size

According to the [Funds of Funds Universe](#), core vehicles dominate the funds of funds landscape, making up 87.3% of the total NAV. On average, core funds of funds are much larger in size than their value added or opportunity peers.

By number of vehicles, there are slightly more value added funds of funds compared to core and opportunity vehicles. Valued added funds of funds comprise 23 out of the 51 vehicles, while there are 18 core and 10 opportunity vehicles.

## Global strategies lead the way

Funds of funds with a global strategy make up the largest share of vehicles in the Funds of Funds Universe, by number of vehicles and by size. Global strategies have been adopted by 25 of the 51 vehicles in the universe and represent 89.3% of total NAV.

Vehicles with a European strategy (17 out of 51) are the next largest by number, while there are 8 vehicles targeting Asia Pacific. There was only one fund of funds targeting North America.

## Funds of funds in good health

Last year was a good year for funds of funds performance, with the sector achieving an annual return of 6.7% over 2018, according to a sample of 39 funds of funds. Whether broken down by style, structure, regional strategy or size, funds of funds delivered positive returns to their investors.

Core vehicles outperformed non-core, while open end vehicles outperformed their closed end peers.

Across vintage, taken as the year of first closing, younger funds of funds outperformed older ones in 2018 as well as over time.

All regional strategies delivered positive returns, but those targeting Asia Pacific showed a sharp decline in their returns to stand at 1.3% in 2018, compared with 6.6% and 6.8% for European and global funds of funds respectively.

**'Funds of funds posted positive performance with returns of 6.7% over 2018.'**



# Introduction

The ANREV / INREV Funds of Funds Study provides an overview of the funds of funds industry globally, including insights by target region, style and structure, and other associated characteristics. It also provides an analysis of the performance of funds of funds.

The study was launched in 2012. Since 2015, it has had an international scope, being conducted in conjunction with ANREV in Asia Pacific.

Section 2, on the global landscape, is based on data collected through the following global surveys:

- [Investment Intentions Survey 2019](#)
- [Capital Raising Survey 2019](#)
- [Fund Manager Survey 2019](#)

Section 3, on the funds of funds universe, is based on data provided directly by managers for the [Funds of Funds Universe](#). This year's study includes 51 funds of funds managed by 23 managers. Collectively these vehicles represent a total Net Asset Value (NAV) of €17.6 billion. Ten funds of funds indicated their preference to remain anonymous and therefore the online Funds of Funds Universe shows only 41 of the 51 funds of funds.

Section 4, on funds of funds performance, is based on a subset of Funds of Funds Universe for which performance data for 2018 was provided by 39 funds of funds managed by 15 managers. With NAV of €16.4 billion, this sample represents 93.3% of the total NAV of the funds of funds in the universe of 51 vehicles. The performance analysis is based on an unfrozen sample, and therefore historical data may change with future updates.

Aggregate performance results are presented only when there is a minimum of three funds of funds managed by three different managers. All returns are calculated by INREV. Performance figures are stated in local currency.

The results of this study are based on data provided directly to ANREV and INREV by managers. ANREV and INREV do not use publicly available information, and both members and non-members can provide data for the study.

ANREV and INREV would like to thank all participants for contributing to the Funds of Funds Study 2019.

## Use

The results of the Funds of Funds Study may be used for research and information purposes only.

- They may not be used for the following:
- To determine the value of a fund
- To determine the value of a financial instrument
- To determine the amount payable under a financial instrument
- To determine the amount payable under a financial contract
- To calculate performance fees
- To define the allocation of a portfolio

It is important to note that the sample size and its composition vary year by year. As such, historical comparisons should be treated with caution.



# Allocations to funds of funds

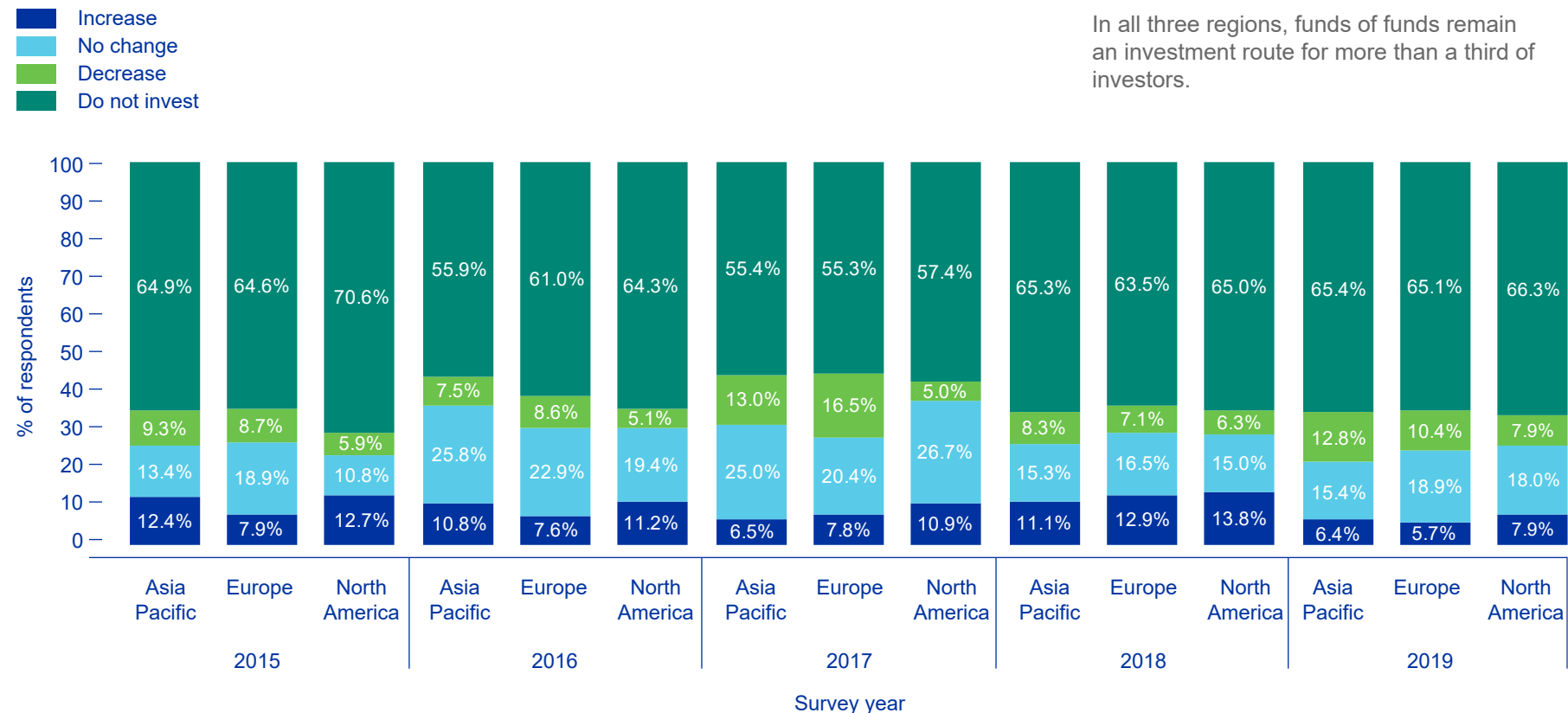
Non-listed real estate funds of funds are important vehicles in the non-listed real estate spectrum. They offer investors significant sector and regional diversification options. Furthermore, fund of funds managers employ diverse investment approaches, not only investing into funds but also into joint ventures, club deals and debt funds. As such, funds of funds have become good conduits for

global real estate investment strategies.

According to the global [Investment Intentions Survey 2019](#), 24.6% of investors are planning to maintain or increase their allocation to European funds of funds over the next two years. In contrast, 10.4% of investors are looking to decrease their European funds of funds exposure.

Investors are most favorable to North America, with 25.9% of respondents looking to maintain or increase allocations to funds of funds in that region over the coming two years. This is compared with 21.8% of investors looking to maintain or increase their exposure to Asia Pacific. Over the next two years, 7.9% of investors intend to decrease their allocations to North America, while 12.8% are looking to decrease the allocations to Asia Pacific.

**Figure 1: Expected changes in investors' real estate funds of funds allocations**



In all three regions, funds of funds remain an investment route for more than a third of investors.



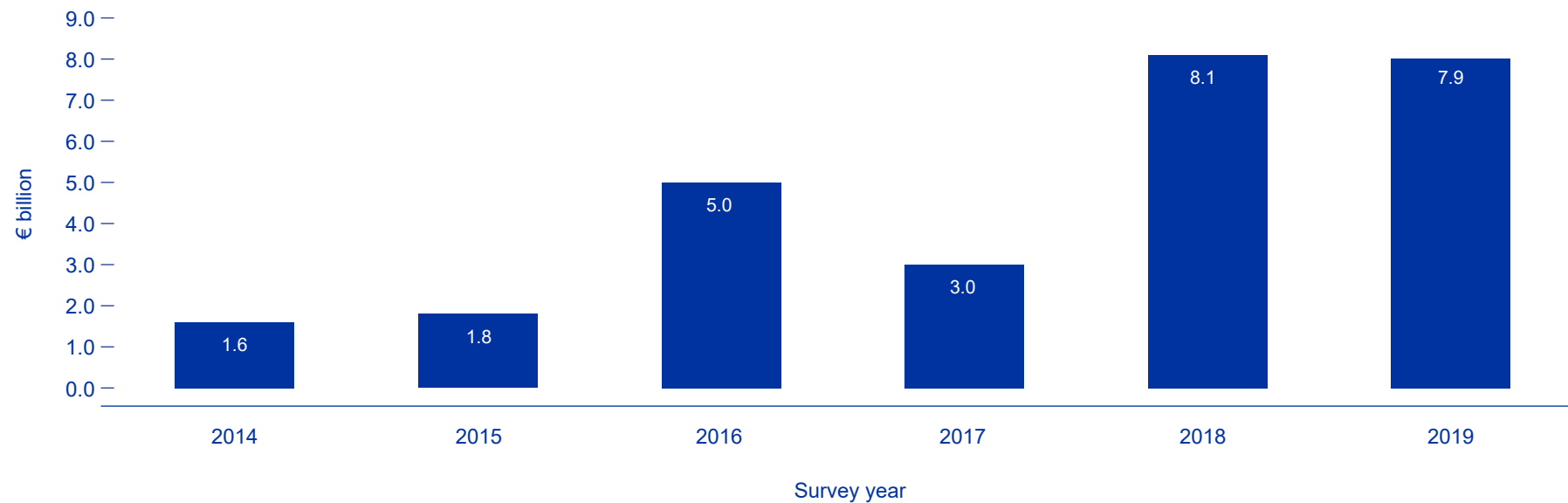
# Capital raised for funds of funds

Real estate funds of funds continue to attract capital from institutional investors. In 2018, according to the global [Capital Raising Survey 2019](#), the industry raised a record high of new capital for investment into funds of funds. Of the total €154.8 billion of fresh equity raised for non-listed real estate, €7.9 billion was destined for funds of funds.

Similar to the previous year, global funds of funds accounted for the biggest share of the capital raised. Of the €7.9 billion, funds with a global strategy received €4.1 billion of new equity, while European funds of funds received €2.8 billion. The remaining circa €1.0 billion was shared between North American and Asia Pacific funds.

**‘Global funds of funds attracted €4.1 billion of new equity in 2018’**

**Figure 2: Capital raised for real estate funds of funds globally**



Source: ANREV / INREV / NCREIF Capital Raising Survey 2019

# Funds of funds assets under management

According to the global [Fund Manager Survey 2019](#), as of end-2018 there were 164 funds of funds globally, with a total value of assets under management (AUM) of €27.5 billion, the highest level on record.

Funds of funds investing in Europe dominate the landscape, representing 46.3% of the total number of funds (76 vehicles), followed by those with a global strategy (22.6% or 37

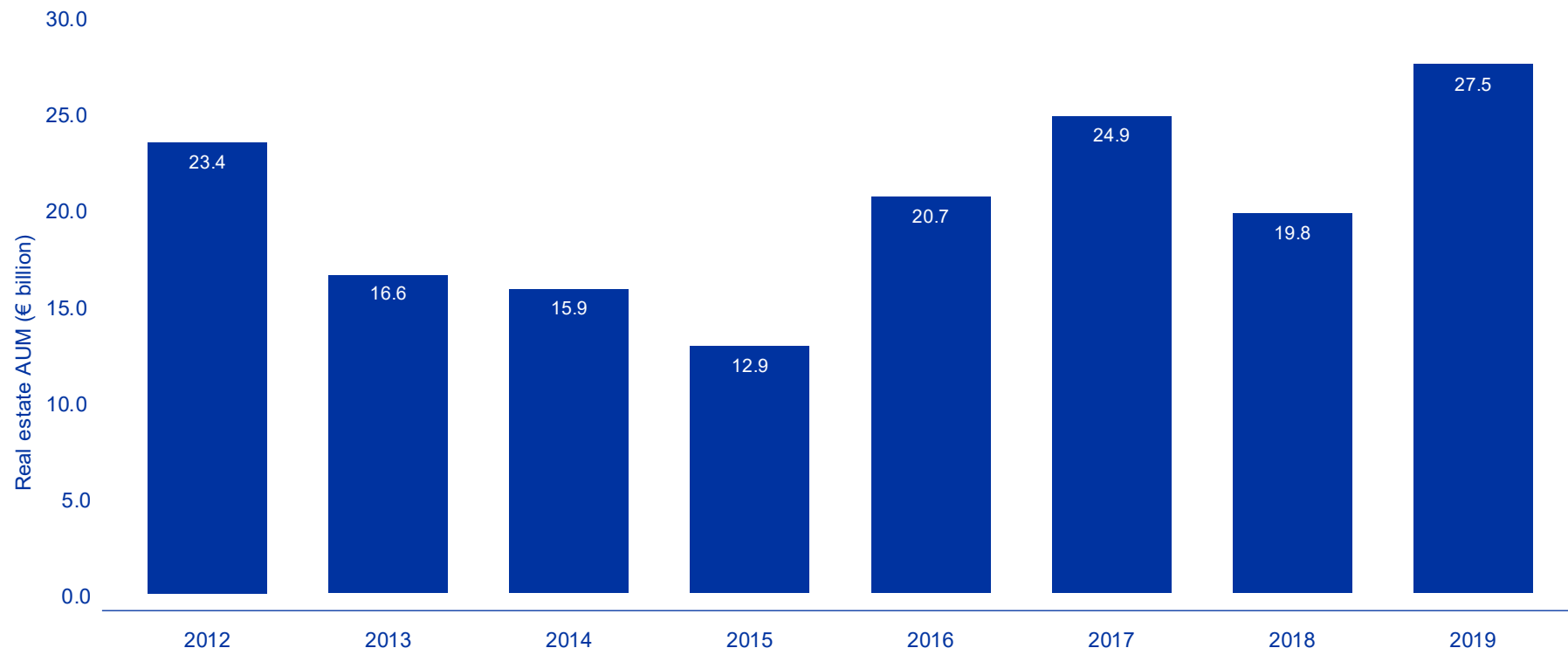
vehicles). In addition, there are 30 vehicles (18.3%) with Asia Pacific strategies and 21 vehicles (12.8%) with North American strategies.

Considering funds of funds regional strategies by assets under management, European strategies still dominate, representing 39.3% of total AUM, while global strategies tend to be implemented via larger vehicles, and

represent 28.6% of total AUM. They are followed by North American (16.8%) and Asia Pacific (15.3%) funds of funds.

**‘Funds of funds’ AUM reached a record €27.5 billion globally at the end of 2018’**

**Figure 3: Funds of funds assets under management**



Source: ANREV / INREV / NCREIF Fund Manager Survey 2019



# Funds of funds by style

The analysis in this section is based on the [Funds of Funds Vehicles Universe](#), which is comprised of 51 funds of funds, collectively representing an NAV of €17.6 billion. Ten funds of funds indicated that they would prefer to remain anonymous, meaning that the online Funds of Funds Vehicles Universe only displays details for 41 funds of funds.

Breaking down the number of vehicles by style, there are slightly more value added funds of funds in the universe than core and opportunity vehicles. Of the 51 vehicles, 23 are value added in style, while there are 18 core and 10 opportunity vehicles.

Based on the size of vehicle, the picture is very different. Core funds of funds make up by far the largest share of total NAV (87.3%), while opportunity vehicles account for the lowest share, representing just 3.5%, and value added funds of funds make up the remaining 9.2%.

On average core vehicles are much larger in size than their value added or opportunity peers.

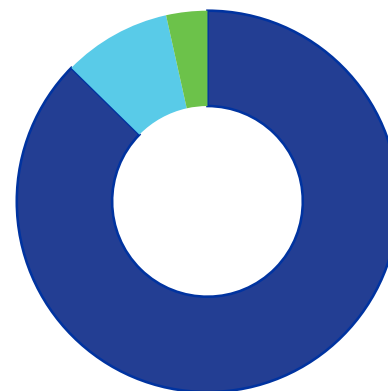
**Figure 4: Funds of funds by style**

■ 35.3% Core  
■ 45.1% Value added  
■ 19.6% Opportunity



By number of funds of funds

■ 87.3% Core  
■ 9.2% Value added  
■ 3.5% Opportunity



By NAV (€ billion)

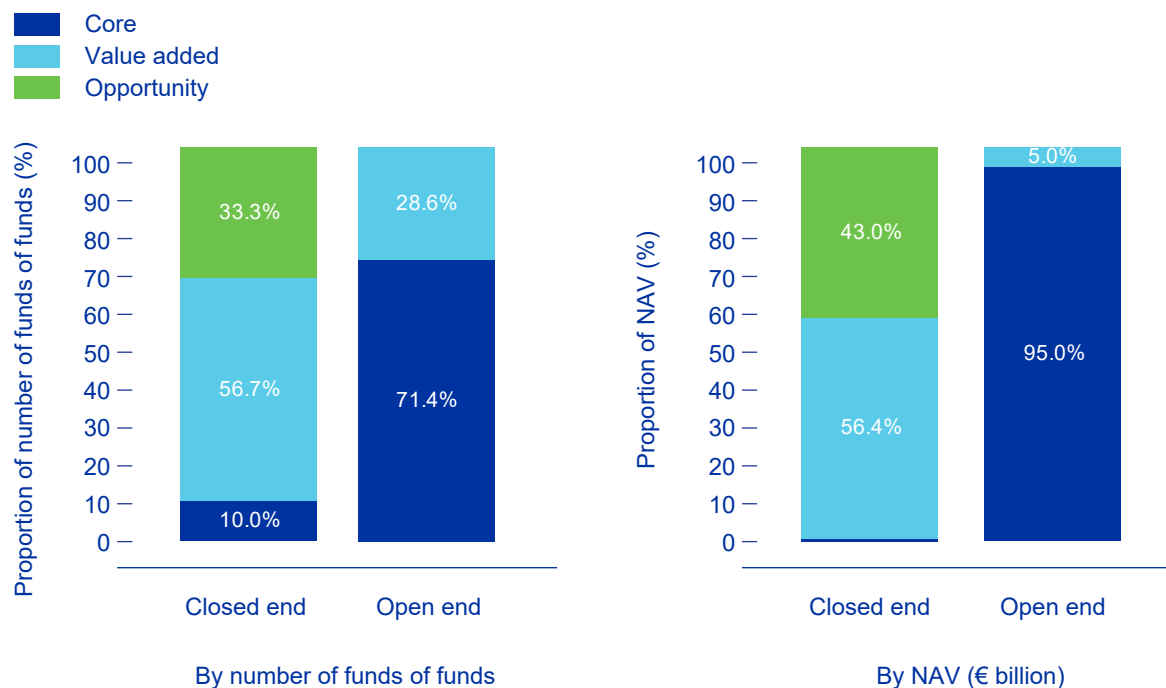
# Funds of funds by style and structure

Of the 51 funds of funds in the universe, 30 (or 58.8% by number) have a closed end structure, while the remaining 21 (41.2%) have an open end structure. By NAV, the €17.6 billion total is split between €16.2 billion (91.9%) in open end structures and €1.4 billion (8.1%) in closed end vehicles.

Taking style and structure together, it is clear that open end vehicles are dominated by core strategies. Core strategies are applied by 15 of the 21 open end vehicles, with 95.0% of the total NAV. The remaining six open end vehicles are value added in style, and are much smaller on average than their core counterparts. None of the open end funds of funds follow an opportunity strategy.

Meanwhile, closed end vehicles represent a wider mix of styles, but are largely dominated by value added and opportunity strategies. Of the 30 closed end vehicles in the universe, 17 follow value added strategies and 10 follow opportunity strategies, while the remaining 3 are core in style. In terms of assets, value added strategies dominate, representing 56.4% of the NAV of closed end vehicles.

**Figure 5: Funds of funds by style and structure**



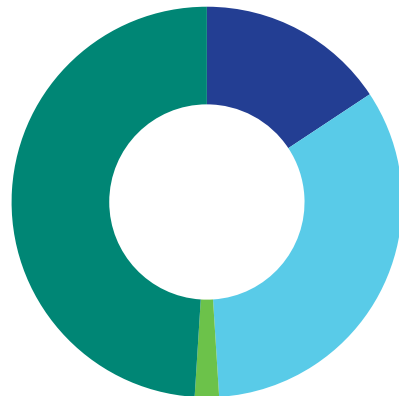
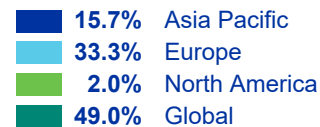
# Funds of funds by target region

Based on their targeted regions, vehicles with a global strategy make up the largest number in the [Funds of Funds Universe](#), 25 out of 51. Next come the 17 vehicles with a European strategy, followed by Asia Pacific strategies (8 vehicles). There is only one fund of funds with a strategy targeting North America.

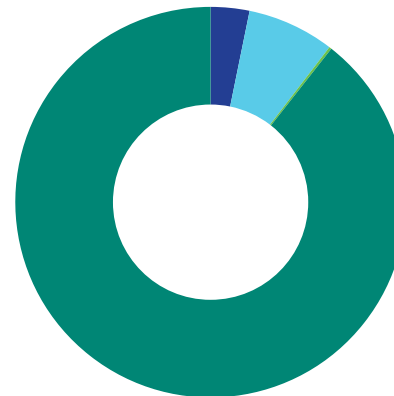
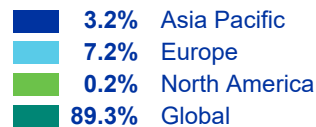
Weighted by size, vehicles with a global strategy clearly dominate the universe, together representing 89.3% of total NAV. European funds of funds come next, but account for just 7.2% of value. Meanwhile, Asia Pacific funds of funds represent 3.2% of total NAV, while North America represents only 0.2% of total NAV.

This comparison indicates that the average size of vehicles with a global strategy in the Funds of Funds Vehicles Universe is much greater than for vehicles with any other regional strategy. The average global fund of funds has an NAV of €628.1 million. Vehicles with a European or Asia Pacific strategy are much smaller on average, with respective NAVs of €75.0 and €71.4 million.

**Figure 6: Funds of funds by target region**



By number of funds of funds



By NAV (€ billion)

# Funds of funds by target region and style

Combining target regional strategies with style, an interesting picture emerges.

Asia Pacific funds of funds only invest in riskier investment strategies, essentially value added (seven out of eight vehicles).

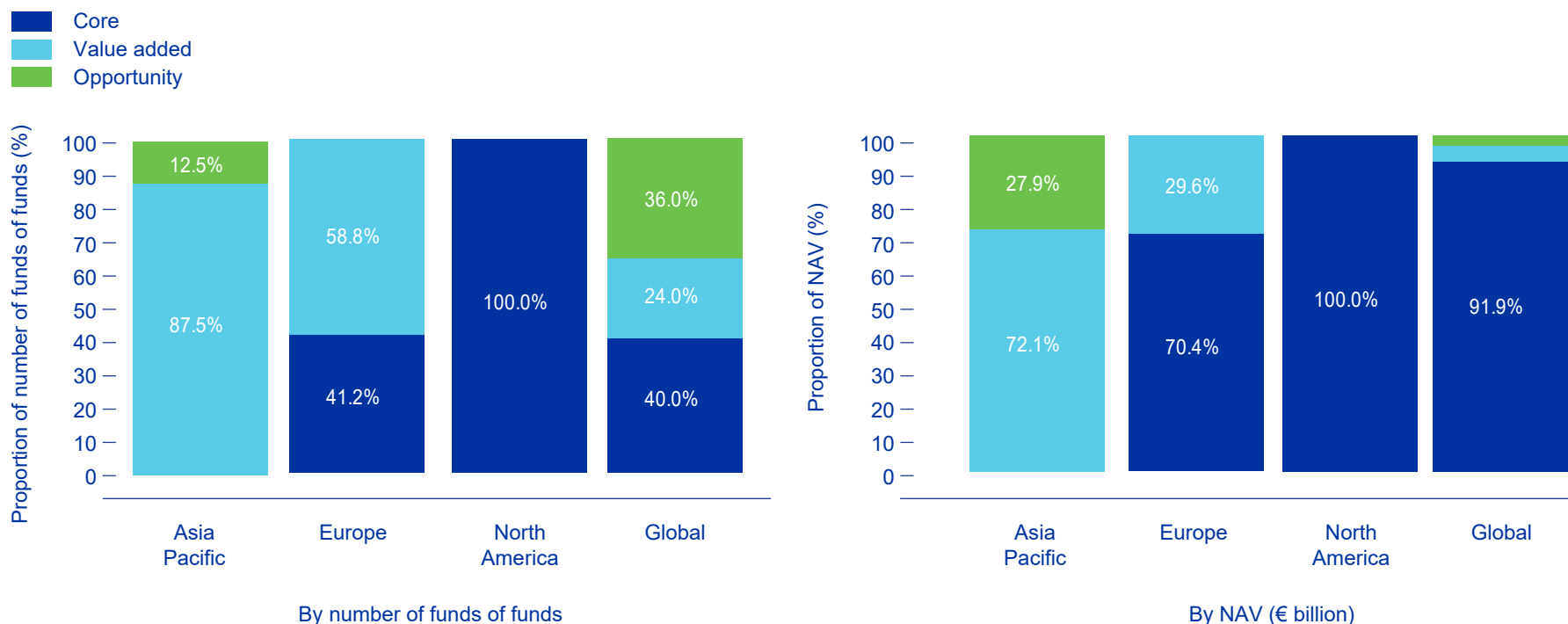
European funds of funds are more evenly split between core strategies (7 out of 17) and value added (10 out of 17).

Meanwhile, global strategy vehicles follow a broad mix of styles (10 core, 6 value added and 9 opportunity).

Weighted by size of vehicle, all regional strategies are dominated by core, with the exception of Asia Pacific, where value added strategies dominate.

The share of core strategies among global funds of funds is a very high 91.9% of total NAV, while for European vehicles the equivalent proportion is 70.4%.

**Figure 7: Funds of funds by target region and style**



# Target IRRs

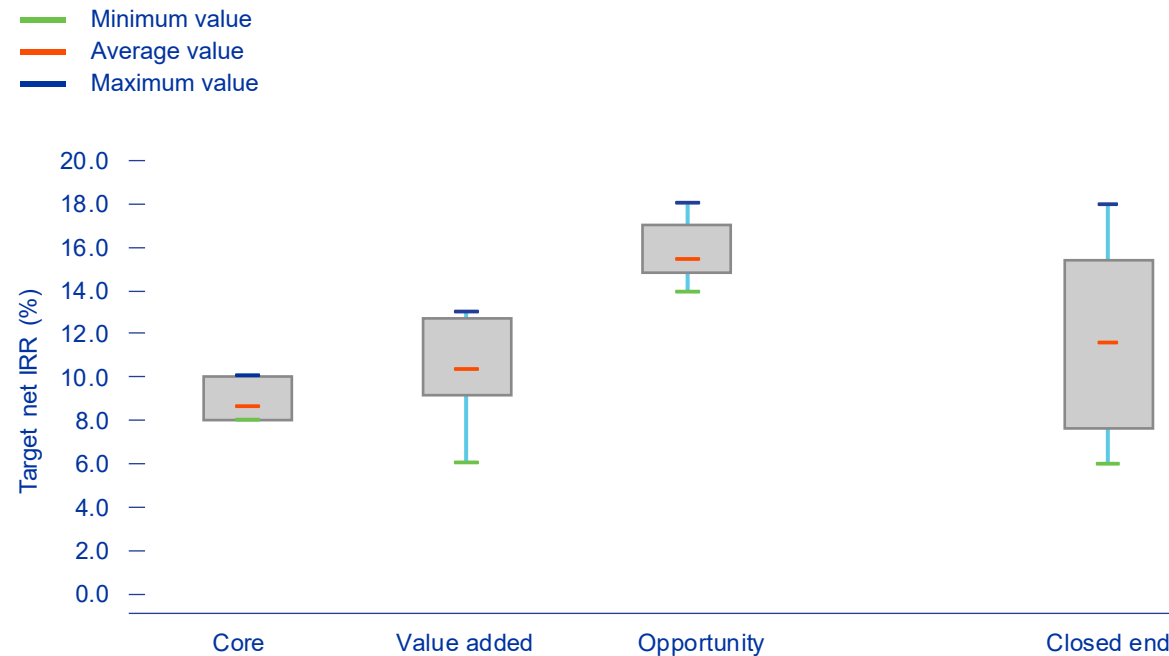
The following chart shows average target internal rates of return (IRRs) for closed end funds of funds alone. In general, core funds of funds have lower target net IRRs than value added and opportunity vehicles. On average, core vehicles target an IRR of 8.7% compared to 10.3% for value added and 15.4% for opportunistic vehicles.

The spread between the lowest and highest vehicle IRR values differs significantly depending on their style. Core and opportunity vehicles show the smallest range between the highest and lowest IRRs, 2.0% and 4.0% respectively, while value added strategies have a wider range of 7.0%.

The equally weighted average target IRR for all 26 closed end funds of funds was 11.5%.

**‘The spread between lowest and highest IRR values differs significantly depending on vehicle style’**

**Figure 8: Target net IRR**



Note: the sample is comprised of 26 closed end vehicles. The box represents the interquartile range.



# Target blended gearing

This section considers the target average blended gearing levels for funds of funds. Taken as a group, they aim for blended gearing levels ranging from 15.0% to 75.0%, with the average standing at 53.1%.

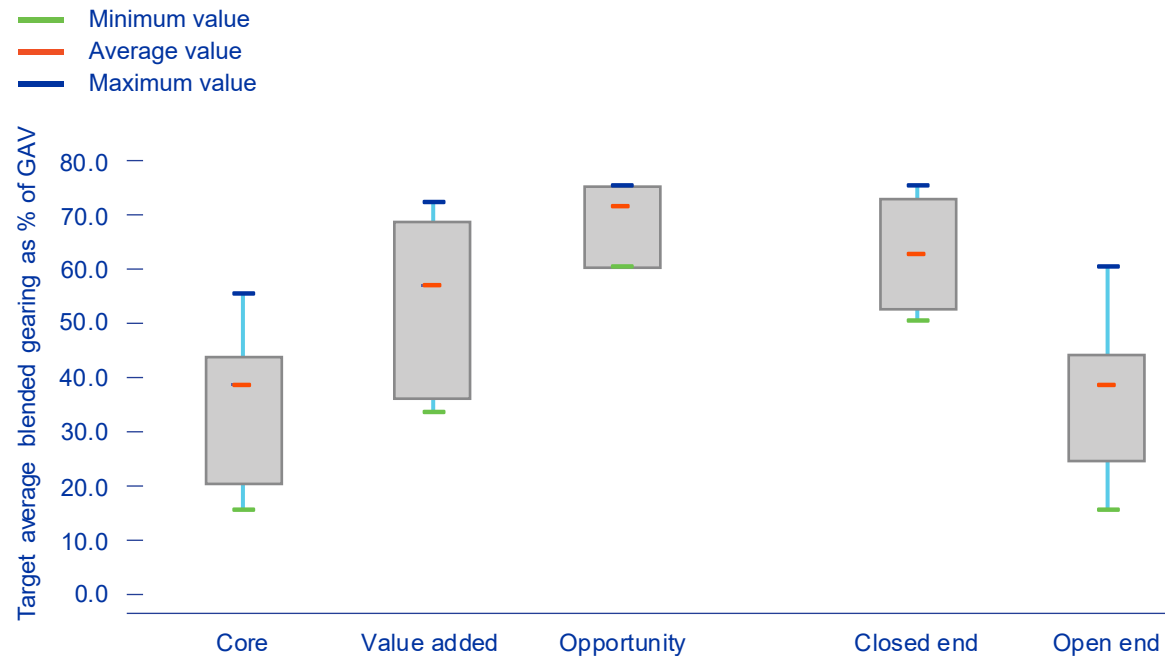
Core vehicles have the lowest average blended gearing target of 38.3% and also the narrowest interquartile range (the difference between the upper and lower quartiles).

Value added funds of funds exhibit higher levels of blended gearing, with an average value of 56.4%, a minimum of 33.0% and a maximum of 72.0%. They also show a much wider interquartile range.

Funds of funds with an opportunity strategy have the highest average blended gearing level of 71.3%, with a minimum of 60.0% and a maximum of 75.0%.

In terms of structure, open end funds of funds have a much lower target for blended gearing than closed end vehicles. The average blended gearing for open end vehicles is 38.2%, with a minimum of 15.0% and a maximum of 60.0%. Meanwhile closed end vehicles have an average target of 62.5% and range more narrowly between a minimum of 50.0% and a maximum of 75.0%.

**Figure 9: Target average blended gearing**



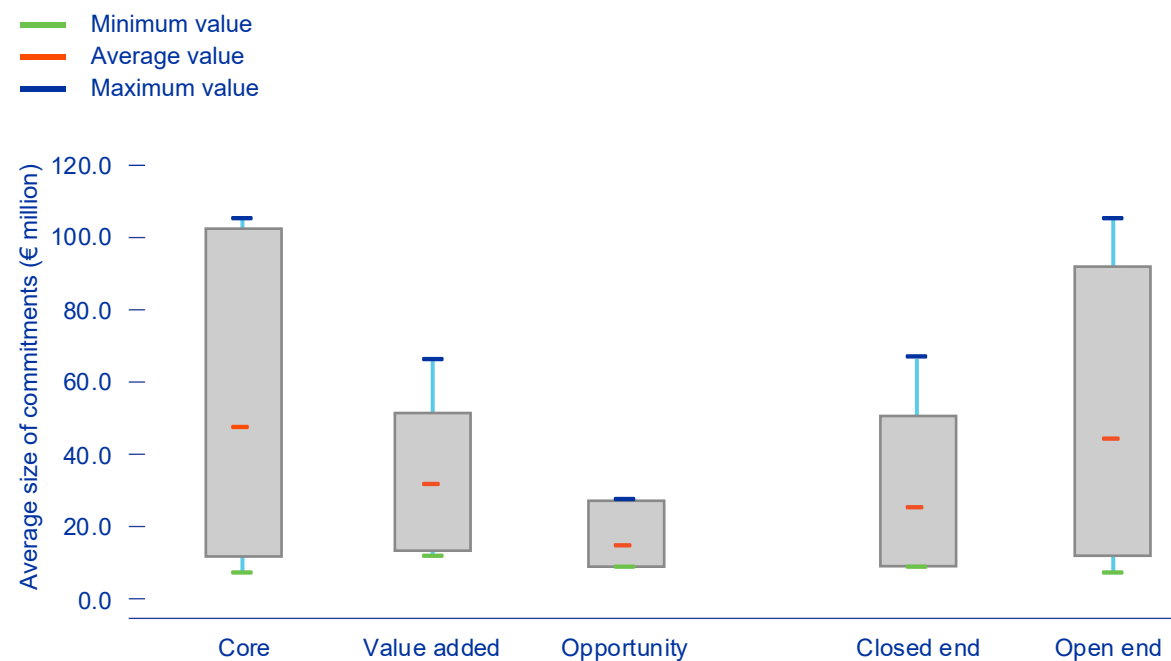
Note: the sample is comprised of 31 vehicles. The box represents the interquartile range.

# Average size of commitments

The average size of capital commitments for core funds of funds exceeds that of non-core vehicles. On average, core funds of funds attract average commitments of €44.8 million, while the average size of commitments for value added and opportunity funds of funds is €29.4 million and €12.2 million, respectively.

Open end funds of funds receive larger average commitments than their closed end peers. On average, open end vehicles call in €41.3 million of equity, while closed end funds of funds call in €23.1 million.

**Figure 10: Average size of commitments**



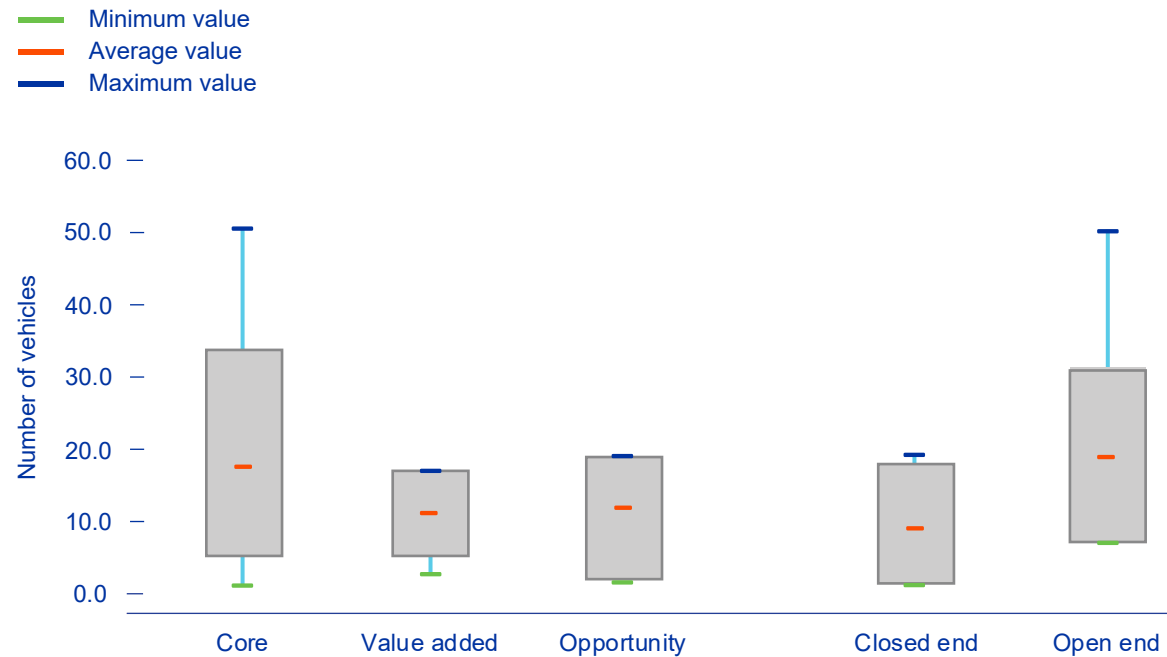
Note: the sample is comprised of 22 vehicles. The box represents the interquartile range.

# Number of vehicles invested in

Taken as a group, funds of funds invest in 15 different vehicles on average. However, the numbers range considerably when examined by style and structure. The average number of vehicles invested in by core funds of funds is 18, compared with 11 for value added and 12 for opportunity.

The differences between closed end and open end funds of funds are even greater. Closed end vehicles tend to allocate capital to 9 vehicles on average while open end funds of funds target 18 vehicles on average.

**Figure 11: Number of vehicles invested in**



Note: the sample is comprised of 22 vehicles. The box represents the interquartile range.

# Number of managers invested in

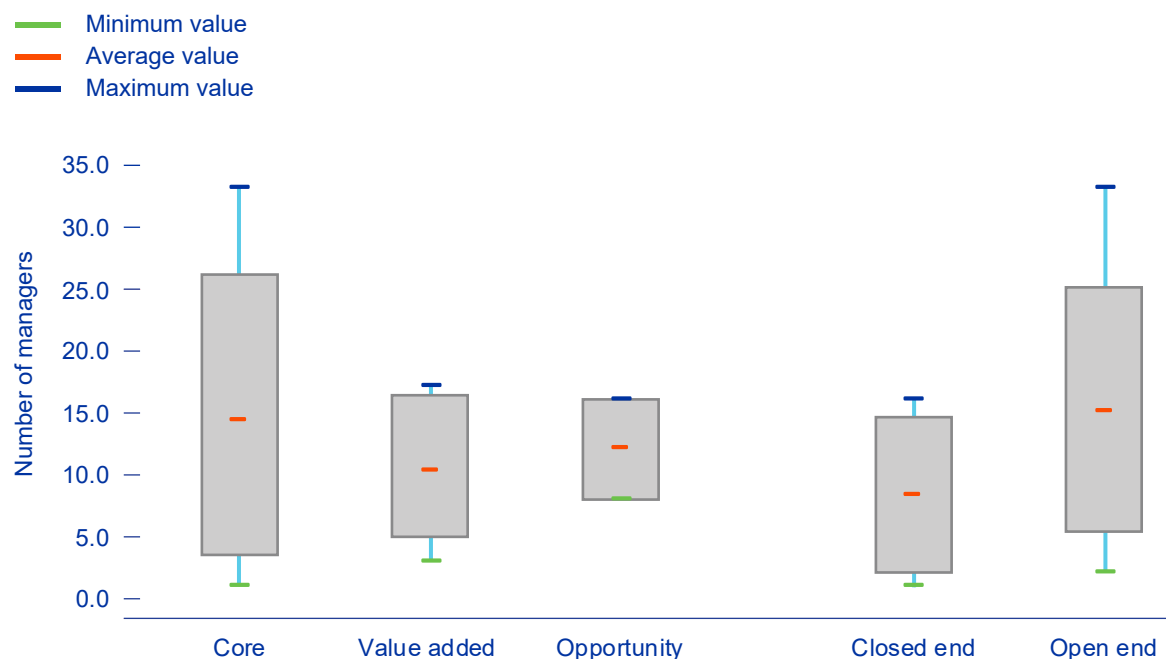
As one would expect, core funds of funds prefer to invest in a larger number of managers than their non-core peers. On average, core funds of funds invest in 14 managers, although the number ranges widely, from a minimum of 1 to a maximum of 33. Value added funds of funds on average select 11 managers, with a minimum of 3 and a maximum of 17.

Opportunity vehicles have a narrower distribution: the average number of managers invested in is 12, with a minimum of 8 and a maximum of 16.

Structure wise, closed end funds tend to pursue a narrower manager allocation. The average number of managers they select is 8, with a minimum of 1 and a maximum of 15.

Open end funds of funds tend to invest in a greater number of managers, with an average of 15, minimum of 2 and maximum of 25.

**Figure 12: Number of managers invested in**



Note: the sample is comprised of 18 vehicles. The box represents the interquartile range.



# Aggregate annual performance of funds of funds

The following section is based on the [Funds of Funds Vehicles Universe](#) sample that delivered data in order for INREV to calculate performance. At the end of 2018, 39 out of the 51 funds of funds included in the universe provided their performance data.

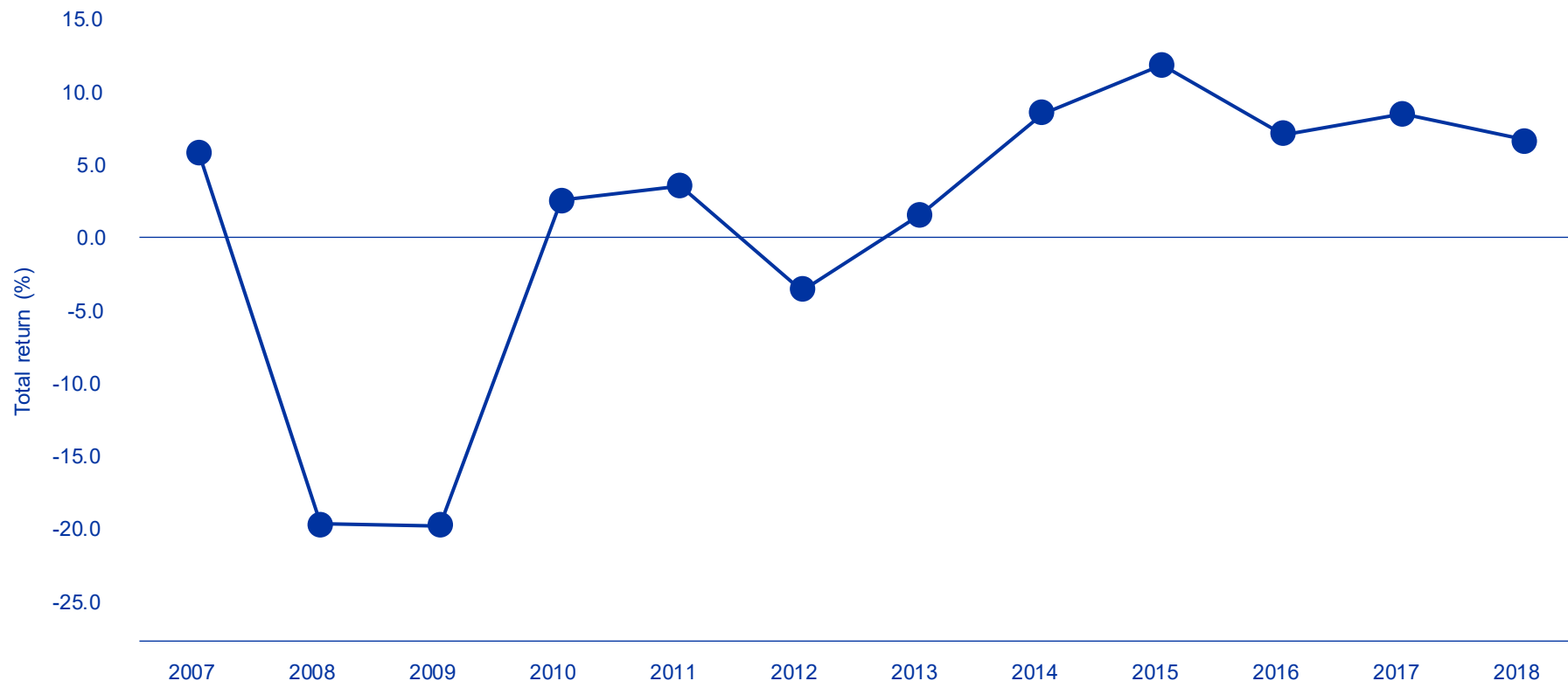
Collectively these represent a total NAV of €16.4billion. Summary statistics for these vehicles can be found in Appendix 1.

The performance analysis is based on an unfrozen sample, meaning that historical data may change with future updates.

Last year was a good year for funds of funds. As a group, they returned 6.7% to their investors, making it the sixth consecutive year of positive performance.

**‘Funds of funds have delivered six consecutive years of positive returns’**

**Figure 13: Aggregate annual performance of funds of funds**



# Performance of funds of funds by quartile

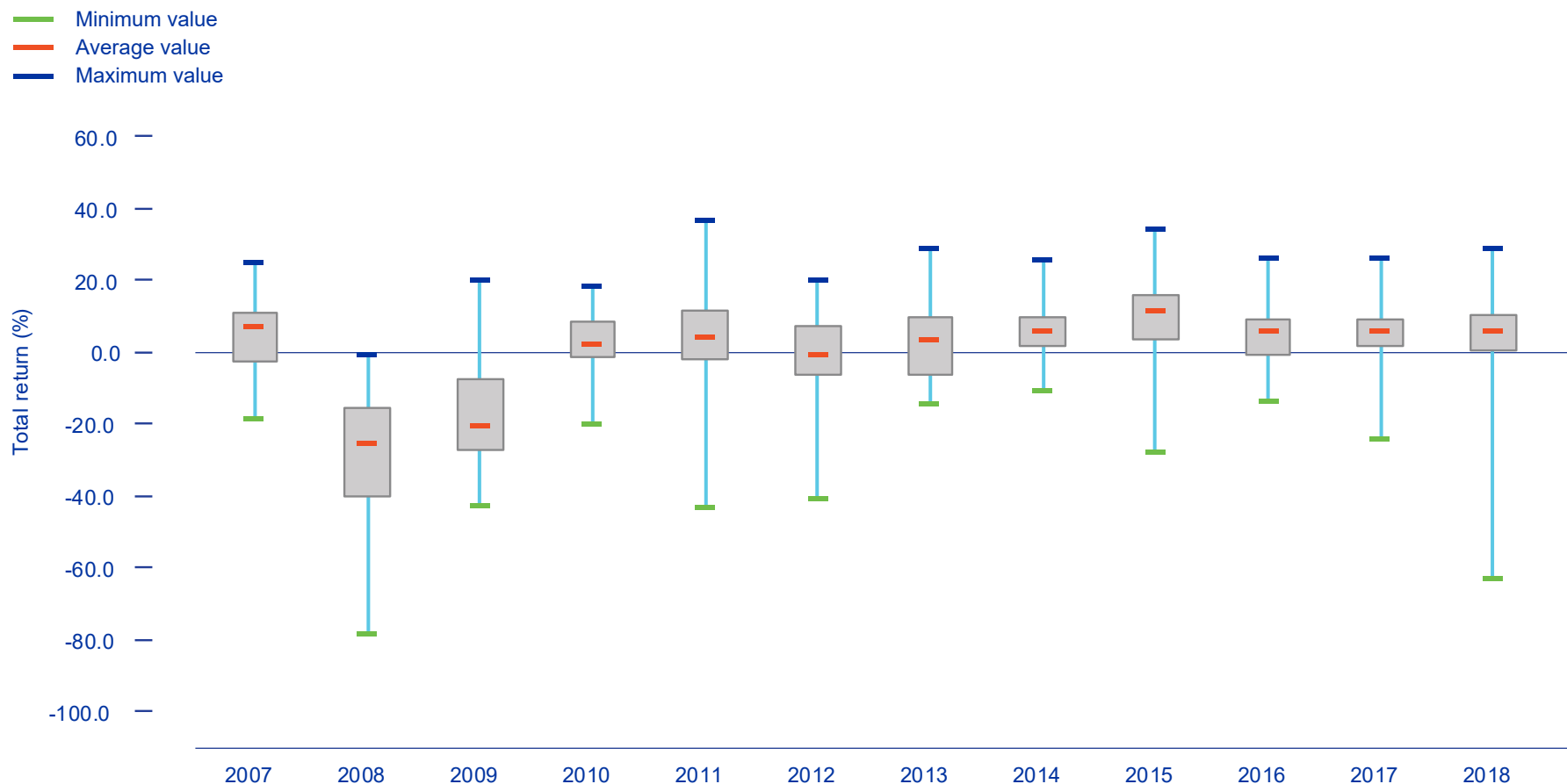
An interesting picture emerges when assessing the distribution of the performance of individual funds of funds. Firstly, the gap between the lower and upper quartiles has tended to shrink over time, with the exception of 2018, when the interquartile range was

highest due to some funds being in the process of liquidation.

Apart from 2018, extreme values have been less prevalent in recent years, with the gap between the best and worst performing funds

of funds narrowing. Historically, this gap was at its widest during the global financial crisis years of 2008 and 2009 as well as in 2011, which showed the biggest gap on record.

**Figure 14: Performance of funds of funds by quartile**



# Performance of funds of funds by style

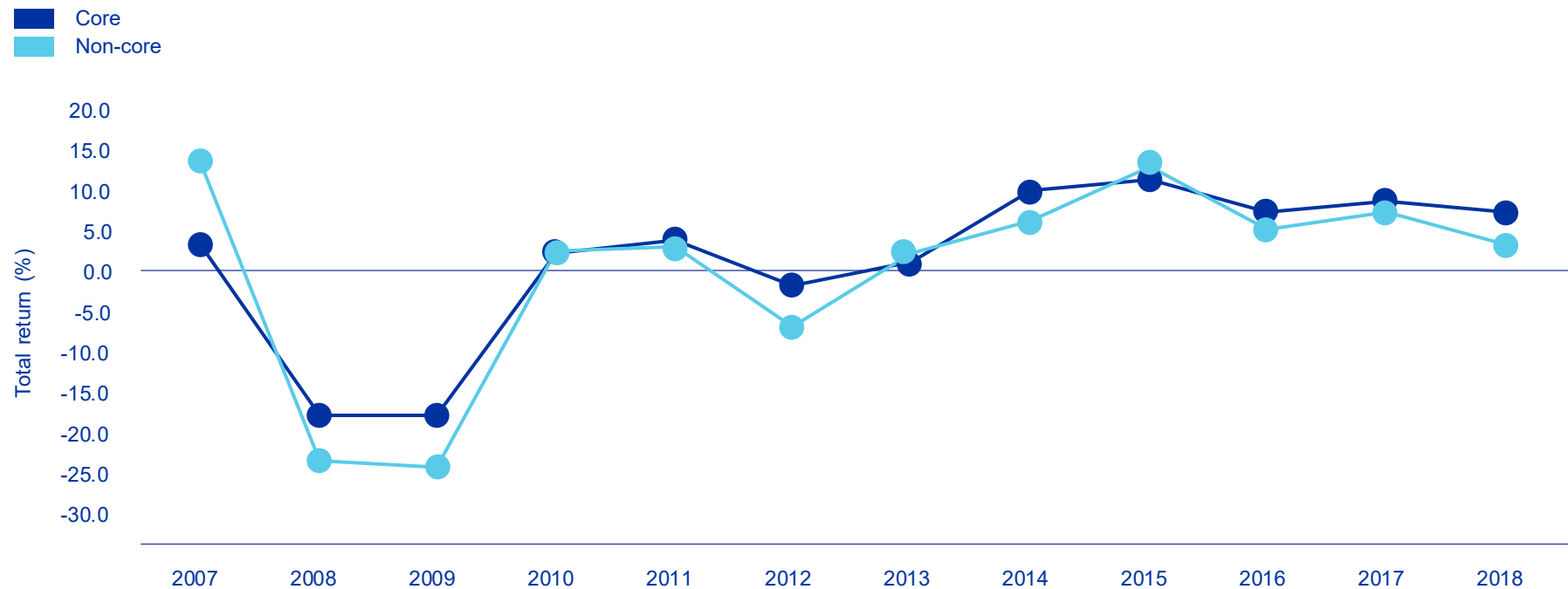
Due to size of the available samples, value added and opportunity vehicles were grouped together into a broader 'non-core' category for the analysis of performance by style.

All in all, the performance of core and non-core funds of funds has tended to move in the same direction over time.

Over 2018, core funds of funds (14 in the sample) outperformed non-core funds of funds (25), with total returns of 7.2% vs 3.1%.

Non core funds of funds saw a slowdown in returns in 2018 compared to 2017 (7.3%) whereas core vehicle returns have proven more stable, standing at 7.4% in 2016, 8.6% in 2017 and 7.2% in 2018.

**Figure 15: Performance of funds of funds by style**



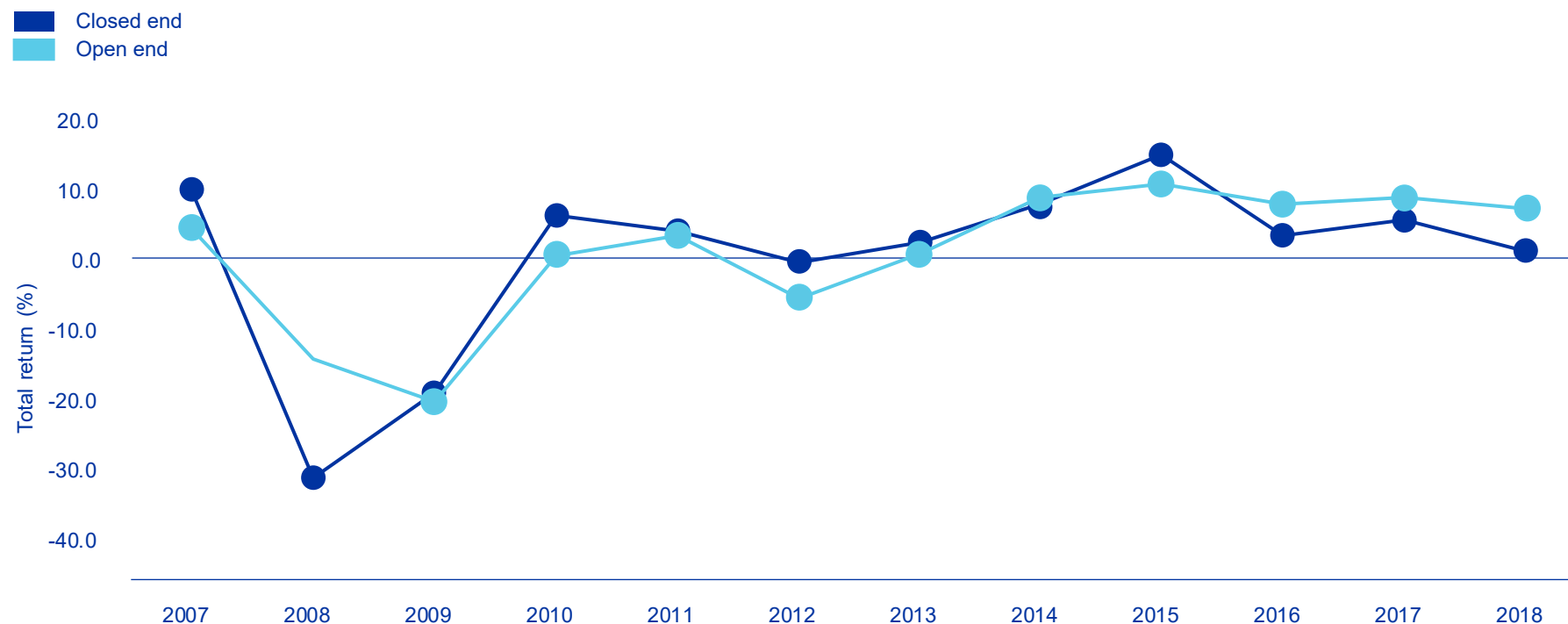


# Performance of funds of funds by structure

Looking now at the performance of funds of funds by structure, closed end vehicles have outperformed open end vehicles for seven of the twelve year history of funds of funds performance. This has not however been the case recently, with open end outperforming closed end vehicles over the past three years, as well as in 2014 and 2008.

In 2018, open end funds of funds delivered a total return of 7.2%, slightly down from 8.8% in 2017, but outperforming closed end vehicles, which returned 1.3% in 2018, down on the previous year's 5.6%.

Figure 16: Performance of funds of funds by structure



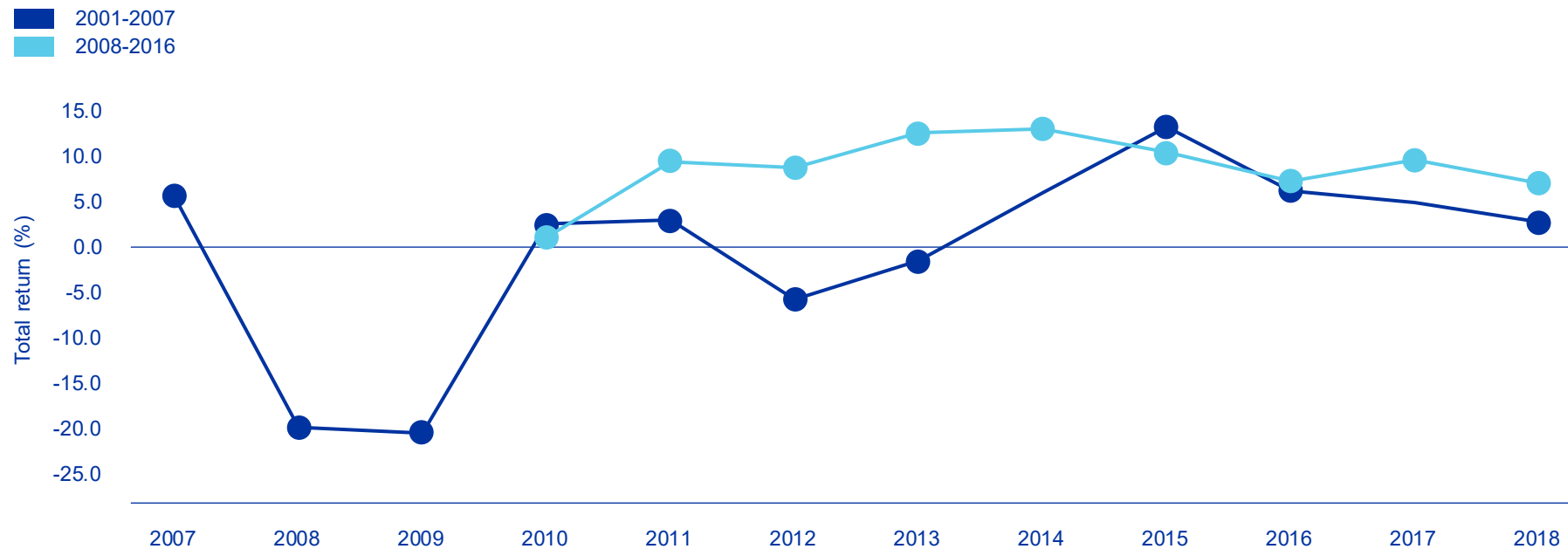
# Performance of funds of funds by vintage years

For the analysis by vintage year, the sample has been split into two broad categories: vehicles with a year of first close prior to 2008 and vehicles with a year of first close from 2008 onwards.

Younger vintage vehicles launched from 2008 onwards have delivered stronger performance than their older vintage peers in general, apart from in 2015.

In 2018, younger vintage continued to deliver a higher return at 7.1%, compared with 2.6% for older vintages.

Figure 17: Performance of funds of funds by vintage year



# Performance of funds of funds by target region

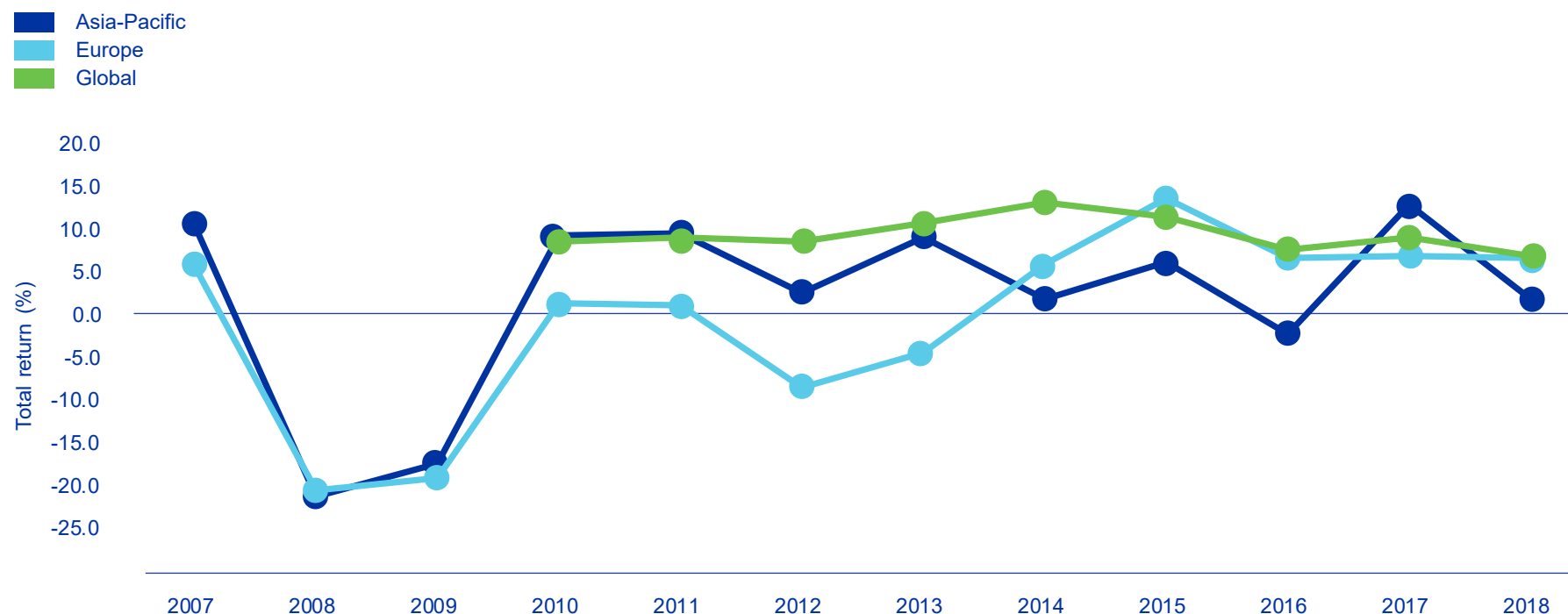
To assess the performance of funds of funds by target regional strategies, the sample was grouped into the following three categories: those targeting Asia Pacific, those targeting Europe and those with a global mandate. The sample for vehicles with a North American strategy was too small to be included in the analysis.

Asia Pacific funds of funds have shown the most volatile performance over the years, whereas global vehicles show the most stable performance over time.

In 2018, global funds of funds outperformed other regional classifications, with a total return of 6.6%, while those investing in Asia Pacific showed the lowest returns of 1.3% in 2018. This compared to a much higher return of 12.8% in 2017.

strategy delivered a performance of 6.6%, while those investing in Asia Pacific showed the lowest returns of 1.3% in 2018. This compared to a much higher return of 12.8% in 2017.

**Figure 18: Performance of funds of funds by target region**

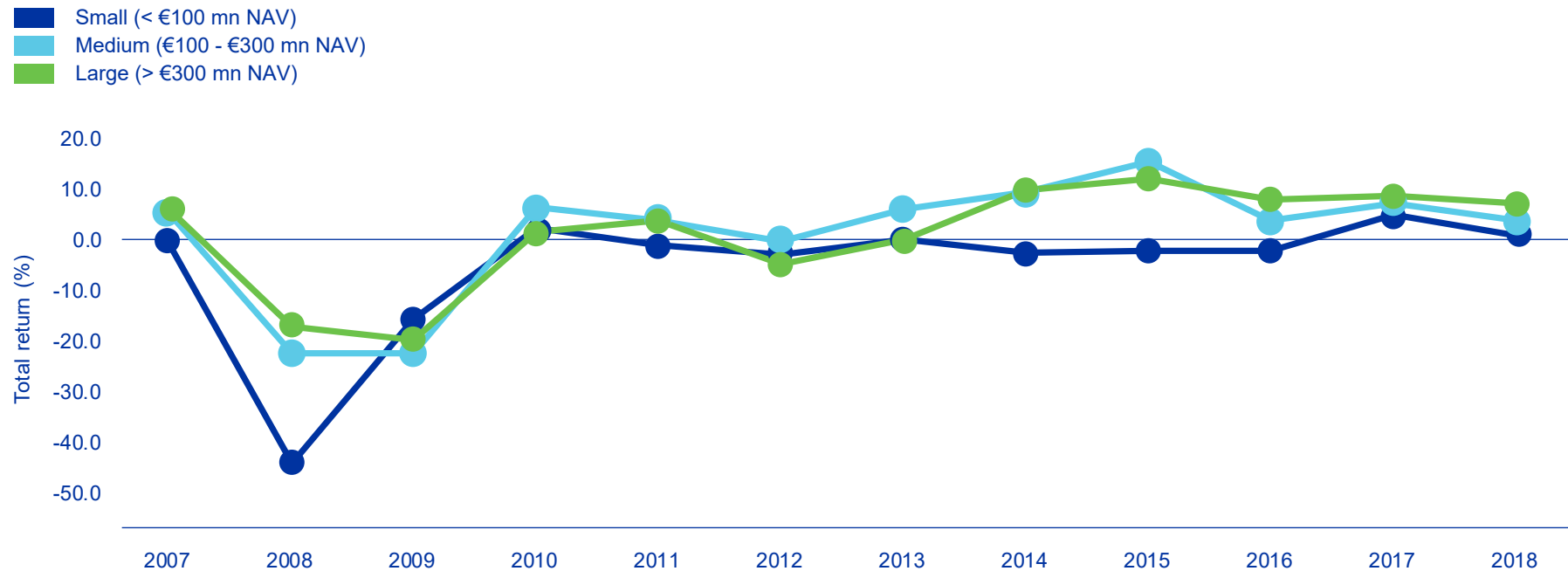


# Performance of funds of funds by size

To examine the performance of funds of funds by size, they have been divided into three categories based on their NAV: small, with NAV less than €100 million; medium, with NAV in the range €100 - €300 million; and large, with NAV greater than €300 million.

Vehicles of all sizes delivered positive returns in 2018. Large-sized vehicles delivered a total return of 7.3%, outpacing medium-sized vehicles, which returned 3.8% and smaller vehicles, which returned 0.6%. The latter have tended to underperform medium and large-sized vehicles over time.

**Figure 19: Performance of funds of funds by size**





# Summary statistics

Number of fund of funds		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
All funds		23	27	28	30	37	37	40	35	36	31	39	39
By style	Core	10	11	11	12	15	15	15	11	10	10	14	14
	Non-core	13	16	17	18	22	22	25	24	26	21	25	25
By target region	Asia Pacific	4	6	7	7	9	9	10	8	10	7	8	6
	Europe	17	18	18	19	19	19	19	16	14	11	13	12
	Global	1	2	2	3	8	8	10	10	11	12	17	20
	North America	1	1	1	1	1	1	1	1	1	1	1	1
By structure	Closed end	13	14	15	16	19	19	22	20	24	19	23	23
	Open end	10	13	13	14	18	18	18	15	12	12	16	16
By Size*	Small (< €100 mn NAV)	7	9	9	9	11	11	11	10	10	6	10	9
	Medium (€100 - €300 mn NAV)	7	8	9	11	13	13	16	14	15	13	16	18
	Large (> €300 mn NAV)	9	10	10	10	13	13	13	11	11	12	13	12
NAV (€ billion)		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
By style		4.9	5.3	4.8	5.6	6.9	7.0	7.5	6.4	8.5	10.4	14.1	16.4
By target region	Core	3.4	3.6	3.2	3.7	4.3	4.4	4.8	4.2	6.3	8.5	12.3	14.5
	Non-core	1.5	1.8	1.6	1.9	2.6	2.5	2.7	2.2	2.2	1.9	1.8	1.9
	Asia Pacific	0.2	0.4	0.4	0.6	1.0	1.0	1.1	0.6	0.6	0.5	0.6	0.4
	Europe	4.3	4.3	3.8	4.3	4.7	4.3	3.9	2.6	2.9	2.0	2.2	1.0
	Global				0.5	1.0	1.3	2.1	3.0	4.7	7.7	11.3	15.0
	North America												
By structure	Closed end	1.4	1.6	1.6	1.9	2.5	2.6	2.7	2.0	2.2	1.6	1.4	1.3
	Open end	3.5	3.7	3.2	3.7	4.4	4.4	4.8	4.4	6.3	8.8	12.7	15.0
By Size*	Small (< €100 mn NAV)	0.2	0.3	0.3	0.4	0.6	0.6	0.7	0.5	0.3	0.1	0.2	0.2
	Medium (€100 - €300 mn NAV)	0.7	0.9	0.8	1.2	1.7	1.7	1.9	1.6	1.6	1.5	1.8	2.2
	Large (> €300 mn NAV)	4.0	4.2	3.6	4.1	4.7	4.6	4.9	4.4	6.6	8.8	12.1	14.0

\* Vehicles are divided into three categories based on NAV



# Definitions

## **Total real estate assets under management (AUM)**

Refers to market value of real estate-related assets with respect to which a company provides, on a global basis, oversight, investment management services and other advice (for third party capital and internal client capital), and which generally consist of real estate funds and real estate-related loans; securities portfolios; and investments in operating companies, joint ventures, separate accounts and funds of funds

## **Non-listed real estate vehicle**

Refers to a structure where investors' capital is pooled together and managed as a single entity with a common investment aim.

## **Non-listed direct real estate vehicle**

Refers to a vehicle investing directly into real estate.

## **Non-listed real estate fund/commingled fund/private REIT**

A structure where capital of at least three investors is pooled to undertake a pre-defined strategy of investing into real estate assets.

## **Separate account investing directly into real estate**

A vehicle with capital commitments from one investor allocated directly into assets rather than funds.

## **Separate account investing into indirect vehicles**

A vehicle with capital commitments from one investor allocated to a series of property funds within a defined strategy.

## **Joint venture and club deal**

Vehicles with capital commitments from two or a small number of investors (including co-investment) allocated to a redefined direct real estate strategy.

## **Fund of funds**

A real estate fund of funds is a collective investment vehicle that uses a strategy of holding a portfolio of investments in other real estate funds rather than investing directly into real estate.

## **Listed real estate fund**

A fund investing directly into real estate.

## **Real estate securities fund**

A fund investing into listed securities.

## **Non-listed debt products**

1) Mezzanine debt fund: fund which is supplying real estate borrowers with the layer of financing that sits between the senior debt and the equity in the capital structure.

2) Senior debt fund: fund which provides the borrowers with loans, which have first priority within the capital structure.

For more definitions visit the [Global Definitions Database](#).





# Participants

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4IP Management AG  
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