Funds of Funds Study **2017**

Snapshot Research

# Four consecutive years of positive growth for funds of funds

- Funds of funds delivered 7.7% in 2016
- Open end vehicles outperformed their closed end peers
- Core vehicles returned 7.9% while non-core generated 7.1%

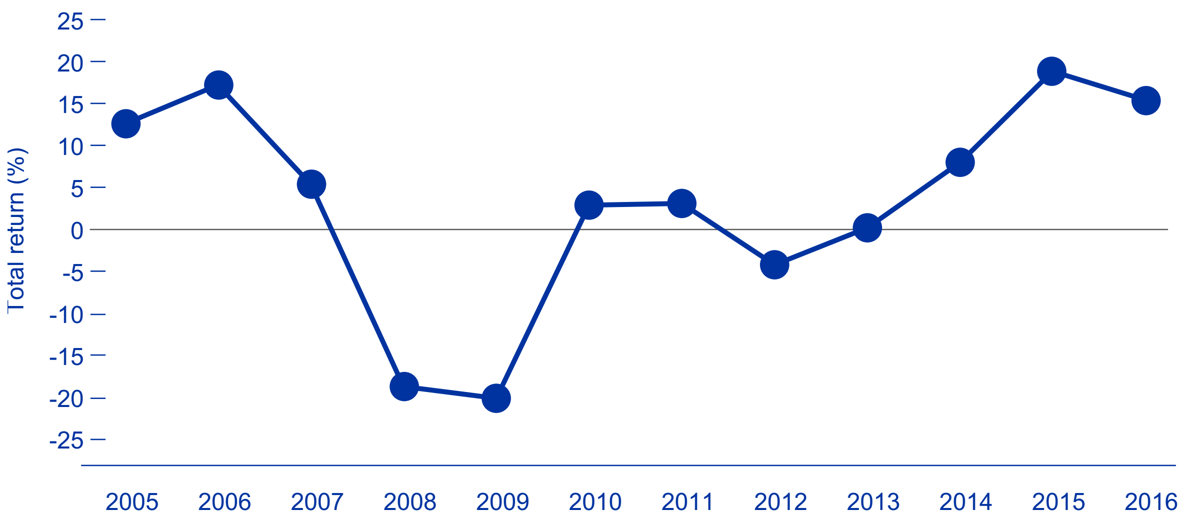
Funds of funds account for €24.8 billion or 1.3% of the gross asset value (GAV) of non-listed real estate vehicles worldwide, according to the ANREV / INREV / NCREIF Fund Manager Survey 2017.

Four consecutive years of positive growth saw funds of funds achieve a notable 7.7% in 2016, making last year the fifth best year since 2002. There is considerable variation between the performance of funds of funds in this year's study, with the range from highest to lowest being 38.4%.

In terms of investment style, core funds of funds returned 7.9% in 2016 while non-core generated 7.1%.

For the first time in seven years, open end funds of funds outperformed closed end ones. The gap between them is substantial: 8.5% for open end vehicles versus 3.5% for closed end.

**Figure 1: Aggregate annual performance of funds of funds**




In terms of vintage, vehicles that were launched in the 2008 to 2016 period experienced the best returns, significantly outperforming their older peers (that is, funds of funds launched prior to 2008).

In terms of vehicle size, there is a notable difference between the higher returns generated by large funds of funds and the lower (but still positive) returns generated by small and medium funds of funds. Larger vehicles, those with a NAV greater than €300 million, delivered significantly stronger performance than those with a NAV of less than €100 million of NAV. Vehicles with a non-European strategy outperformed those with European mandates by a margin of 1.0%.

Of the total €121.8 billion capital raised in 2016, as noted in the ANREV / INREV / NCREIF Capital Raising Survey 2017, €3.0 billion or 2.5% was raised for funds of funds.

The market landscape as represented by the Funds of Funds Universe, comprising 58 funds of funds which collectively represent NAV of €12.2 billion, presents many noteworthy features.

> 'As a group funds of funds delivered healthy performance in 2016'

Regarding investment style, the number of vehicles in the universe is almost evenly distributed among core (35.4%), value added (36.9%) and opportunity (27.7%). However, a closer examination of the split by NAV yields different results. The NAV picture shows that core funds of funds make up the largest share (76.3%) with the remaining 23.7% split between value added (19.1%) and opportunity (4.6%) vehicles.

New vehicles launches over 2010 to 2012 have also been dominated by core. However, this was not the case in 2013 when new vehicle launches were largely value added in style, followed by opportunity. Very few new vehicles have been launched over the past three years: none in 2014, two in 2015 and one in 2016. All three of the vehicles launched in the last two years have been value added in style.

Further significant style differences emerge when the Funds of Funds Universe is analysed by target net IRRs, target average total gearing as well as number of vehicles and managers invested in. The median values are quite widespread: 8.0% for core, 11.0% for value added and 15.0% for opportunity.

> 'Very few new funds of funds have been launched over the past few years'

Similarly, core funds of funds have average gearing of 41.4%, value added vehicles have average gearing of 58.4% while opportunity funds of funds have an average total gearing level of 68.2%.

An interesting picture emerges from analysis of the number of managers and vehicles held with core and non-core strategies. Core funds of funds opt for a greater number, suggesting that core funds of funds pursue broader strategies and are more diversified than their non-core counterparts. This may potentially explain their greater ability to withstand market downturns compared to non-core vehicles.

For further details contact research@inrev.org.
The full report is available to members at inrev.org/research.

**Figure 2: New vehicle launches**