



ANREV / INREV
Funds of Funds Study
2023

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



Funds of funds' global AUM rose to over €80 billion at the end of 2022



They invested €5.2 billion into the global real estate market in 2022 and delivered a positive performance of 2.93%



Value add allocations increased to a record 10% but focus on core remains



Acceleration of granular diversification strategy through the choice of vehicle, sector and geography

Steady growth in AUM as performance remained in the positive territory

The total assets under management (AUM) of funds of funds globally stood at €80.2 billion, nearly doubling in the last three years¹. According to the ANREV/INREV/NCREIF Capital Raising Survey, funds of funds invested more than €5.2 billion into the global real estate market in 2022.

At 2.93%, the funds of funds' average total return remained positive during 2022, although slowed significantly compared with the 13.96% delivered for 2021. In 2022 funds of funds with European strategy reported a marginal 14 bps outperformance over their global peers.

Focus on core strategies, but value add allocations increase

Funds of funds' AUM is largely allocated to core strategies as most of their investors are looking for income return. However, at 10%, the 2023 edition of ANREV/INREV/PREA Investment Intentions Survey has shown the highest allocations to value add investments for funds of funds on record.

Asian Pacific allocations more than double

Funds of funds show a similar home bias to traditional investors in their allocations. More than 60% of the total capital managed by European domiciled funds of funds is allocated to vehicles with European strategy, followed by the US and Asian Pacific strategies. At 11%, the increase in the allocations to Asia Pacific has more than doubled over the last three years². This is reflective of the region's growth in sophistication and investment opportunities, as well as, in some parts, dislocation from the global economic and interest rate cycles.

Bottom-up approach to global diversification

Funds of funds' global allocations are limited as they tend to invest directly into regional or individual market strategies. This trend accelerated in the recent past³ and is driven by the greater shift in sector preferences and, in some cases, specialisation. Economies of scale enable this bottom-up approach to global diversification as most funds of funds are prominent global managers, who are relationship driven and often have cooperation agreements with different managers all around the world.

Dynamic sector allocations

Industrial and logistics account for 28%² of funds of funds' portfolios which is a notable increase from only 22% at the end of 2021. This showcases the funds of funds' ability to shift the dynamics of their portfolios to changes in sector outlooks relatively quickly by the non-listed real estate standards.

¹ ANREV/INREV/NCREIF Fund Manager Survey 2023

² As at the end of 2022, ANREV/INREV/PREA Investment Intentions Survey 2023

³ According to several interviews with funds of funds as part of this study. See Appendix 1.

Chapter 1

Fund of funds managers or multi managers as an investor

Diverse investment portfolios

Fund of funds managers or multi managers, as they are often called, are institutional investors who invest in non-listed real estate funds and other non-listed real estate vehicles on behalf of other institutional investors, pension funds, insurance companies, family offices or high net worth individuals who are typically smaller in size.

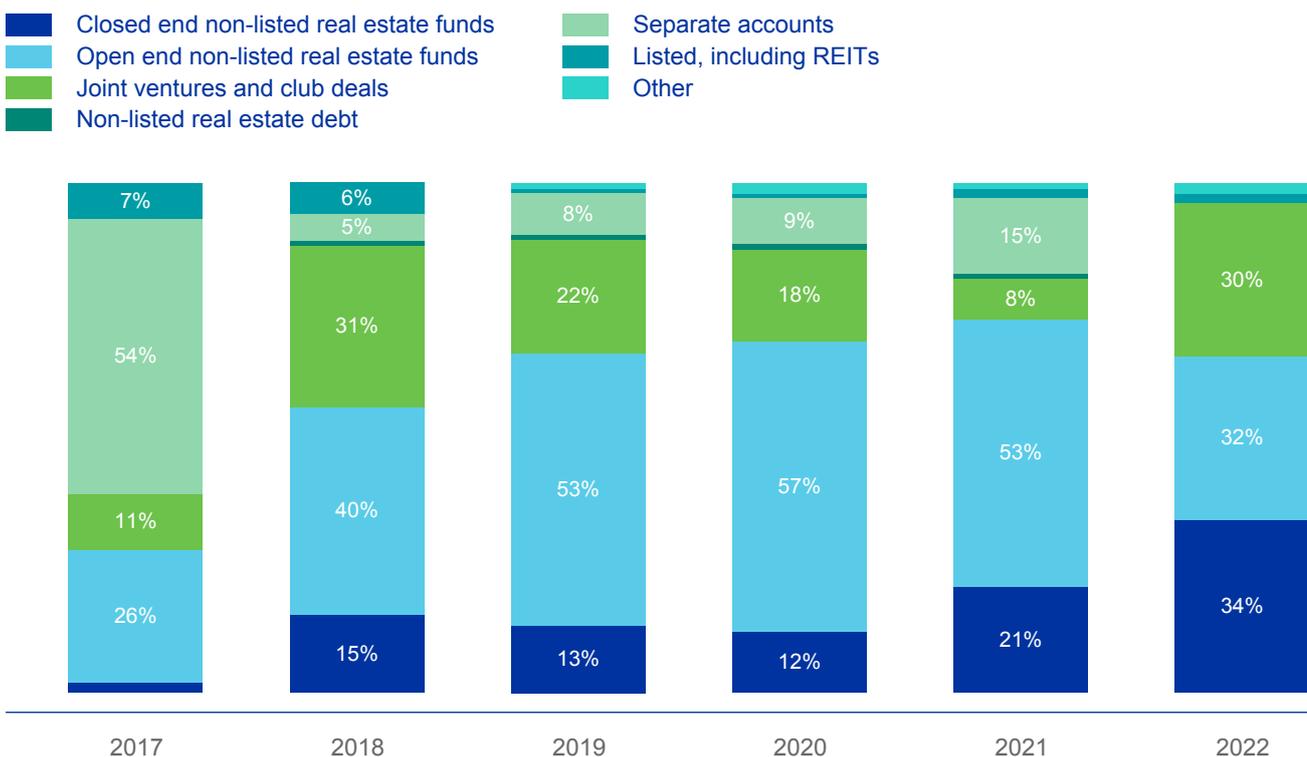
Funds of funds managers' investment portfolios are as broad as the ones of traditional investors. According to the latest results from the ANREV/INREV/PREA Investment Intentions, 66% of the total fund of funds managers' AUM is in non-listed funds: 34% to closed-ended funds and 32% to open-ended structures (see Figure 1). At 30%, the third highest allocation is to the joint ventures and club deals category. This is a sizable increase compared to the recent past,

indicating a shift towards more tailored specific strategies.

Through economies of scale and diversification, funds of funds offer access to structures that are typically only within reach of big and sophisticated investors to smaller, non-specialist investors.

This diverse allocation offers smaller investors access to more complex vehicles and serves as an extra layer of diversification beyond the typical sector, geography or product diversification. According to the several interviews that support this study⁴, product diversification is accelerating as we are seeing funds of funds continue to broaden and diversify their allocations outside of non-listed real estate, increasing the share of REITs, debt vehicles, co-investments and even selective direct investments.

Figure 1: Funds of funds' current real estate allocation by vehicle type



Source: ANREV/INREV/PREA Investment Intentions Survey 2023

⁴ See Appendix 1, Methodology and use

Funds of funds show a more conservative approach to risk than traditional investors

According to the [ANREV/INREV/PREA Investment Intentions Survey](#), funds of funds' AUM is largely allocated to core strategies (88%) as most of their investors are looking for income return rather than capital growth coming from value add or opportunistic investments. This preference for core has been present since 2018. However, at 10%, the 2023 edition of ANREV/INREV/PREA Investment Intentions Survey has shown the highest allocations to value-added investments for funds of funds since the series began in 2014 (see Figure 2).

This increase in the allocations to the higher risk strategies has also been observed in the portfolios of traditional real estate investors, and their share of core is lower at 82% (see Figure 3). This increase is the direct consequence of the difficulty of deploying capital in the core segment of the market and the general search for higher returns that investors faced until the recent market correction.

There are nuanced differences in how funds of funds and traditional investors go about allocating to the higher risk strategies. Both are heavily focused on core, while funds of funds invest in value add strategy to improve their returns. Traditional investors look beyond value add and venture into opportunistic investments as well.

Figure 2: Funds of funds' current allocations by style

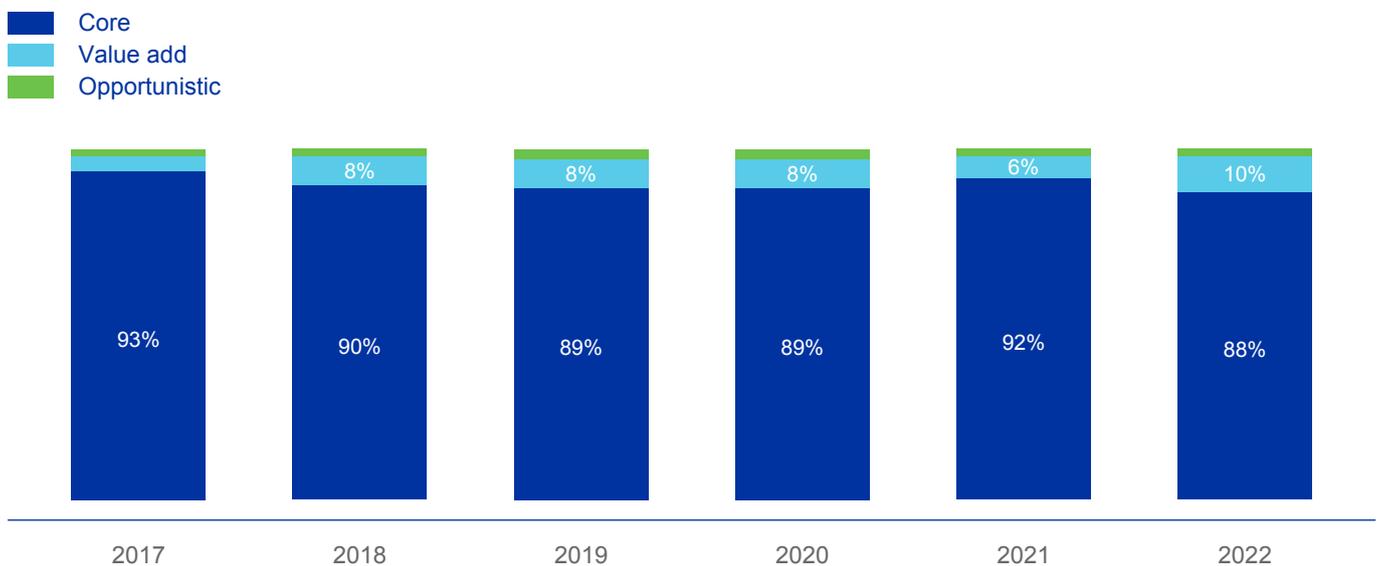
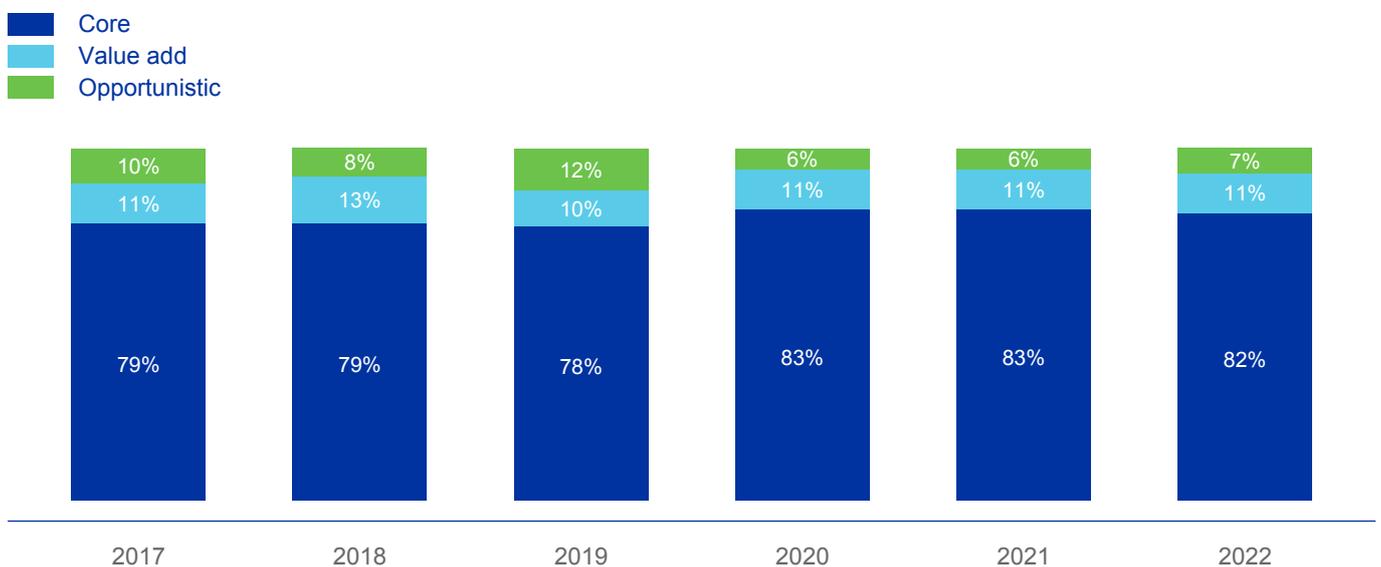


Figure 3: Traditional investors' current allocations by style



Source: ANREV/INREV/PREA Investment Intentions Survey 2023

Chapter 1.1

Diversification strategies are increasingly granular

Bottom-up approach to global or regional diversification

Funds of funds show a similar home bias to traditional investors in their allocations. More than 60% of the total capital managed by European domiciled funds of funds is allocated to vehicles with European strategy, followed by the US and Asian Pacific strategies. The increase in the allocations to Asia Pacific has been most notable, at 11% at the end of 2022, it is more than double the 5% allocation reported only three years prior (see Figure 4). This is reflective of the region's growth in sophistication and investment opportunities, as well as, in some parts, dislocation from the global economic and interest rate cycles.

Funds of funds' global allocations are limited as they tend to invest directly into regional or individual market strategies. This trend accelerated in the recent past, according to several interviews with funds of funds as part of this study, and is driven by the greater shift in sector preferences and in some cases specialisation. Economies of scale enable this bottom-up approach to global diversification as most funds of funds are prominent global managers, who are relationship driven and often have cooperation agreements with different managers all around the world.

This bottom-up approach to global diversification adopted by the funds of funds explains the most notable difference in regional allocations compared to traditional investors (see Figure 5).

Figure 5: Funds of funds vs traditional investors: current real estate allocations by region, end 2022

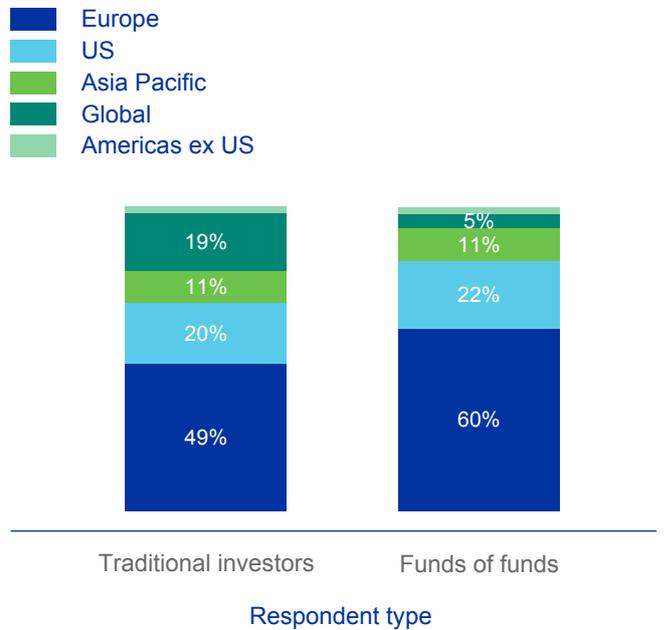
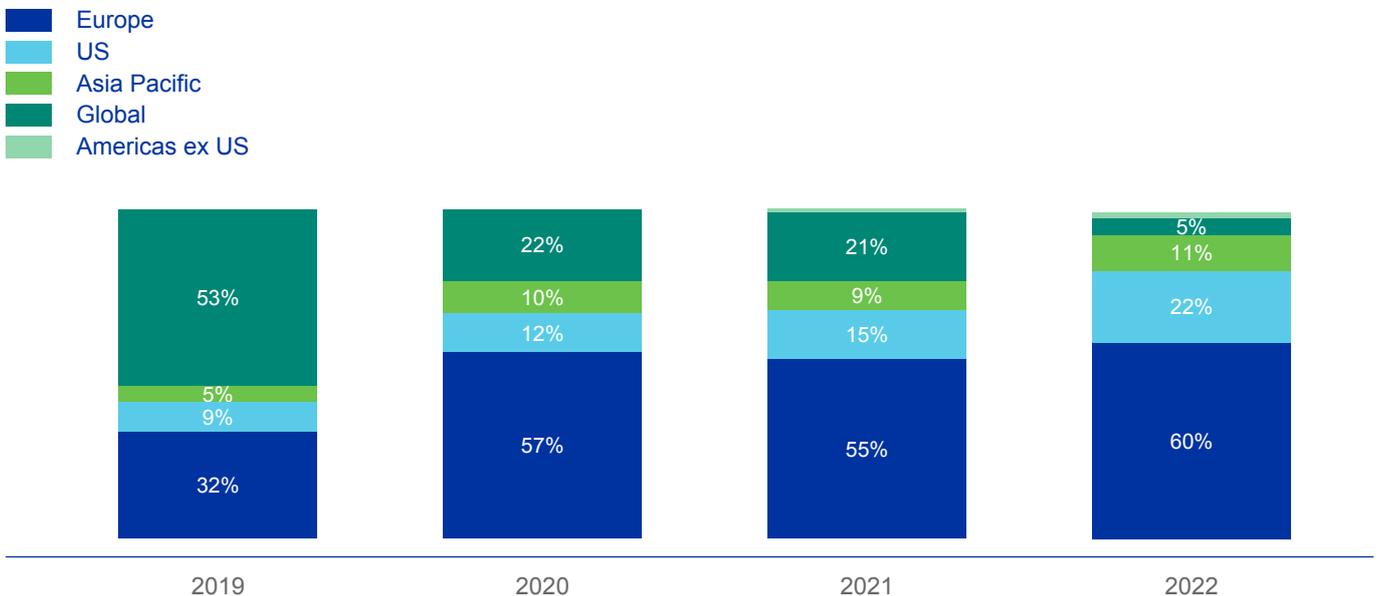


Figure 4: Funds of funds' current real estate allocations by region



Source: ANREV/INREV/PREA Investment Intentions Survey 2023

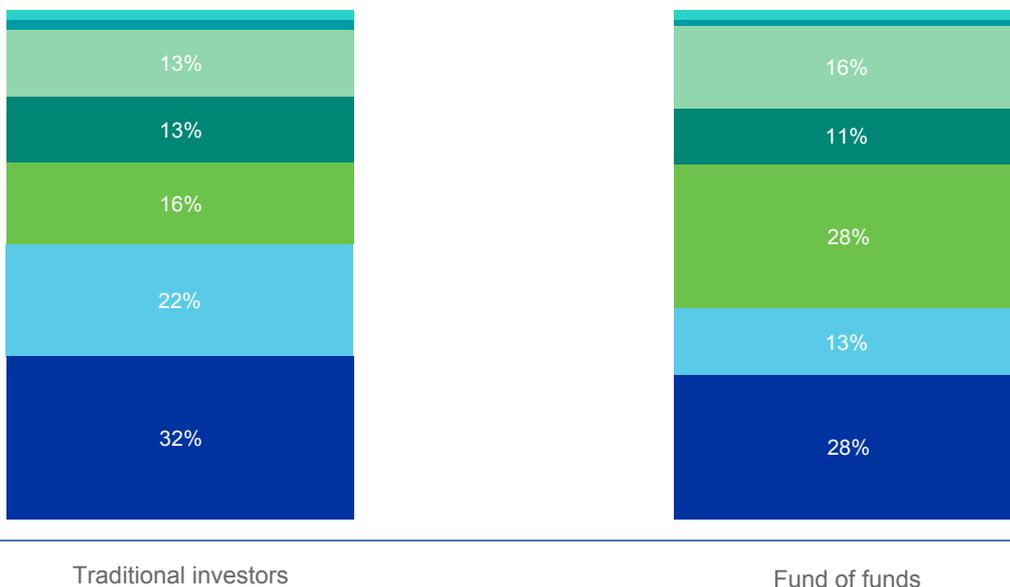
Dynamic sector allocations, with a growing focus on alternatives

Funds of funds have greater sector diversification than traditional institutional investors, who display higher concentration in the main sectors (see Figure 6).

Industrial and logistics account for 28% of funds of funds' portfolios which is a notable shift from only 22% at the end of 2021 (see Figure 7). This showcases the funds of funds' ability to shift the dynamics of their portfolios to changes in sector outlooks relatively quickly by the non-listed real estate standards. Offices are in the close second position (28%), while the residential sector accounts for 13% of their allocations globally.

The supporting interviews suggest that funds of funds are boosting allocations to the alternative sectors, such as healthcare, student accommodation and life science. In many markets, these specialised investments are scarce, which drives the bottom up approach to diversification discussed earlier. Funds of funds are relatively dynamic and focus on different segments depending on the geography, for example, investing in life science and data centers in the US or student housing in Germany or Australia.

Figure 6: Funds of funds' vs traditional investors' current allocations by sector



Source: ANREV/INREV/PREA Investment Intentions Survey 2023

An active source of capital

Although funds of funds are not the most important source of capital due to their small size compared with other traditional larger investors, they are very active. According to the ANREV/INREV/NCREIF Capital Raising Survey, funds of funds invested more than €5.2 billion into the global real estate market in 2022 (see Figure 7). This is just above the long-term average of €5.1 billion, but lower than the circa €8 billion reported in 2019 and 2021.

In conclusion, funds of funds act as traditional investors, but their bottom-up approach to diversification and more diverse investment route allocations bring additional dynamism. These factors improve the speed with which they should be able to adjust their existing portfolios, be it when disinvesting or accessing new investment opportunities.

Figure 7: Capital raised from funds of funds

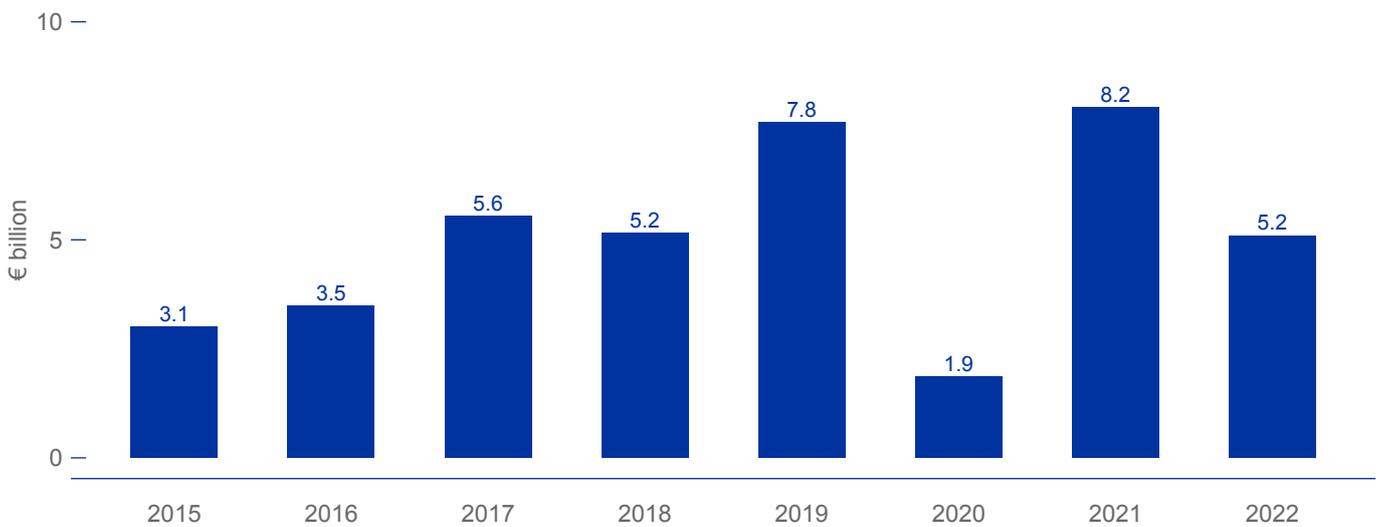
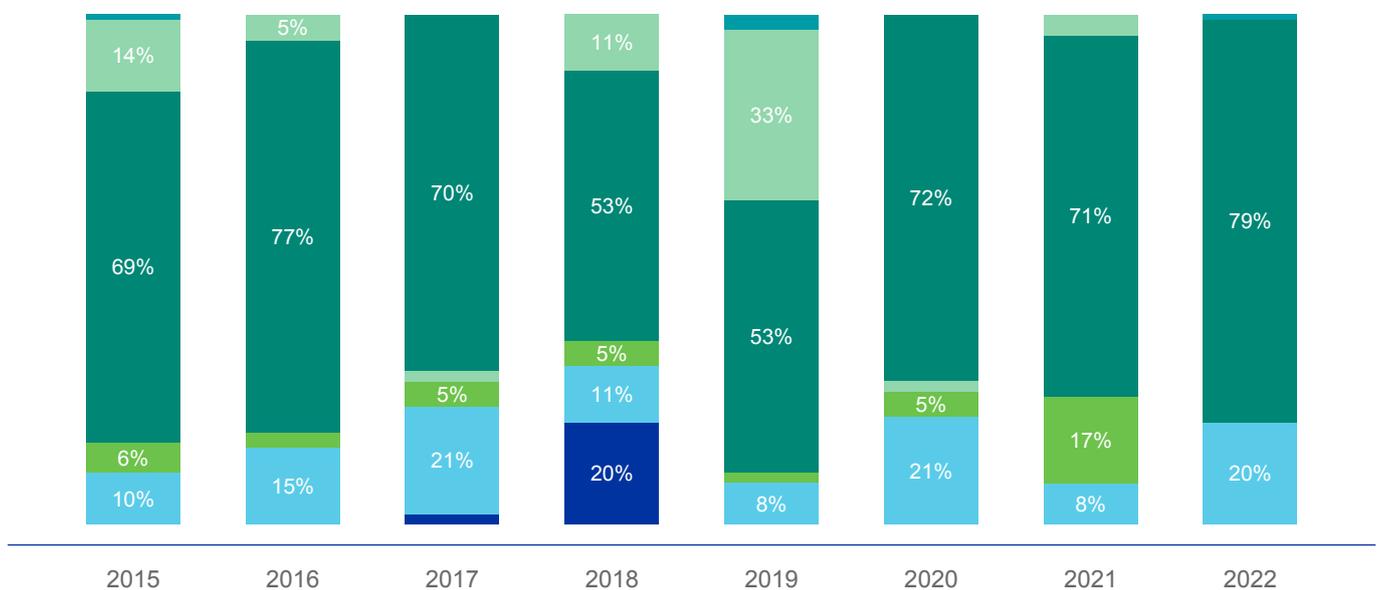


Figure 8: Capital raised from funds of funds by vehicle type

- Funds of funds
- Joint ventures and club deals
- Non-listed debt products
- Non-listed funds
- Separate accounts investing directly
- Separate accounts investing indirectly



Chapter 2

Funds of funds as an investment product

Capital managed by funds of funds grew steadily since 2018

According to the [ANREV/INREV/NCREIF Fund Manager Survey 2023](#), the total asset under management (AUM) of funds of funds stood at €80.2 billion, the highest level since the survey's inception.

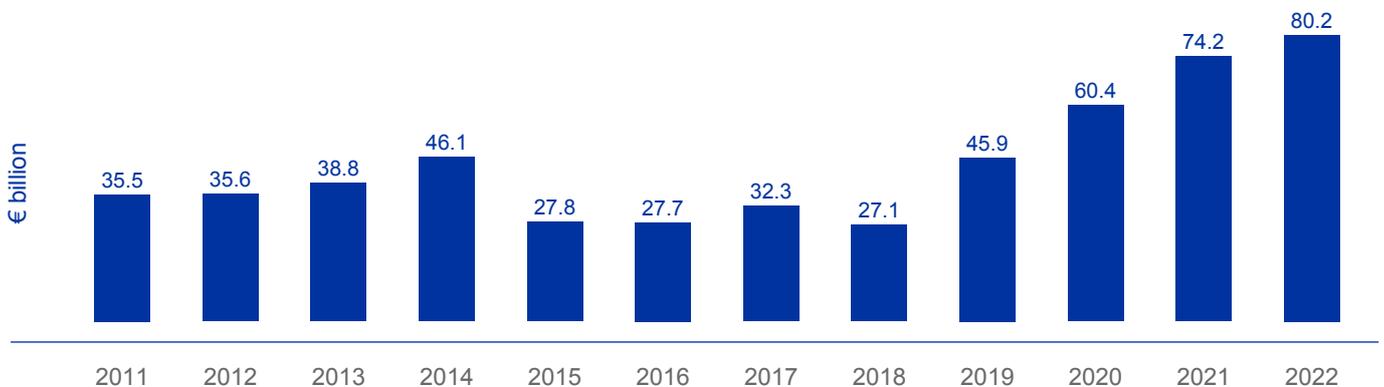
The capital invested by funds of funds nearly doubled in the last three years (see Figure 9). This highlights the extent to which investors are looking for greater diversification via fund of funds investing in the real estate markets as they offer geographical, sector, and product diversification in one investment product.

Global solution for smaller investors

The Capital Raising Survey highlights that most of the capital raised by funds of funds during 2021 and 2022 was allocated to global strategies (see Figure 10). This is a significant change to the pre-2021 period. Before 2021, most capital was raised for a single regional strategy, while after 2020, and due to the market situation and the impact of the COVID-19 pandemic, investors looked for higher diversification, and arguably higher returns, through a global approach.

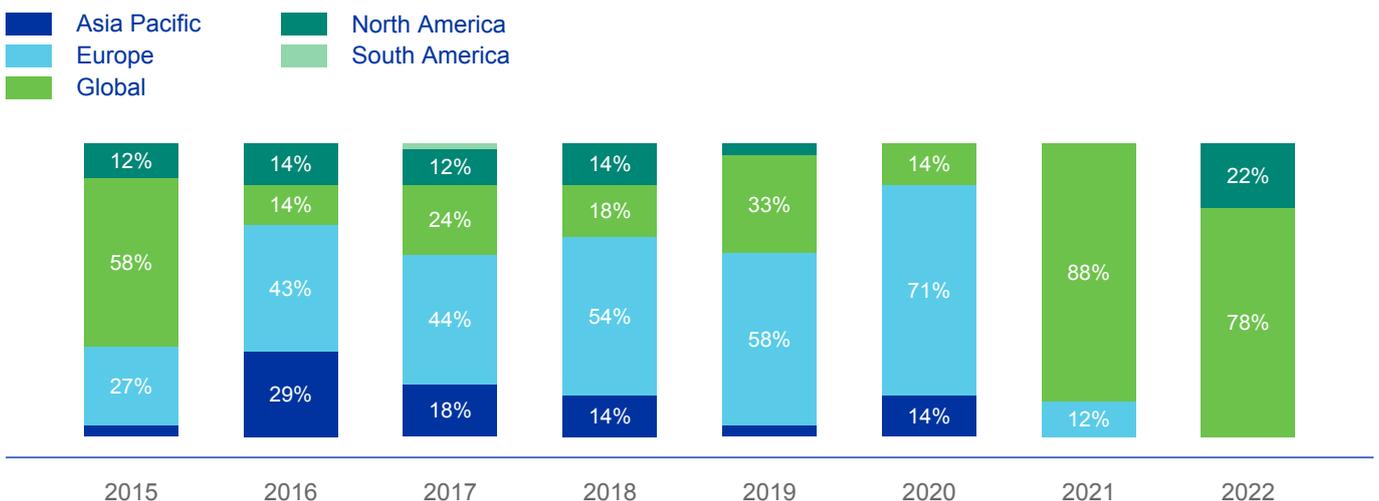
Investors in funds of funds are typically looking for expertise, market knowledge and access to global markets. Funds of funds often offer global platforms to their investors.

Figure 9: Total global funds of funds' assets under management



Source: ANREV/INREV/NCREIF Fund Manager Survey 2023

Figure 10: Total capital raised for funds of funds by regional strategy



Source: ANREV/INREV/NCREIF Capital Raising Survey 2023

Chapter 3

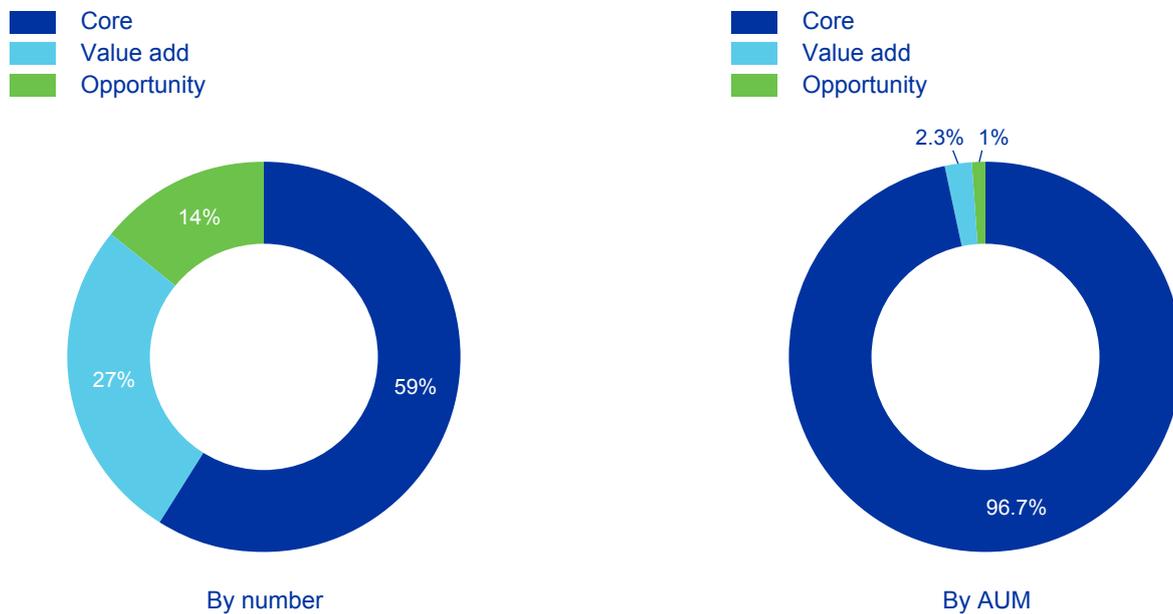
Funds of funds' returns remain positive

Introduction to the Funds of Funds Universe

According to the [ANREV/INREV Funds of Funds Universe](#), around 60% of all the funds of funds have a core investment style, while the non-core is represented by the remaining 40%. This split is more or less evenly distributed by number of vehicles, but highly skewed to core style with 95% of the total net asset value (NAV).

By investment structure, the distribution is more or less equal between open end and closed structures, although by NAV most of the capital is allocated to open end structures.

Figure 11: Funds of funds distribution by investment style



Source: INREV Fund of Funds Universe

Returns fell during 2022 but remained positive

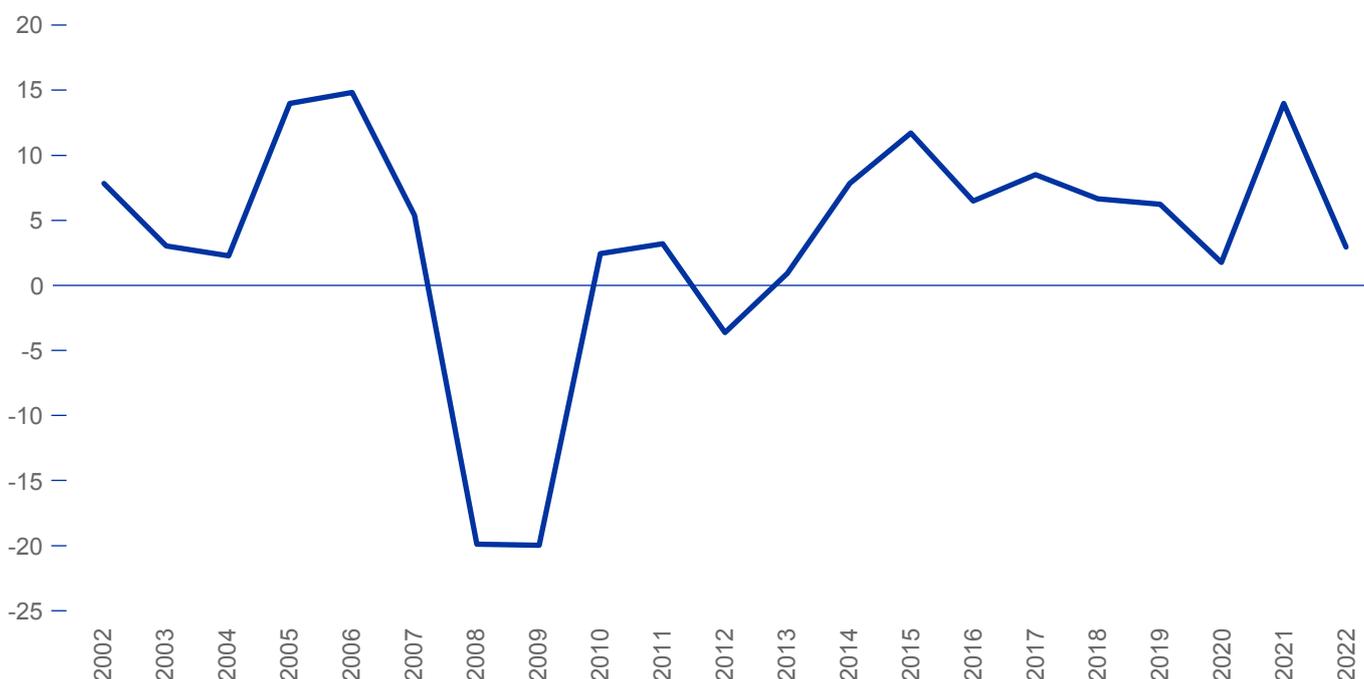
At 2.93%, the funds of funds' average total return remained positive during 2022, although slowed significantly compared with the 13.96% delivered for 2021 (see Figure 12).

Given the underlying market conditions and rapid interest rate increases in most parts of the world, this slowdown in performance is not unexpected as all

the real estate vehicle types experienced a notable decline in 2022 returns, especially in the second half of the year.

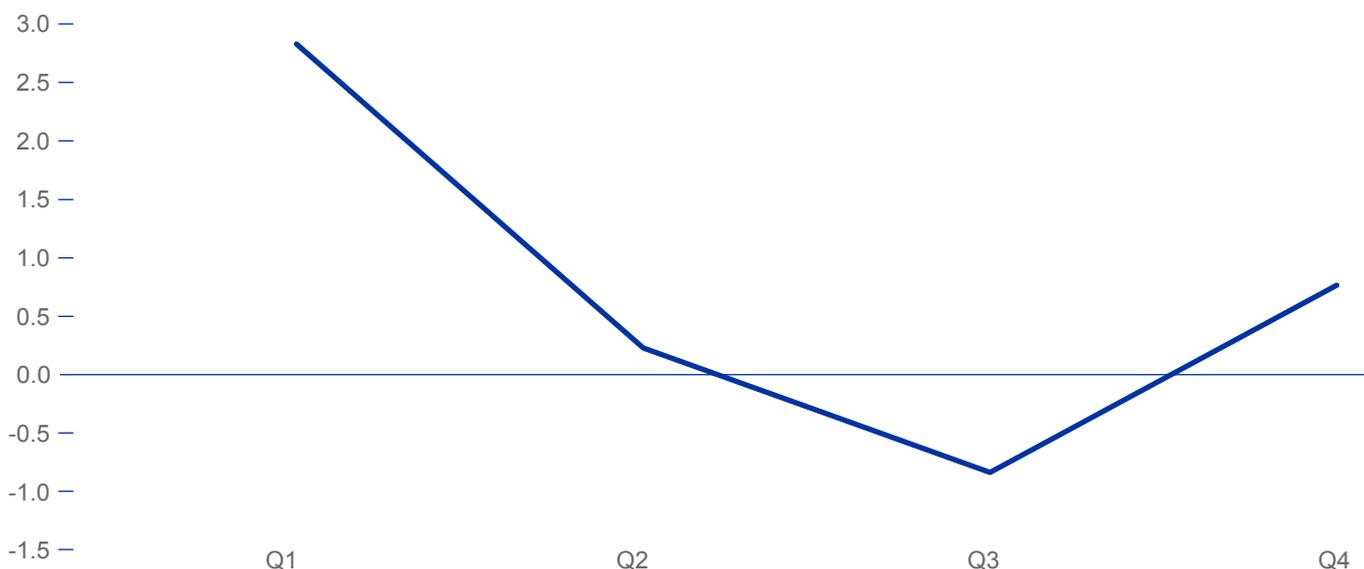
Last year was a year of two halves, with the Q1 2022 performance at a robust 2.82%, progressing to close to zero in Q2 before turning negative (-0.83%) in Q3 (see Figure 13). The Q4 performance showed a clear rebound due to the relative improvements in some of the global markets and what looks like favorable sector allocations.

Figure 12: Funds of funds' annual performance (%)



Source: ANREV/INREV Data Platform

Figure 13: Funds of funds' quarterly performance in 2022 (%)



Source: ANREV/INREV Data Platform

Since 2015 core, open ended structures overperformed those vehicles with a higher risk,

closed end structure, with the exception of 2021 and 2022 (see Figures 14 and 15).

Figure 14: Funds of funds' annual performance (%) by investment style



Source: ANREV/INREV Data Platform

Figure 15: Funds of funds' annual performance (%) by structure



Source: ANREV/INREV Data Platform

Chapter 3.1

Regional strategy matters

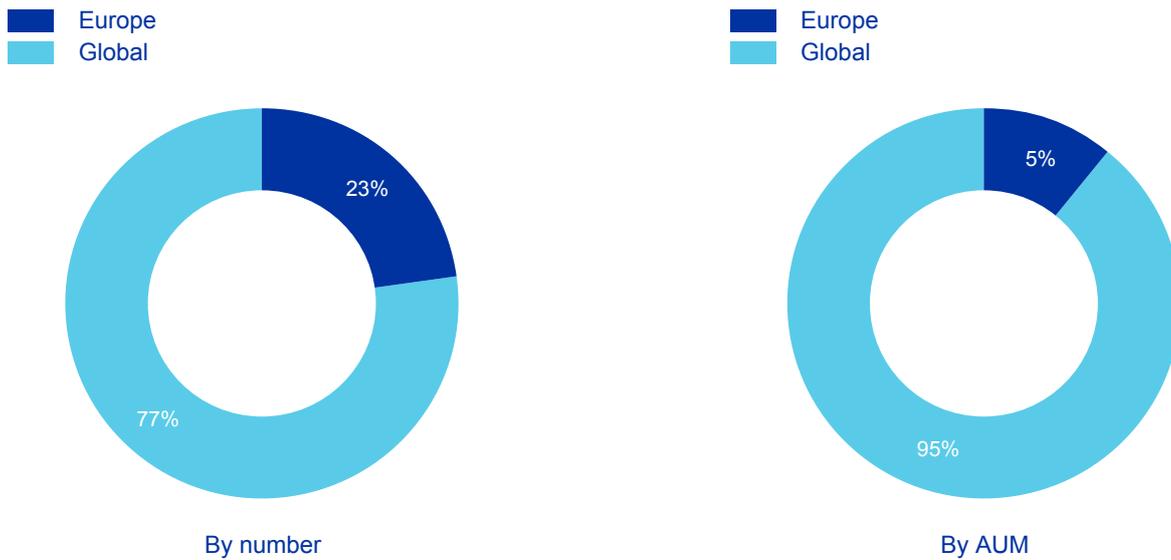
Global strategy funds of funds marginally underperformed their European peers in 2022

Global strategies are the most popular among funds of funds by number and NAV (see Figure 16). This is not surprising as one of preferred features is the global reach they offer to small and medium size investors, especially given the flexibility to access some sectors that may be otherwise limited to those peers with only regional reach.

Historically, funds of funds with global strategy outperformed their European peers by an average of 322 bps per annum. At 611 bps, the outperformance was particularly strong in 2021.

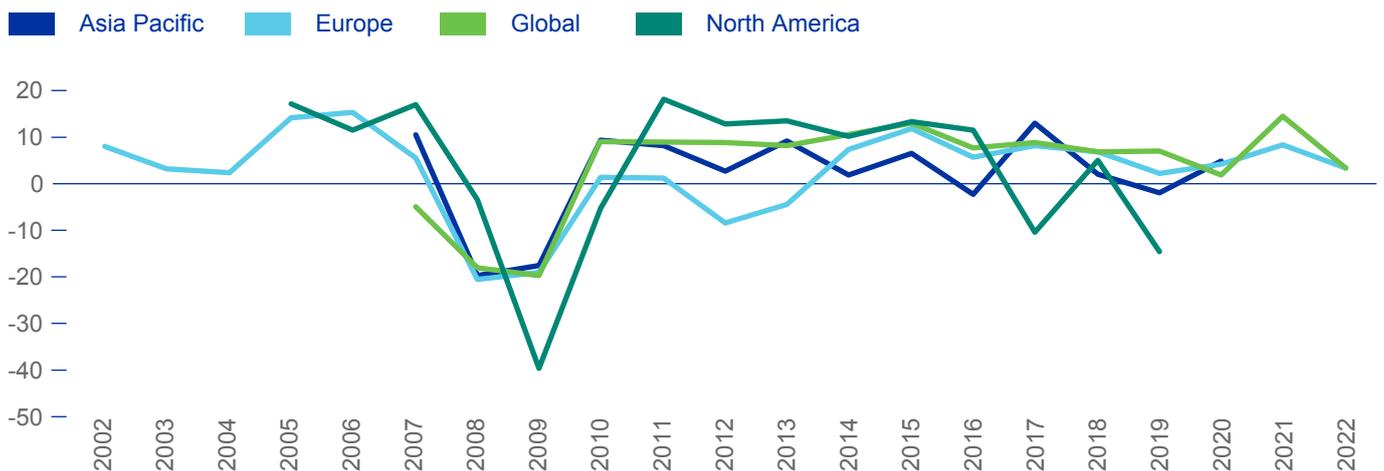
In 2022, global funds of funds (8 vehicles) showed a total return of 2.92%, compared to 3.06% for funds of funds with a European strategy (4 vehicles), reporting a marginal outperformance of 14 bps.

Figure 16: Funds of funds' distribution by regional strategy



Source: INREV Fund of Funds Universe

Figure 17: Funds of funds' annual performance (%) by regional strategy



Source: ANREV/INREV Data Platform

Appendix 1

Methodology and use

The ANREV / INREV Funds of Funds Study provides an overview of the fund of funds industry globally, including insights by target region, by 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 by INREV and since 2015 it has had an intercontinental scope being conducted in conjunction with ANREV in Asia Pacific.

For sections 1 and 2 the data comes from three different reports, ANREV/INREV/PREA Investment Intentions Survey, ANREV/INREV/NCREIF Capital Raising Survey and ANREV/INREV/NCREIF fund Manager Survey, and surveys conducted during May and June of 2023 with five funds of funds managers.

For section 3 this year's sample includes 22 vehicles managed by nine managers, all included in the ANREV / INREV Funds of Funds Vehicle Universe. Collectively the 22 vehicles represent a total Net Asset Value (NAV) of €25.6 billion.

Performance data for 2022 was provided for 12 funds of funds. With NAV of €10.6 billion, the performance sample stands below the total NAV of the [Funds of Funds Vehicle Universe](#).

The performance analysis is based on an unfrozen sample, 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 ANREV / INREV. Performance figures are weighted by NAV, net, and stated in local currency.

The results of this study are based on data provided directly to ANREV and INREV from managers. ANREV and INREV do not use publicly available information, and both members and non-members can provide data for the study. This study is also supported by five bespoke interviews, undertaken in June and July 2023 with funds of funds active in the non-listed real estate market in Europe and/or globally.

ANREV and INREV would like to thank all participants and interviewees for contributing to the Funds of Funds Study 2023.

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 composition vary yearly. As such, historical comparison should be treated with caution.

Appendix 2

Participants

4IP Management AG

4IP European Real Estate Fund of Funds

Altan Capital

Altan III Global FIL

Altan Inmobiliario Global I&II

CBRE Investment Management Indirect Limited

CBRE Global Alpha Platform

LGT Capital Partners Ltd.

Crown Small Real Estate Fund II

Deka Immobilien Investment GmbH

Deka-Immobilien StrategieInstitutionell

Helaba Invest Kapitalanlagegesellschaft mbH

HI-Immobilien-Multi Manager-Fonds

HI-Immobilien-Multi Manager-Fonds II

HI-Immobilien-Multi Manager-Fonds III

HI-Immobilien-Multi Manager-Fonds IV

LaSalle Global Partner Solutions

LaSalle Global Navigator Fund

LaSalle Investors Global Real Estate Fund of Funds

LaSalle Investors UK Real Estate Fund of Funds

PATRIZIA Multi Managers A/S PMM Global II K/S

PMM Global II K/S

PMM Global III K/S

PMM Global IV K/S

PMM Global V K/S

Swiss Finance & Property Corporation (SFP)

SFP AST Global Core Property Hedged

SFP AST Global Core Property Unhedged

UBS Global Asset Management (UK) Ltd.

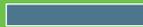
UBS (Lux) Real Estate Funds Selection - Global

UBS (UK) Real Estate Funds Selection - Global ex Canada LP

UBS AST 3 Global Real Estate(ex CH)


CORPORATE


RESEARCH


MARKET
INFORMATION


PUBLIC
AFFAIRS


PROFESSIONAL
STANDARDS