Q1 2023 Fundraising Update

Pension fund commitments to managed real estate vehicles

Ferguson Partners

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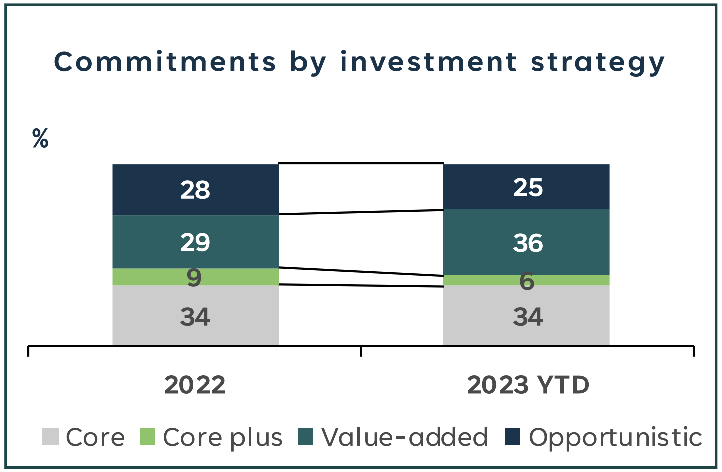
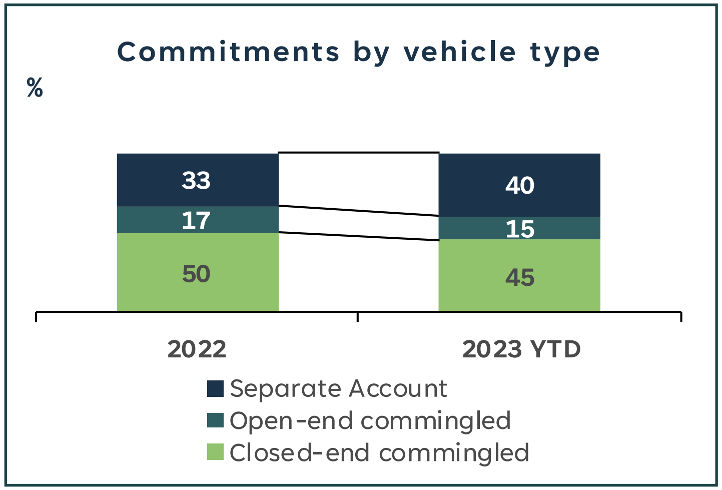
Capital commitments to private real estate slow in Q1

Public pensions committed $10.9 billion to real estate managers through the first quarter of 2023, a 38% year-over-year decrease

Commitments to real estate managers by U.S.-based public pensions in Q1 2023 decreased significantly relative to Q1 2022, according to data tracked by Ferguson Partners ("FP"). Per FP's proprietary commitment database, pensions committed $10.9 billion to managed real estate vehicles through the first quarter of 2023, compared to $17.6 billion last year and $12.6 billion in 2021. This represents the lowest Q1 commitment volume since Q1 2020 when public pensions committed only $9.4 billion to real estate vehicles. The weaker capital flows were driven by a significant decrease in the number of individual commitments captured, decreasing 63% from Q1 2022 and 30% from Q4 2022.

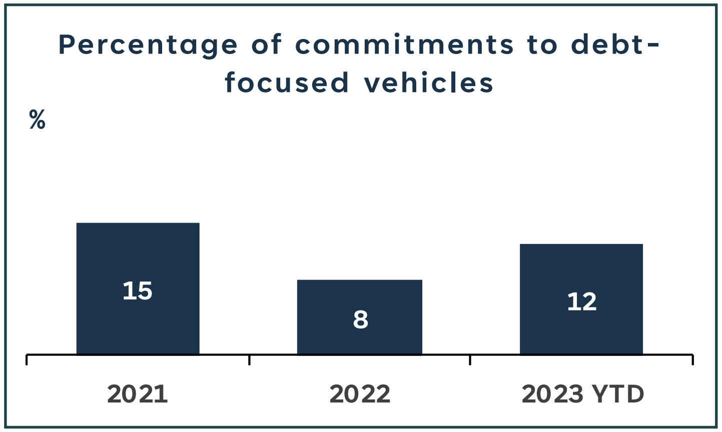
Commitments tracked during the first quarter of 2023 have shifted slightly toward high-yield strategies. Through the first three months of the year, the share of capital flowing to opportunistic strategies decreased slightly to 25% but the share flowing to value-add strategies increased to 36%. This Q1 share of commitments to value-add strategies is the largest since Q2 2020, when value-add strategies accounted for 37% of all commitments. Together, these strategies now represent 61% of total commitments. These gains were offset by decreases in the portion of capital flowing to core-plus strategies, which fell to 6%.





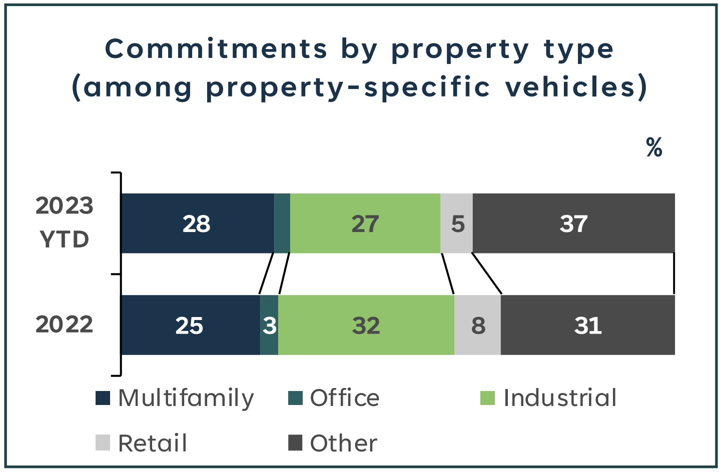
With regard to vehicle type, separate fund structures represented a larger percentage of commitments during Q1 2023, increasing from 33% to 40%. The increase is particularly pronounced when compared to Q1 2022, when only 19% of pension commitments flowed into separate accounts. Open-end commingled funds saw slight decreases relative to 2022, falling from 17% to 15%. Similarly, closed-end commingled funds decreased from 50% of total volume in 2022 to 45% through Q1 2023.

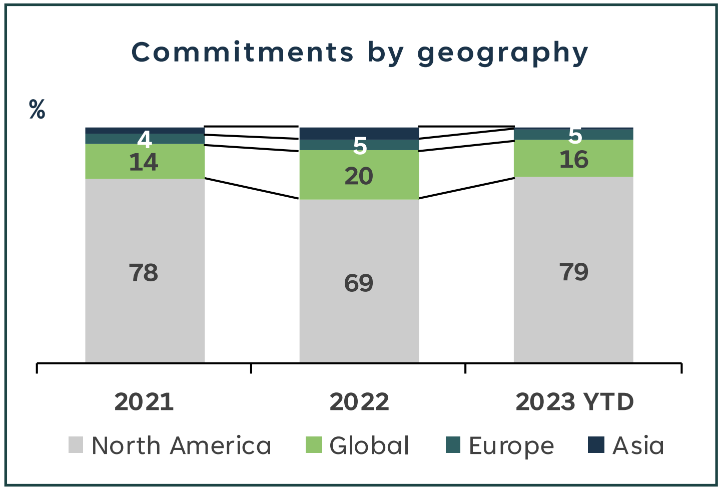
Vehicle Focus, Property Type, and Geography



The share of total commitments to debt-focused vehicles rose during the first quarter of 2023 compared to full-year 2022. Through the first three months of the year, 12% of commitments flowed to debt-focused vehicles compared to only 8% in 2022. This is the largest quarterly share since Q3 2021 when 15% of allocations were to debt-focused vehicles. With the availability of debt capital decreasing due to macroeconomic headwinds and instability in the banking system, it is unsurprising that the percentage of allocations to debt-focused vehicles rose in Q1 2023.

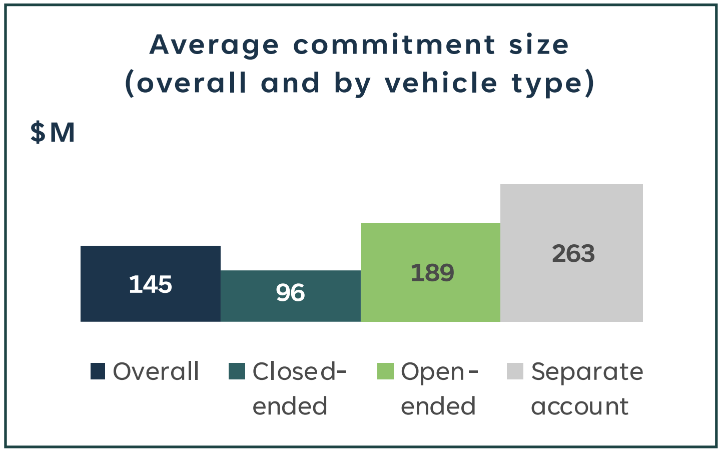
Vehicles dedicated to a single property type have attracted 53% of commitment dollars thus far in 2023, a figure that is consistent with 2022 (53%) and slightly higher than 2021 (49%). Among commitments to property-specific vehicles, "other/niche" sectors were the most popular property types over the first three months of 2023, representing 37% of total volume, followed by multifamily (28%) and industrial (27%). "Other/niche" sectors include healthcare, life sciences, hotels, single family rentals, data centers, cold storage, and senior housing, among others.





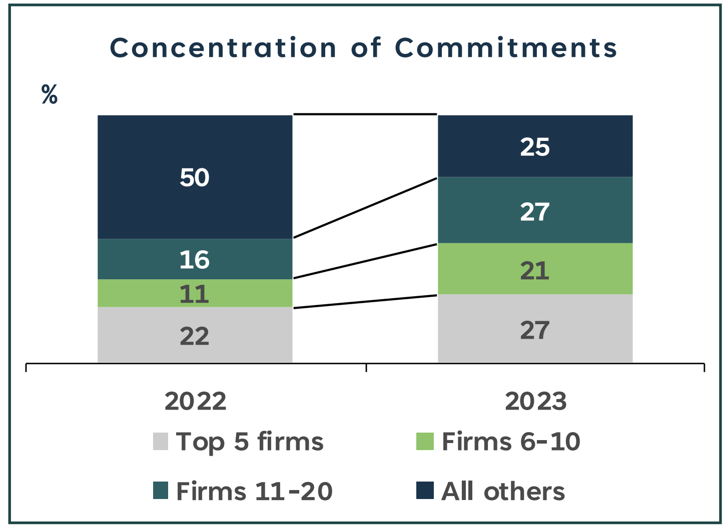
The overwhelming majority of committed capital from domestic public pensions continues to flow to vehicles focused on North America. Commitments to North America-focused vehicles totaled 79% of commitments through Q1 2023, which represents a sizeable increase from 2022. Commitments to global strategies decreased slightly, accounting for 16% of commitment volume thus far this year. Commitments to Europe-focused strategies stayed consistent with 2022 while Asia-focused strategies decreased year-to-date. Europe and Asia-focused commitments represent roughly 6% of total volume on a combined basis.

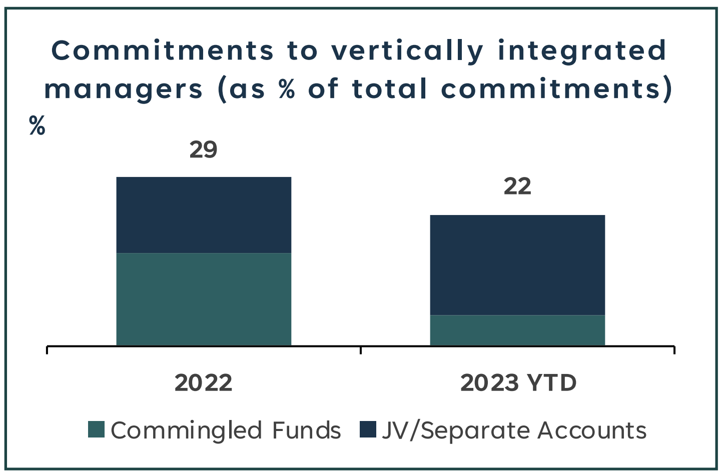
Commitment Size, Concentration, and Vertical Integration



The average commitment size thus far in 2023 is $145 million, up 29% from the 2022 average of $113 million. This was primarily driven by a significant increase in average commitment size to commingled funds, with the average commitment size to closed-end commingled funds rising from $84 million in 2022 to $96 million in 2023 and the average commitment size to open-ended commingled funds moving from $129 million in 2022 to $189 million in 2023. Additionally, the average commitment size to separate accounts increased modestly from 2022.

Through Q1, the landscape of investor concentration is vastly different from 2022. The first quarter of 2023 was marked by a significant increase in commitment concentration among the top 20 managers. Thus far in 2023, the top 20 firms (by aggregate fundraising dollars over the period) represent 75% of volume year-to-date compared to 50% in 2022. Driving this increase was a slight uptick in the percentage of total commitments awarded to the top five managers, as well significant increases in those ranking 6-20. It will be interesting to see if these concentration metrics follow the historical pattern of declining over the course of the year as managers compete for fewer dollars.





Vertically integrated managers attracted 22% of commitment capital through Q1 2023, down from 29% in 2022. Commitments to vertically integrated managers were more skewed toward JV/separate accounts than commingled funds where 51% of commitments to JV/separate accounts went to vertically integrated managers. Further, when segmenting by strategy, value-add mandates were most likely to be committed to vertically integrated managers, with 36% of total value-add commitments flowing to vertically integrated managers in Q1 2023.

LP Feedback Studies – Turn Insights Into Action

Understanding Investors

The Challenge

Business success starts with the customer.

Understanding the needs and perspectives of investors is critical to building, scaling, and maintaining a successful investment management business.

The challenge is getting unvarnished, honest, and meaningful feedback – both from existing and aspirational investors - that can inform your strategy and operations in an intensely competitive funding environment.

Ferguson Partners

Our Value

With 30+ years of experience serving our clients, Ferguson Partners is a trusted name in the real assets industries.

Our expertise, relationships, and brand make us a valued partner in facilitating LP feedback studies for our clients.

Our status as an independent third party enables our success in collecting objective, constructive feedback from LPs. We then take this feedback and help translate these learnings into operational success for our clients.

Investor feedback results in actionable insights

LP studies help answer key questions and drive strategy in improving investor relations performance

Benefits of our process

- **Answers to key questions.** Understand what LPs are seeking, thinking, and feeling, and how they view the key strengths and challenges of your platform.
- **Defined strategy**. Identify new business and product opportunities spurred by investor demand.
- **Direct peer comparisons.** Learn how you stack up vs. the competition. Through our confidential forum, LPs are comfortable providing sensitive feedback and are more willing to make direct comparisons of clients vs. peers.
- **Enhanced messaging.** Discover how to effectively differentiate yourself from competitors and articulate your place in the market. Communicate to investors in a way that meets their needs.
- **Improved investor targeting**. Get smarter on your product-market fit leading to fewer wasted meetings and more time with real prospects.
- **Investor loyalty.** Demonstrate your commitment to improving client service and identifying and addressing challenges by engaging a third party to formalize the feedback collection process with your investors.

Contact

For questions on this report or more information on our LP feedback study process, please contact our consulting team

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Scott McIntosh is a Director in the Management Consulting group at Ferguson Partners, based in the firm's Chicago office. During his time at Ferguson Partners, Scott has worked with clients across the real estate industry on various organizational, strategic, and financial consulting engagements. Scott has experience advising clients on organizational structure and financial performance, valuation considerations, governance structures and best practices, succession planning, compensation practices, and strategic planning.

Prior to joining Ferguson Partners, Scott worked for the global advisory firms Mercer and Navigant Economics. Over the past five years, Scott also held various leadership positions on the Auxiliary Board of Northwestern Memorial Hospital, a Chicago-based organization that funds innovative research at Northwestern Memorial Hospital.

Scott graduated from Indiana University (Bloomington) with a Bachelor's degree in Finance and earned an MBA from the University of Chicago Booth School of Business.

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Justin Pellino is a Director in the Management Consulting group at Ferguson Partners, based in the firm's Chicago office. Justin specializes in advising real estate clients in both the private and public spheres. His functional expertise includes L.P. feedback studies, organizational design, financial and operational efficiency, ownership transitions and succession planning, compensation, governance best practices, and custom-designed research studies. His work spans across all asset classes and various types of real estate platforms (e.g., private equity, developers, investment managers, family offices, owner/operators, etc.).

Prior to joining Ferguson Partners, Justin held numerous positions with Amazon, focused on strategy, operations, and finance.

Justin holds a finance degree from the University of Notre Dame.

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About the Database

Ferguson Partners' database, which has tracked capital flows since 2011, includes commitments to 521 managers from 306 U.S. public pensions representing over $5 trillion in assets under management. Data comes from a variety of sources including pension websites and industry news sources.

Ferguson Partners

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