Emerging Manager monthly

A Publication of
Financial Investment News

January 2014 www.emergingmanagermonthly.com Vol. IX, Issue 1

A Look Inside Emerging Manager Programs

The emerging manager space has begun to show signs of a transition as programs have matured, manager information has become more accessible and institutional portfolio construction has adapted to focus on risk management and fees.

The transition includes not only an assessment of the current constructs of the existing emerging manager programs from a strategy and implementation perspective, but also a forward-looking examination of where the space is going.

"I think this whole idea of it being a program needs to go away. It is not a program, it is an investment approach that can benefit the overall plan," says Lawrence Bancroft, president and ceo at emerging manager-of-managers Bivium Capital Partners. "Approach it more as a strategy that can be beneficial to the plan."

The "institutionalization" of the emerging manager space has also changed how plan sponsors view their programs.

"Most of the early emerging manager strategies, people were more concerned about risk than they were about alpha," Thurman White, ceo of Progress Investment Management Company said. "Today, I don't think there is that continued concern."

A slowdown in the number of new firm launches compared to pre-2008–95 total long-only firms were launched in 2007 compared to just 16 in 2012 according to Bivium research–as well as difficulty in accessing capital has also changed the dynamics of the emerging manager sector.

See EMERGING, Page 5

How EMM Compiled The Data

Data for the 35 public pension plans with emerging manager-of-managers allocations was compiled through public documents either provided by the respective plan on its Web site, through information requests submitted to plans and, in one case, a legal action taken against a plan to compel disclosure of the underlying manager information.

The dates of the reports range from May 31 through Sept. 30.

We also adjusted two plans, the Stanislaus County Employees Retirement Association and the San Joaquin County Employees Retirement System, to include Pacific Ridge Capital Partners, which replaced a firm which is now closed.

Regarding the strategies each manager was assigned, there may be some discrepancies between a manager's strategy definition and how the strategy was defined by the plan. In those cases a decision was made at the discretion of EMM staff.

Editor's Note: Putting A Story To The Numbers

In a first-of-its-kind undertaking, Emerging Manager Monthly has compiled information on 35 public pension funds utilizing emerging managers-of-managers, including each underlying manager and the type of strategy they manage in the respective programs.

The results provide a basic outline of where the emerging manager space currently stands in the traditional markets as well as insights on where the industry is and could be moving.

Overall, 755 underlying emerging manager allocations exist among the 35 programs that were reviewed, with 160 total managers receiving mandates.

In breaking out the data, we have focused on several key figures and rankings, including a look at the most popular investment strategy in the programs, the most common managers utilized in the plans and also discussions on the utilization of broad emerging manager programs versus strategy specific mandates and the more recent movement of some institutions to direct programs and away from manager-of-manager relationships.

This first attempt to provide an overview of the space will serve as the measuring stick moving forward as we continue to aggregate data and hopefully expand our research into other programs and into the alternatives space.

We chose to focus initially on public pension plans and the traditional markets because of the transparency and relative maturity of traditional long-only emerging manager programs.

Inside, you will also find a breakout of each program, including the dates the manager data was compiled, a breakout of each manager-of-manager and the number of allocations they have with each respective manager and a breakout of each manager and their respective mandates.

Matthew McCue, mmccue@fin-news.com

Copyright Notice: Copyright 2014 by Financial Investment News (FIN) and GRLM, LLC. All rights reserved. Photocopy permission is available solely through GRLM, LLC, Financial Investment News, 267 Fifth Avenue, Suite 1010, New York, NY 10016. Copying, photocopying or duplicating this publication in any form other than as permitted by agreement with FIN is prohibited and may constitute copyright infringement subject to liability up to $100,000 per infringement. For photocopy permission, back issues and bulk distribution needs, please contact Matthew McCue at 646-810-1075 or e-mail mmccue@fin-news.com.

Pembrook Fills Middle Market Commercial RE Lending Gap

The cyclical and structural changes to the banking industry over the past few years have created an opportunity for firms focused on commercial real estate lending to fill an important role in the market, as The Dodd-Frank Act and Basel III have made the business of balance sheet lending less attractive and profitable for banks.

"While the big banks are still doing balance sheet lending, they are doing it for very large institutional clients and they are doing loans for a customer base that will provide the bank with other more profitable business like investment banking," said Stuart Boesky, founder of Pembrook Capital Management, which manages commercial real estate private equity funds that focus on debt strategies.

By focusing on the middle market and typical loan sizes ranging from \$5 million to \$50 million on transitional properties not ready for securitization, Pembrook can fill the void left by the big banks.

"These are changes that are going to be with us for years to come, which means that our business model, balance sheet lending to transitional properties, is going to be with us for years to come," he said. "The market has really come straight to our strong suit and our strong suit is being able to originate and asset manage and underwrite a balance sheet loans on transitional properties."

Pembrook was launched in 2006 by Boesky after a career that included serving as ceo of Centerline Holding Company, formerly known as Charter Municipal Mortgage Acceptance Company, and an executive v.p. at The Related Companies.

"The idea was to really start focusing on similar things that we did at Related and Charter Mac and that was really to provide flexible capital to developers at different parts of the capital stack," Boesky said.

The firm focuses on providing first mortgage loans, bridge loans, mezzanine loans and preferred equity financing to developers and owners throughout the country, with a focus on urban, high density and harder-to- develop areas with a high barrier of entry.

Boesky said one factor that distinguishes Pembrook for some of it's peers is the attention they pay to managing fund liabilities; the amount and type of portfolio leverage it uses.

"When you look at the performance of our funds and you look at the risk adjusted profile of our funds, what I really think comes through to our investor base is we focus a significant amount of our investment management on attention to our liabilities," he said.

The firm has provided about 65 loans at a total of around \$650 million.

The real estate debt space can also provide a diversifying asset class for investors concerned with the prospects of lower returns in the fixed-income space.

"I think they understand there is a good opportunity for them to make an attractive return, certainly if it is an alternative to what they are doing on the fixed-income side," he said.

Boesky said the same holds true for investors that are concerned about pricing in the real estate equity space.

"The kinds of returns that the equity investors are targeting now are really right in line with what we are targeting, so a commercial real estate value-add equity fund will be targeting the same kind of returns as our debt fund is targeting," Boesky said. "When you just look at the relative risk-reward of the two strategies, you start to think, well geez if I can get a current coupon and a total return that is equivalent to an equity play and I am investing in a fund that is targeting 75% or less of loan to value, which means the equity guys are much more junior in the capital stack, it seems like a pretty interesting play."

TerraCap Partners Closes Second Real Estate Fund

TerraCap Partners has closed its second real estate fund with the backing of several Massachusetts defined benefit plans.

The fund closed with \$102 million, including investments from the Norfolk County Retirement System, Westfield Contributory Retirement System and Holyoke Retirement System as well as Partners Group.

"What we learned is the trustees and the consultants that are out there are really interested in long-term relationships and the good fortune for us is that all of the ones who invested with us had been watching us for a minimum of two years and a maximum of four years," said Steve Hagenbuckle, founder and managing principal of the Bonita Springs, Fla.-based firm.

The fund had a soft close at the end of the third quarter and a hard close in December. Already, \$75 million from the fund has been invested and the balance of \$27 million has already been committed for acquisitions that will close by next month.

Hagenbuckle said the addition of Jamie Lane as director of investor relations last year was a major boost to the marketing capabilities of the firm.

"Jamie Lane really deserves a huge amount of credit because in a quick five months, he brought in four pension plans and Partners Group. That was obviously key," he said.

Having a focused plan that included keeping the fund relatively small also benefited the firm as it raised capital for Fund II.

"The thought behind it was let's do something small, let's do it right, let's build the staff carefully and the systems behind the strategy so it is executed well," he said. "Basically, let's earn the right with something small and then grow from there and the same held true with Fund II."

The firm anticipates launching a third fund in the first half of 2014 that will likely be in the \$200 million to \$300 million range.

He said that while the second fund is largely opportunistic, the third fund will likely flip and be focused on value-add investments, with some opportunistic included.