Aberdeen Asset Management

Recently, ***Geoffrey Dohrmann,*** *publisher and editor-in-chief of* The Institutional Real Estate Letter – North America, *spoke with* ***Andrew Smith*** *of Aberdeen Asset Management. An excerpt of that conversation follows.*

Based in London, Andrew Smith is global head of property, and a member of the group management board at Aberdeen Asset Management. Smith joined Aberdeen in 2002 as head of investment strategy, and subsequently fulfilled a variety of fund management roles before taking up his current responsibilities in 2010.

CORPORATE OVERVIEW

Aberdeen Asset Management is a global investment management group, managing assets for both institutional and retail clients from offices around the world. Its mission is to deliver strong fund performance across diverse asset classes in which Aberdeen believes it has a sustainable competitive edge. Aberdeen Asset Management is an active property investment manager with an unrivalled local presence in key international markets. The group offers separate accounts and collective funds, including funds-of-funds.

Active management, top-class research, local presence and a rigorous investment process are the means by which Aberdeen adds value to real estate investment. Aberdeen offers a wide range of well-structured vehicles that provide strong risk-adjusted returns and a choice of geographic and sector allocations.

Total Funds Under Management — $265 billion
Property Under Management — $32 billion

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U.S. institutional investors are familiar with Aberdeen's equities and fixed-income capabilities, but they may not be as knowledgeable about your property investment expertise. Can you talk a little bit about that?

Our $32 billion of client money is mostly invested in Europe through a mix of commingled funds and segregated mandates in both single-country and cross-border core to value-added portfolios. The United Kingdom is our largest single market, but accounts for less than a quarter of total assets. Our investors are supported by a large international investment team of over 300 people located throughout continental Europe and the Nordic region. We also have a global multi-manager capability, where we act as an intermediary for investors looking to place money into a selection of third-party funds worldwide. The multi-manager group includes teams based in Singapore and Philadelphia, as well as staff in three offices across Europe.

There are other global managers out there. What advantages does Aberdeen bring to investors in the direct property market?

Primarily, we're a decentralized business, meaning we can compete effectively with the local investors across the different markets where we operate. So in nearly all of the countries where our clients own or plan to own assets, we have teams on the ground who can do the buying and selling, the due diligence and the asset management.

Why is that an advantage?

Local knowledge is often the key to the best deals in buying, selling and letting real estate. When investing cross-border, most institutional investors focus their attention on office markets in a few major cities because that's what they understand best. However, Aberdeen's strong local teams are able to help international investors access markets the same way that local institutions do, expand their pool of possible acquisitions and therefore potentially improve their investment results.

Why would investing like a local be advantageous?

Let's use Germany as an example. There are a large number of investable locations that domestic institutions are very comfortable with, but you often find global investors only targeting Frankfurt, as the main financial center. That means that they're competing with many other international investors looking for the same prime assets, and consequently all paying top prices. We believe that Aberdeen's depth of coverage outside the prime capital city markets gives our clients an increased opportunity set and access to institutional grade stock in markets that are less competitive, and often more attractively priced as a result.

Are there other reasons besides less competition to look outside the capital markets?

The prime world cities tend to be global financial centers. If you look at where the problems are at the moment, it's in the financial service and banking sector. We're able to take our clients away from the office sector in financial-center cities and look at other high grade property types in strong locations, such as shopping centers well-let to international retailers on good leases. This is first-tier stock in locations that aren't necessarily on the global investors' radar but would most certainly be on the buy list for domestic institutions.

Just as there are other global managers, there are other multi-managers as well. What distinguishes Aberdeen's multi-manager platform from others?

Here too we believe that the size and experience of our team are very real advantages. We had one of the first multi-manager platforms when we launched it in 1996. After starting in the United Kingdom, we grew to have the first European fund of funds, and then expanded through Asia and now globally. With a team of 30-plus, we are able to have on-the-ground talent that can do in-depth due diligence on our targeted investments in each of the three global regions. Because we've been doing this for so long, we're experienced in investing in these commingled funds in a variety of market situations. We've been through more than one downturn. We've seen winners and losers through that period. That's very useful experience.

Our experience and resources also allow us to take a proactive approach to multi-manager investing. Although the capital is invested in other managers' funds, we're often able to join their advisory boards. In addition, in many cases, they consult us on new products they're developing, so we have the opportunity to shape the structuring of vehicles before they come to market and then also to maintain a role in their management.

What are the advantages of a multi-manager fund?

We have the opportunity to carefully screen and select what we believe are very good funds with a variety of strategies and risk profiles. This means that even small pension funds can gain access to an exceptionally diverse portfolio with many billions of dollars of underlying real estate, managed by chosen specialists. Most investors would not be able to achieve this diversity by going direct.

A multi-manager fund is also a very efficient way to gain global exposure. Going global directly requires a huge pool of capital to get meaningful diversification benefits. Using our multi-manager capabilities allows much smaller investors to efficiently access global markets. Many of our investors have directly owned portfolios of domestic real estate, but turn to a multi-manager strategy to move cross border.

How does your research team bridge the two platforms – direct in Europe and multi-manager globally?

Research is the glue that joins the global organization together. Our research team doesn't just crunch numbers. It actively helps with asset allocation decisions, as well as stock selection decisions in close collaboration with our fund and asset managers. We use the same well-researched approach to choose individual assets for our direct portfolios and to choose commingled funds and fund managers for our funds of funds. This common approach is all about risk management and control, which is crucial in a time like this when we are seeing so much uncertainty in the market.. Our clients generally tend to be low- to mid-risk investors, so we focus more on mature markets than emerging markets. Aberdeen has a distinct advantage in this area in that we have the ability to look at both the investment and the occupier markets at local level. Because we have on-the-ground investment and asset managers, we really understand what drives occupational decisions, local rent and local pricing in individual markets, as well as how local fund managers are performing.

On the direct side, how is the debt crisis affecting your ability to execute both lease transactions and property transactions?

It looks worse from outside Europe than it does within it. From within Europe, it's easier to appreciate the diversity of economies and operating structures in the property market as well. No market is immune, but places like the Central London office market, and some markets in Germany, France and the Benelux countries have been relatively resilient. We are also doing some investing outside the euro zone, which hasn't been as affected by the financial problems. We have found the Nordic countries, particularly oil-rich Norway, to be more stable than most. The Nordics are not large in a global context, but we have a very strong Nordic platform, and that's been a benefit to us as a business as well as to our investors. It's going to be a tough few years, but I think the crisis will create opportunities for investors. And not all the opportunities will be in property investment. We're expecting consolidation in the industry over the next two or three years, and I'd expect Aberdeen to benefit from that evolution as well.

Where should North American global investors be looking?

When the United States is such an enormous market, the question really becomes: what do you gain by diversifying globally? Canada is a relatively small domestic market, but it is performing very well at the moment, so again, why go global? I think there are two reasons that are nearly universally valid. First of all, global investing gives investors the opportunity to add value over what can be achieved at home. This can be done by taking advantage of others' misfortunes, particularly in the better European markets already mentioned, as well as growth stories in emerging markets in Asia and South America. The second advantage of global investing is that it can improve the risk-return trade-off by reducing portfolio risks through diversification. Markets generally perform on different time horizons, so by investing across a broad spectrum of countries and sectors, and by adapting their strategy and investment style to market conditions, investors can potentially smooth out the downside. Admittedly, you have to do your analysis quite carefully, and at times you'll need the courage to work contra-cyclically, but our experience and research tell us that it's possible, and shows the rewards from getting it right.

What markets would be appropriate for a North American investor looking to increase returns?

Everyone is focusing on Asia at the moment, but Asia is a big place. Some areas will falter, but we believe that the best should continue to outpace the markets in the rest of the world. Latin America's emerging economies are another growth story, and we'll see a lot of property activity there. However, a lot of these emerging markets are very volatile. When they're doing well, they can't be beaten. But they have a habit of being very strongly cyclical and falling as fast as they rose. The investor appetite at the moment is relatively cautious and is not pushing into the newly developing economies on a large scale. However, we don't believe you necessarily have to invest in emerging markets to gain benefits of growth.

Where are the less volatile growth markets?

Growth and volatility often go hand-in-hand. If you look at Asia, there are markets that are mature, well developed and relatively transparent such as Singapore, Hong Kong and Shanghai, but they are still volatile. In Europe, London offices have outperformed recently, but the market is notoriously cyclical. Our approach is to focus on risk adjusted returns. It puts the spotlight on market selection, and a focus on property fundamentals. Markets we think offer healthier risk adjusted returns can be quite diverse. Now, they include Sweden, Australia and Canada. We aim to buy investments with good management potential and a strong cash flow that is based primarily on fundamentals, not financial engineering. That seems to be in tune with what most investors are looking for at the moment. ❖