



# Portfolio Management Tools and Processes

Real Estate Emerging  
Managers Summit  
January 10, 2012

## Discussion Agenda

Topic	Presenter
Introductions	John Baczewski, Real Estate Fiduciary Services
Why do portfolio management tools and processes matter?	John Baczewski
Back Office Processes	Massimo Zannella, Citi Private Equity Services
Risk Management Tools	Jim Valente, IPD
Q&A-Wrap-up	John Baczewski

# Emerging Manager Attributes

As an Emerging Manager, we currently manage:

- 1) Institutional capital
- 2) Other capital
- 3) No capital-We have a dream.....

# Emerging Manager Attributes

Our Emerging Manager Organization:

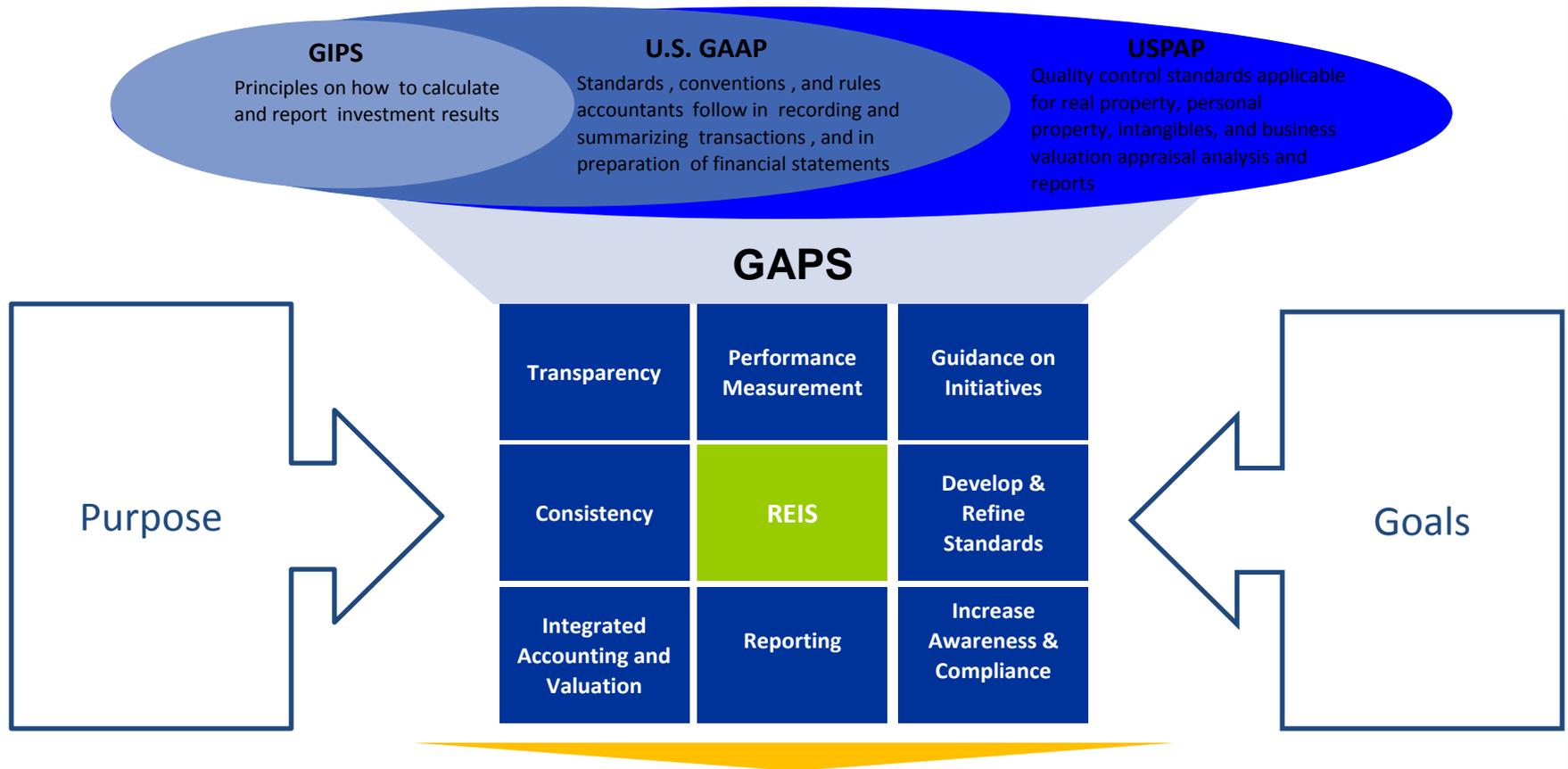
- 1) Maintains a well-documented set of policies and procedures
- 2) Has some documented policies and procedures
- 3) We are a terrific deal team and will add that “back-office” function later

# Elements of Good Policy

- 1) Promotes compliance with rules and consistency of presentation
- 2) Facilitates understanding of information across portfolio and time periods

# REIS Purpose and Goals

GIPS, U.S. GAAP and USPAP form the Foundational Standards upon which REIS depends; however, REIS provides guidance when these standards are silent or subject to interpolation



# How Do I Get More Information?

- *REIS web site:* [www.reisus.org](http://www.reisus.org)
- *REIS Handbook*
- *Open Council Meetings:* monthly, third Wednesday, Noon Eastern
- *REIS News:* monthly publication
- *Sponsor web sites:* [www.ncreif.org](http://www.ncreif.org);  
[www.prea.org](http://www.prea.org)
- *Contacts:*
  - John Baczewski, REIS Board Chair
  - *REIS Director of Operations:* Marybeth Kronenwetter ([marybeth@reisus.org](mailto:marybeth@reisus.org))

# Three Things You Can't Outsource

- 1) Fiduciary responsibility to our clients as investment advisors to protect their assets
- 2) Regulatory responsibility – SEC rules/Investment Advisers Act of 1940
- 3) Enterprise Risk Management – Mitigating the risk exposure associated with use of external service providers



# Portfolio Management Tools and Processes: Back Office Processes

Massimo Zannella, Citi Private  
Equity Services  
January 2012



The trends and challenges are creating needs for the emerging manager and Investor that go beyond investment management and require mature infrastructures with robust controls.

## Trends

- Search for greater sector diversity
- Increased appetite for direct and co-investments
- Increased focus on performance transparency and risk management
- Investors thirst for more data and transparency
- Emerging and evolving regulatory environment

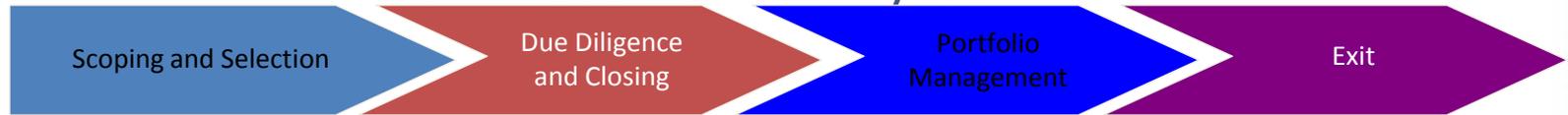
## Challenges

- Tracking dozens or hundreds of investments each quarter
- Processing multiple transactions each month
- Coordinating and reconciling to multiple property, fund, and banking stakeholders
- Data aggregation and packaging
- Investment and portfolio analysis
- Maintaining large amounts of documentation
- Tracking multiple deals across multiple stakeholders

## Needs

- Resources and infrastructure to support an expanding and sophisticated investment approach
- Aggregated view, control, and oversight
- On demand access to data and decision support tools

# Infrastructure and controls are key throughout the investment lifecycle



## Key Activities

- |   |   |  |   |
|---|---|--|---|
| <ul style="list-style-type: none"> <li>• Identify opportunities</li> <li>• Analyze suitability</li> <li>• Select investments for further due diligence</li> </ul> | <ul style="list-style-type: none"> <li>• Analyze past performance</li> <li>• Evaluate people</li> <li>• Evaluate back and middle-office capabilities</li> <li>• Documentation</li> <li>• Capital commitments</li> </ul> | <ul style="list-style-type: none"> <li>• Accounting and administration</li> <li>• Financial reporting</li> <li>• Capital call and distribution management</li> <li>• Performance measurement</li> <li>• Cash and treasury management</li> <li>• Risk management</li> <li>• Compliance considerations</li> <li>• Tax preparation and support</li> </ul> | <ul style="list-style-type: none"> <li>• Investment liquidation</li> <li>• Identify investments for secondary sale</li> </ul> |
|---|---|--|---|

## Pain Points

- |   |   |   |   |
|---|---|---|---|
| <ul style="list-style-type: none"> <li>• Easily accessible data</li> <li>• Tracking deals, contacts, and presentation material</li> <li>• Compliance and regulatory considerations</li> </ul> | <ul style="list-style-type: none"> <li>• Central repository for all legal documents</li> <li>• Tracking deals, meetings, and deal documentation and due diligence material</li> <li>• Compliance and regulatory considerations</li> </ul> | <ul style="list-style-type: none"> <li>• Creating management/investor reports</li> <li>• Easily accessible data</li> <li>• Transparency and tools for portfolio and risk management</li> <li>• Managing multiple transactions across multiple investments</li> <li>• Available and experiences resources</li> </ul> | <ul style="list-style-type: none"> <li>• Performance measurement and reporting</li> </ul> |
|---|---|---|---|

# Benefits of Outsourcing

Outsourcing can bring several qualitative and quantitative benefits to the emerging manager and the investor

## Qualitative

- Transfer of operational risk
  - Transparency & data availability
  - Scale management
  - Leverage best practices of multiple clients
  - Independent third party administration
- Acquire professional expertise
- Enhancing capabilities
- Leverage core competencies

## Quantitative

- Variable versus fixed cost model
- Cost allocation
- Improve quality, timeliness and accessibility to information
- Focus on core competencies as earnings growth driver
- Avoid purchasing and maintaining technology systems and shelfware
- Leverage advanced technology
- Gain institutional grade infrastructure including best-in-class COB & disaster recovery plans

# Electronic Survey Questions

## For the Emerging Managers:

- What is the number one driver when considering back office outsourcing?
  - A - Evolving regulatory environment
  - B - Investors' need for more information quicker and third party independent controls
  - C - Cost
  - D - Lack of internal scale to manage future growth

## For the Investors:

- Do you have dedicated resources to manage back office operations or are you using front office investment resources?
  - A - Using front office staff only
  - B - Dedicated back office staff exists
  - C - Blend of back office and front office resources
  - D - Outsourced to third party provider

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In January 2007, Citi released a Climate Change Position Statement, the first US financial institution to do so. As a sustainability leader in the financial sector, Citi has taken concrete steps to address this important issue of climate change by: (a) targeting \$50 billion over 10 years to address global climate change: includes significant increases in investment and financing of alternative energy, clean technology, and other carbon-emission reduction activities; (b) committing to reduce GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (c) purchasing more than 52,000 MWh of green (carbon neutral) power for our operations in 2006; (d) creating Sustainable Development Investments (SDI) that makes private equity investments in renewable energy and clean technologies; (e) providing lending and investing services to clients for renewable energy development and projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

**efficiency, renewable energy & mitigation**



# Portfolio Management Tools and Processes: Risk Management Tools

Jim Valente, IPD  
January 2012



# Overview

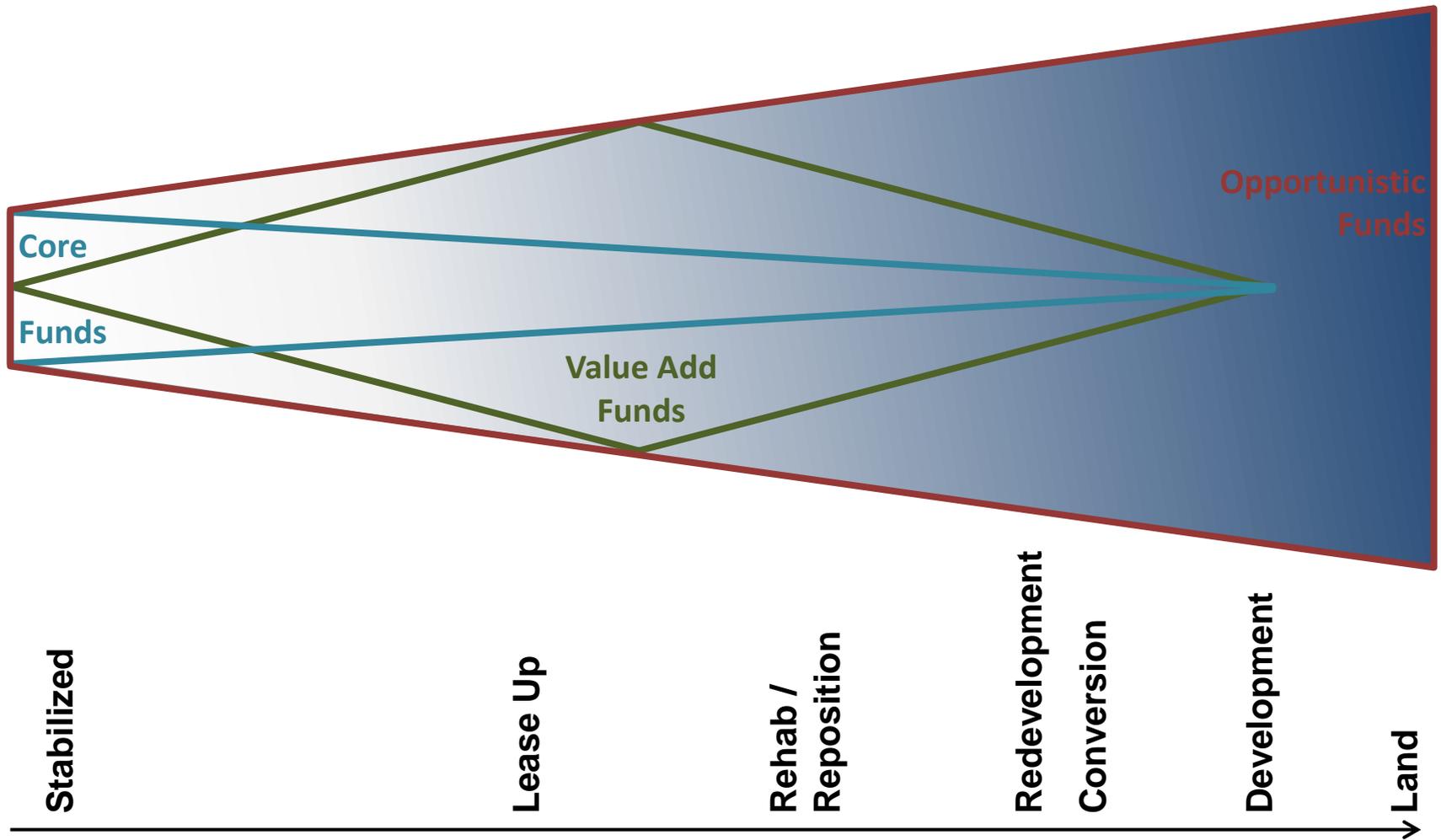
- Define your benchmark up front
- Fund size and performance
- Fund structure
- Active management

# Benchmark Rules

*The primary purpose of a benchmark is to set a realistic, attainable performance standard, so that, by closely replicating a Fund's style and risk strategies, any short- or long-term over/under performance can be attributed to the managers active decisions and thus their skill.*

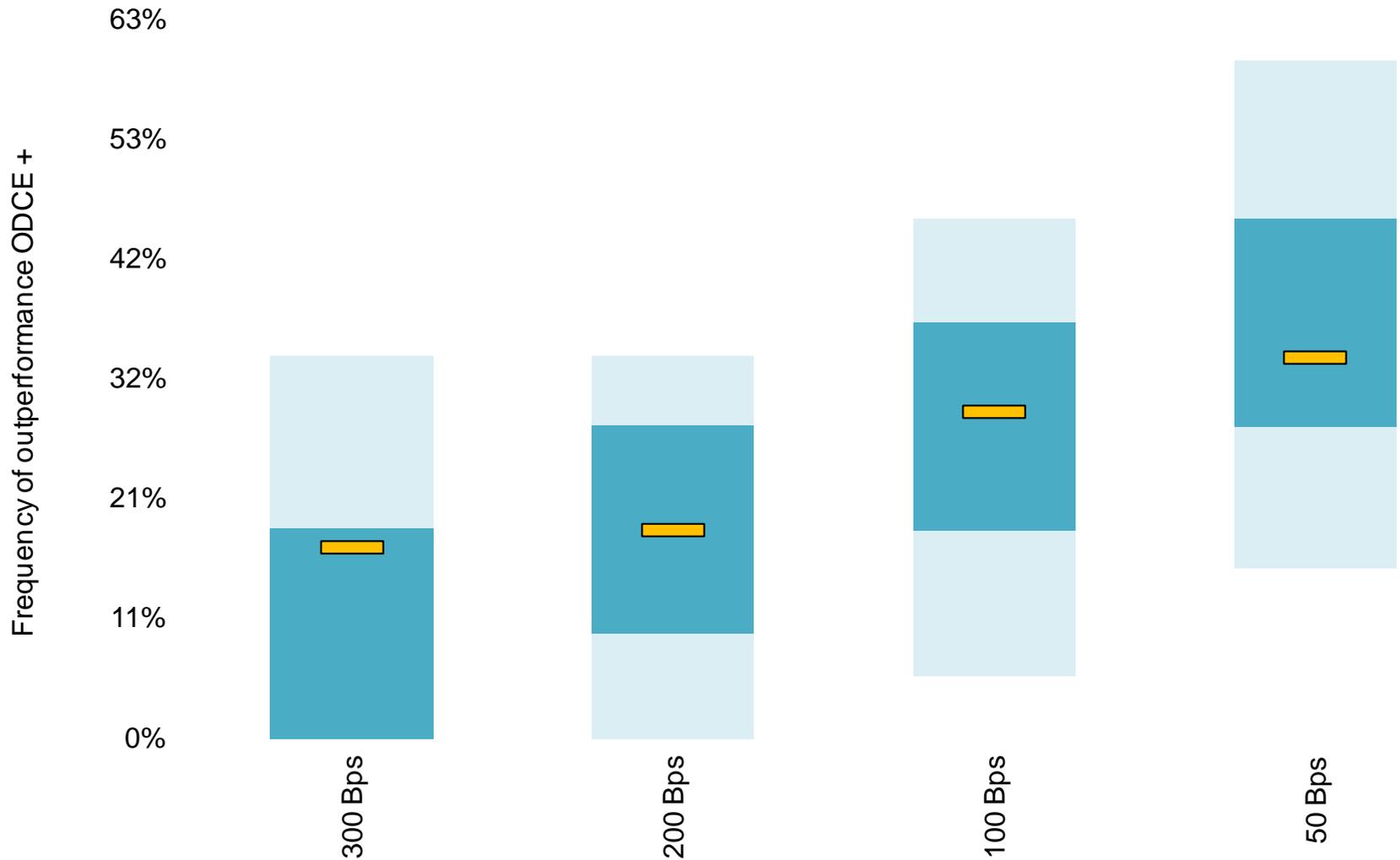
- ❑ Unambiguous
- ❑ Investable
- ❑ Measurable
- ❑ Appropriate
- ❑ Known
- ❑ Specified in advance
- ❑ Owned

# Defining a Benchmark

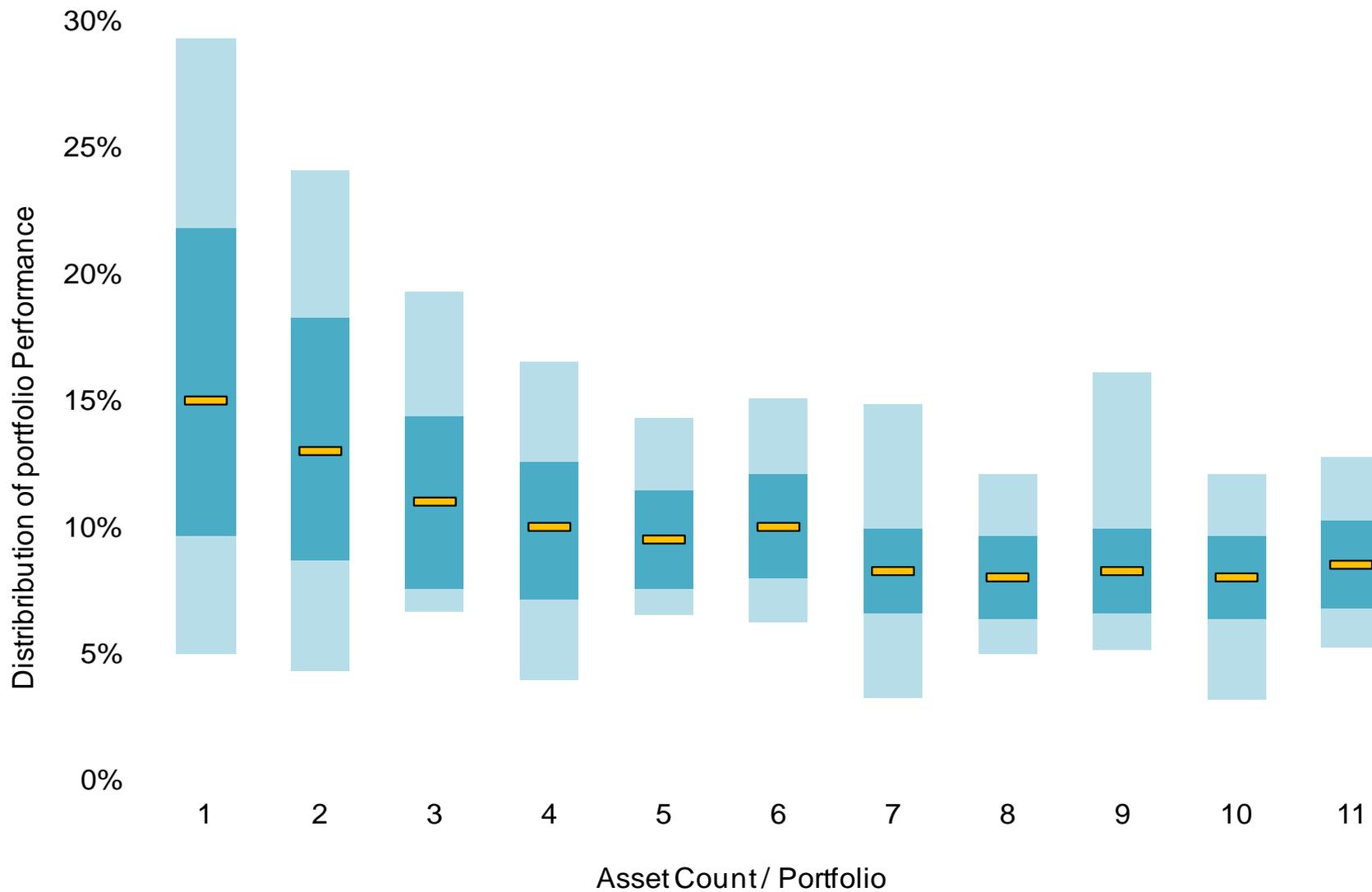


Increasing range of return outcomes (Asset Specific Risk)

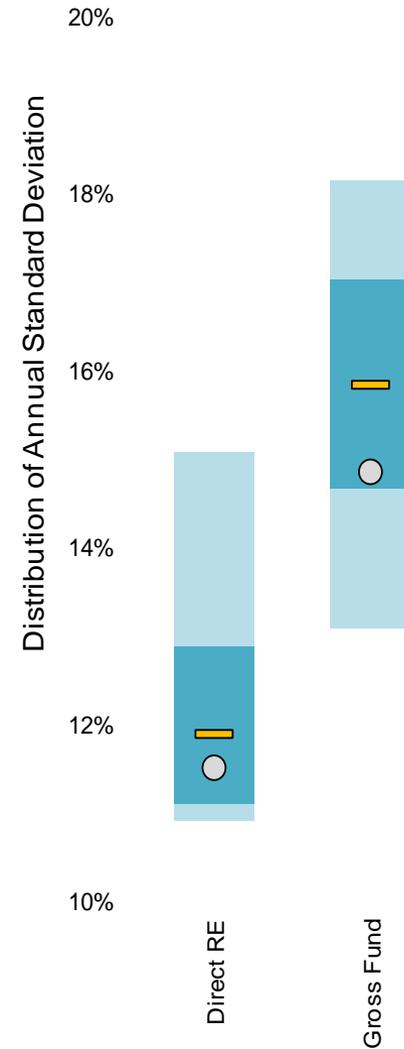
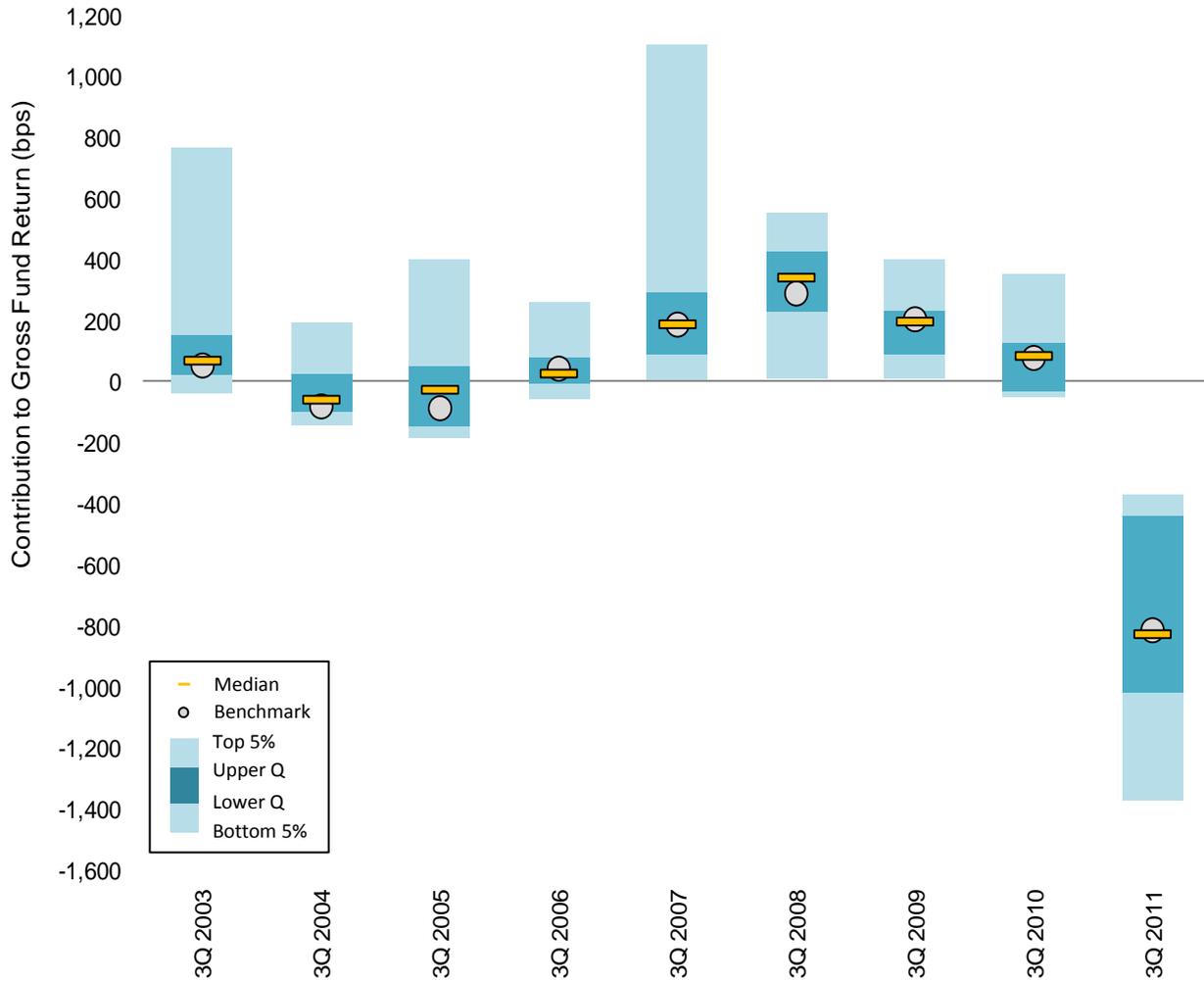
# ODCE + : An Example of a Bad Benchmark



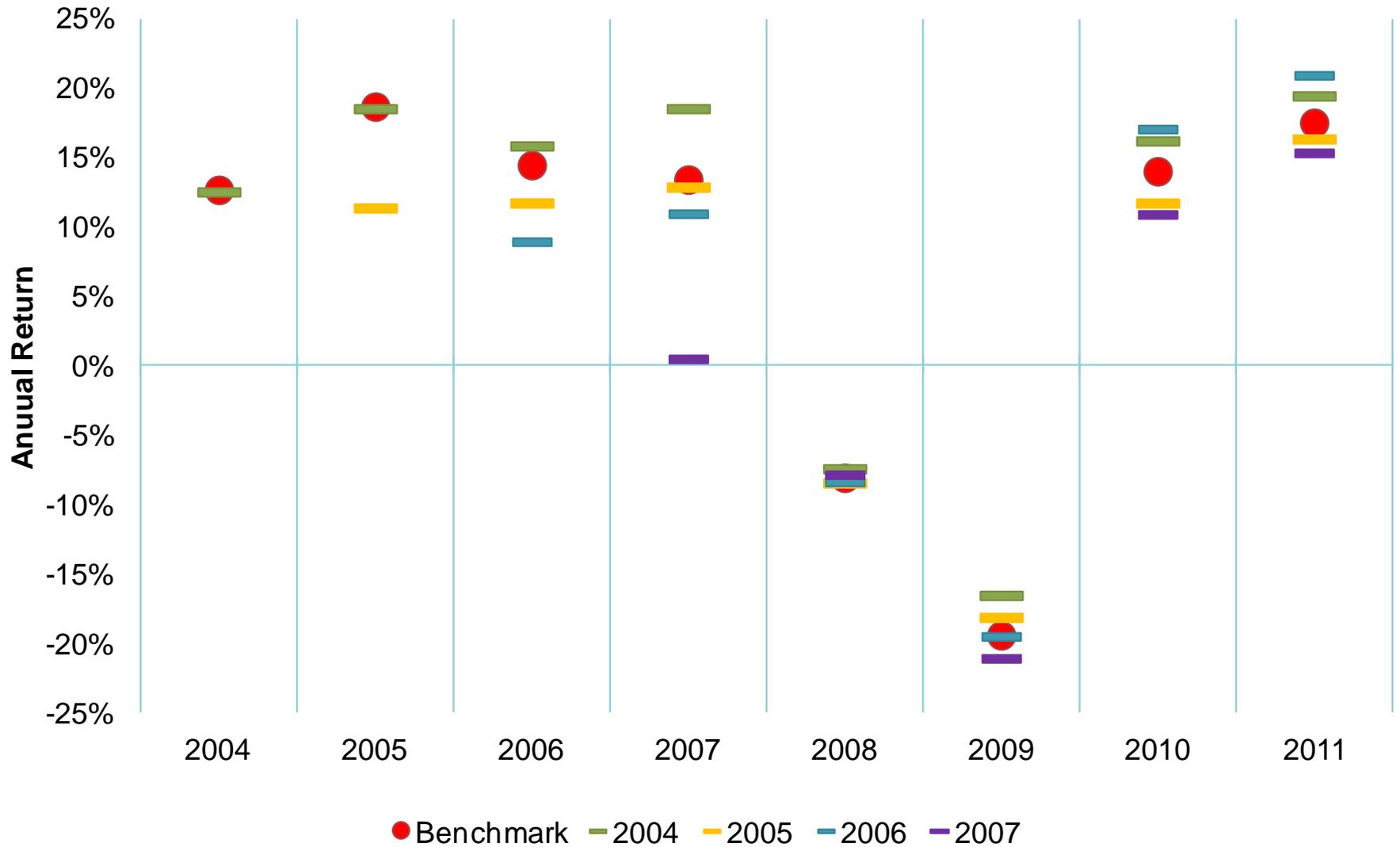
# Fund Size Shifts Focus



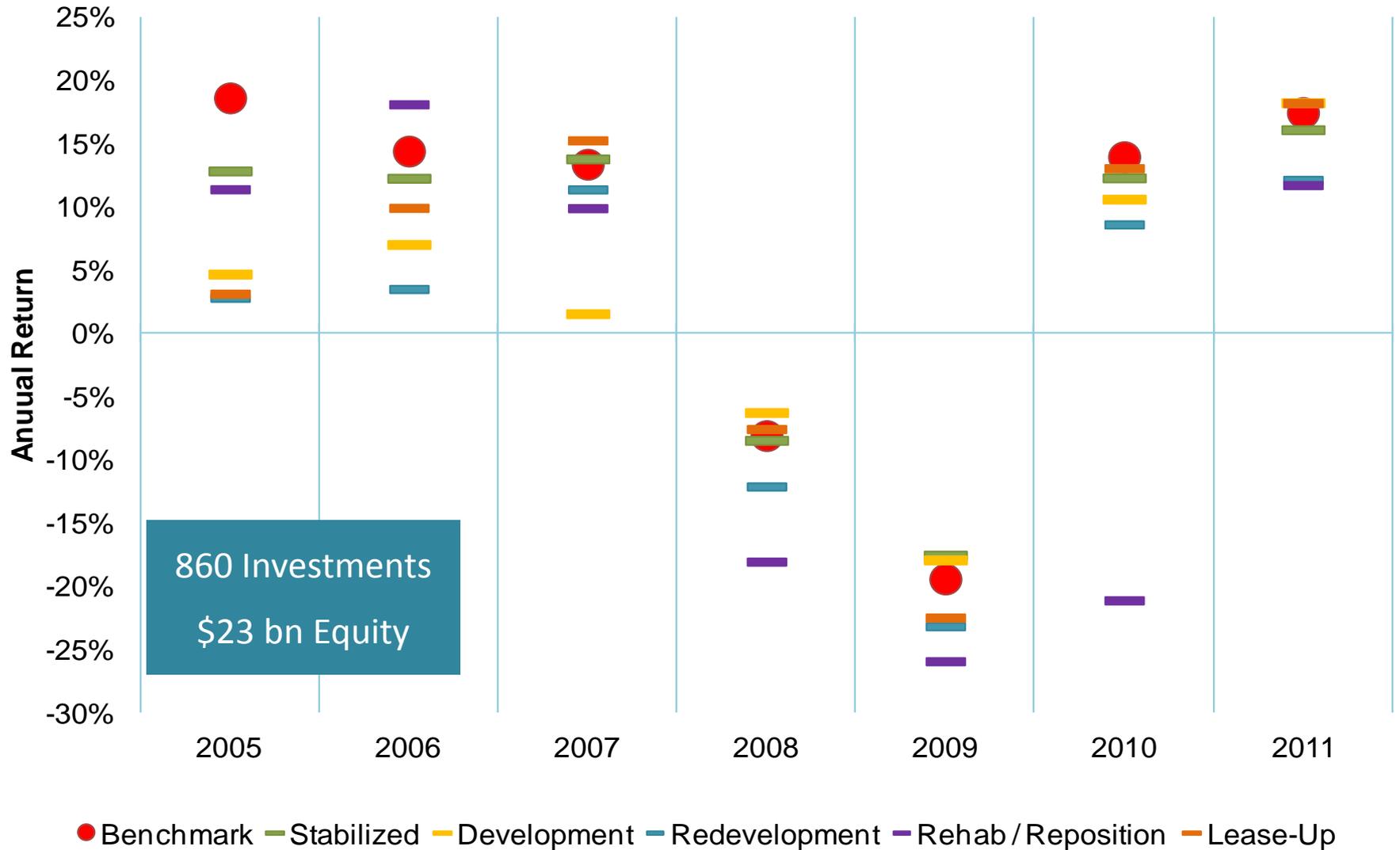
# Fund Structure Influences Performance



# Active Management I



# Active Management II





# John Baczewski, Real Estate Fiduciary Services

John Baczewski, CPA, is president of Real Estate Fiduciary Services, LLC (REFS), which provides independent fiduciary services and consulting to institutional and individual investors. Baczewski has more than 25 years of experience in institutional real estate investment, finance, management and monitoring, along with 10 years of Big Four public accounting experience.

Baczewski's breadth and depth of institutional real estate experience includes investment strategy development, portfolio and asset management, due diligence and transaction management, operational reviews, accounting, performance measurement, client service and capital formation.

Baczewski Chairs the REIS Board, which promulgates information standards for the institutional real estate investment industry. Additionally, he formerly served on the REIS Council and served as technical project manager for the 2003 Real Estate Information Standards rewrite.

Baczewski is a fellow of the Homer Hoyt Institute, which comprises a group of industry leaders who lend their expertise to the Weimer School of Advanced Studies in Real Estate and Land Economics; an Editorial Board Member of *The Institutional Real Estate Letter-North America* and serves as a director of Benchmark Strategic Services, an independent research and strategic consulting firm serving the real estate industry.

Baczewski actively participates in several professional associations, including the National Council of Real Estate Investment Fiduciaries (former board member), Pension Real Estate Association, American Institute of Certified Public Accountants (AICPA), CFA Institute, the Boston Security Analysts Society, and the Massachusetts Society of CPAs.

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# Massimo Zannella

## *Director, Private Equity Services*

**Citi Global Transactions Services  
Securities and Fund Services  
Citi Private Equity Services, Inc**

Massimo joined Citi's Securities and Funds Services ("SFS") as a Director in April 2007. Massimo is currently a Product Manager for Citi Private Equity Services with responsibility over the Investor product solution and new product development. Prior to his current position, Massimo was the North America Product Head for the Electronic Markets Group. The Electronic Markets Group is responsible for providing connectivity, workflow, and data management solutions for the Securities and Fund Services products.

Massimo was recruited to Citi from Thomson Financial/OMGEO, where he was Executive Director of Product Management. At the time, Thomson Financial/OMGEO products generated \$300 million in annual revenue. Massimo spent 12 years at Thomson Financial/OMGEO serving at various product and business management roles where he developed and brought to market middle and back office product solutions for the Investment Management, Broker/Dealer, and Bank Global communities. During the merger of Thomson Financial Electronic Settlements Group and The Depository and Trust Clearing Corporation's TradeSuite, he was instrumental in leading the merger and joint synergy activities. These synergy initiatives created the products that support the U.S. domestic market.

Massimo received his Bachelor of Science in Finance degree from Bentley College in 1993.

# Jim Valente

## *Director, Portfolio & Risk Analytics*

**Jim Valente**, is the Director of Performance & Risk Analytics for IPD. He has 17 years experience developing top down investment strategies that are supported with bottom up research and analysis. Jim leads the development of IPD's performance and risk analytics which are used by the major global real estate investors and managers. Prior to joining IPD, he held senior positions or lead research and strategy teams for a number of large real estate investment managers, including ING, SSR, and Bentall Kennedy. Jim's research experience spans the four quadrants and includes all property types in North America, Mexico, and Europe.

Jim is widely published in leading industry journals as well as some academic journals. He earned a B.A. in Economics from ECSU, and an MBA with a concentration in Real Estate from UCONN.



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