

Are Redemption Requests Reaching Crisis Proportions at UBS Trumbull?

Redemptions, key departures, and under-performance may be fueling a growing exit queue in the UBS flagship real estate fund

Key Issues:

- Since 2017, LPs have sought redemptions of over \$1.3 billion from the UBS Trumbull Property Fund (“TPF”), according to public documents.
- As of December 2017, the UBS-TPF faced a redemption queue of \$1.18 billion; at that time the entry queue was reported to be \$0.
- In March 2018, the exit queue was reported to be \$383 million while the entry queue \$124 million.
- LP documents show that UBS TPF lost a net total of 31 investors between June 2017 and April 2018.¹
- UBS has reported staffing changes including the retirement of Lead Portfolio Manager Kevin Crean and Assistant Portfolio Manager Steve Olstein.
- UBS-TPF performance has trailed the NFI-ODCE benchmark in 9 of the past 10 quarters

Whether driven by underperformance, a maturing real estate market, or LP specific allocation needs, exit queues have implications for investors, including:

- The possibility of longer wait times for redemption;
- The possibility that new TPF investors are funding the exits of departing investors rather than increasing the Fund’s investible capital;
- The possibility that the general partner’s strategy for meeting the fund’s liquidity needs could negatively affect fund performance.

This research note concludes with some questions that investors may want to put to the UBS Trumbull Property Fund.

UBS: “Redemptions may be delayed indefinitely”²

UBS Realty Investors LLC currently manages \$32.4 billion in real estate on behalf of institutional investors.³ With \$23.7 billion in AUM as of December 31, 2017, the UBS Trumbull Property Fund (TPF) is the largest real estate product UBS offers.⁴

The UBS Trumbull Property Fund, described as a diversified core real estate product⁵, has seen a number of full or partial redemptions in recent years. In December 2017, one LP's consultant reported the Trumbull Fund's exit queue was \$1.18 billion, representing 5% of the TPF AUM. The entry queue was reported as zero.⁶ That same LP voted that month to redeem its almost \$400 million investment in the fund.⁷

Public documents also indicate over \$1.3 billion in recent redemptions from the Trumbull Fund in 2017 and 2018, as well as a net loss in total fund investors and investments.

In June 2017 the UBS entry queue was reported to be at \$335 million,⁸ but by December 2017, the entry queue was reported to be zero, with an exit queue of over \$1 billion.⁹ As of March 2018, the exit queue dropped to \$384 million with the entry queue noted as being \$124 million.¹⁰

UBS documents for investors noted in April 2018 that "Real estate is an illiquid investment and the account may not be able to generate sufficient cash to meet withdrawal requests from investors. Redemptions may be delayed indefinitely".¹¹









During an update from a consultant, a trustee inquired about the entry/exit queues in the Trumbull Property Fund. The consultant stated that UBS has a little cash in the fund from property income UBS can use as liquidity, and that "[i]f the redemption queue builds up to a meaningful amount then they have to go sell something." He later added that "if that queue builds up they can gate you and say 'well you're in a line, as soon as we can get you some money, we'll get it to you'".¹²

UBS documents for investors noted in April 2018 that "Real estate is an illiquid investment and the account may not be able to generate sufficient cash to meet withdrawal requests from investors. Redemptions may be delayed indefinitely".¹¹

Recent Limited Partner Redemptions

In the past two years, several LPs have drawn down their investments in UBS. Some large and small UBS clients have opted to redeem part or all of their UBS Trumbull Property Fund allocation. Between June 2017 and April 2018 UBS Trumbull Fund lost a net total of 31 investors in the TPF.¹³

UBS Redemptions

State Universities Retirement System of Illinois: \$404 million ¹⁴	
North Carolina State Employees: \$321 million ¹⁵	
Alaska Retirement Management Board: \$202 million ¹⁶	
Chicago Teachers Pension Fund: \$154 million ¹⁷	
Florida State Board of Investment: \$100 million ¹⁸	
Texas Permanent School Fund: \$100 to \$200 million ^{19 20}	
Ohio Police and Fire Pension Fund: \$50 million ²¹	
Ohio Public Employees Retirement System: \$50 million ²²	

Total reported TPF redemptions in 2017 and 2018: \$1.35 billion.

- In December 2017, the State University Retirement System of Illinois staff presentation stated that the UBS TPF had “Spotty performance vs. 5% real return hurdle; underperformance over shorter time periods vs. ODCE”.²³
- The Alaska Retirement Management board voted to redeem \$202 million, the full value, from the Trumbull Property Fund in their March 2018 board meeting.²⁴ Staff recommended that the fund redeem the UBS allocation and replace it with BlackRock’s U.S. Core Property Fund.²⁵ Staff noted that UBS was unwilling to reduce fees to BlackRock’s level.²⁶
- At a May 2018 meeting, the Chicago Teachers Pension Fund investment consultant reported “UBS is on the Watch List for underperforming the benchmark for twenty-two quarters. This underperformance has been driven by property and market selection and lower leverage”.²⁷
- The Texas Permanent School Fund reported in a June 2017 summary of action items that it voted to redeem 100% of its interest in the UBS Trumbull Property Fund.²⁸

Senior level portfolio management departures cause concern

UBS has announced senior level management departures, including the announced retirement of longstanding Senior Portfolio Manager Kevin Crean who will be retiring²⁹ at end of 2018.³⁰ Crean spent over 33 years with the firm and has held the lead position since 2003. Also leaving is the Assistant Portfolio Manager, Steve Olstein, who spent 14 years in the position.³¹

An investment consultant with Callan noted that “we’re seeing some redemptions from [UBS TPF] because of this. So there are some investors that are moving out.” when discussing the departure of Kevin Crean with an LP.³² **Callan further noted that UBS was on watch for performance and that the departure of Crean would be another reason to keep them on watch.**³³

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When updating a client, consultant NEPC noted the changes brought by the two departures meant more changes for the TPF team, including the departure of Timothy Walsh from TPF to the Trumbull Growth and Income Fund, and two other people would be joining the TPF team full time – Peter Shaplin and Mario Maturo.³⁴

When updating a limited partner on Crean’s departure, a Callan consultant said “I think there might have even been some redemptions building up before Kevin’s announcement. Given that Real estate’s done so well and it’s not uncommon to see institutional investors rebalancing out of real estate to the extent they’re able to.”³⁵ Later the consultant added that “the industry as a whole has kind of topped out and were starting to see some redemptions. This has certainly accelerated that from some.”³⁶

Long term underperformance

The UBS Trumbull Property Fund has underperformed the NFI-ODCE benchmark for 9 out of the last 10 quarters according to information reported to funds by UBS and consultants.³⁷

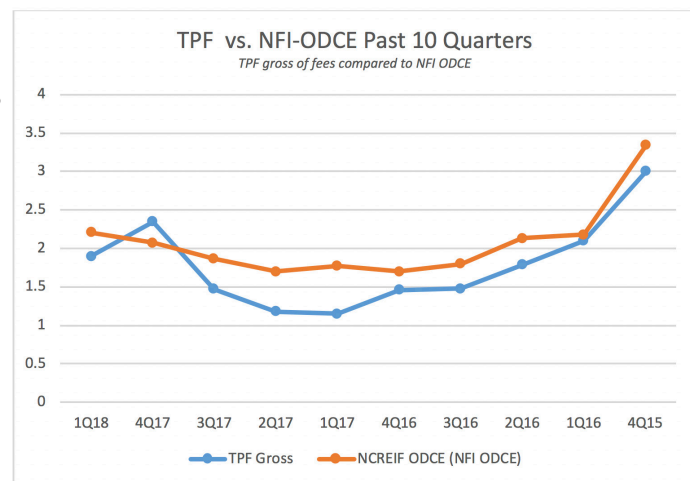
Underperformance may be a long-term issue. In May 2017 the Chicago Teachers Pension Fund's consultant reported that UBS was on the Watch List for underperforming the benchmark for twenty-two quarters.³⁸ The consultant also stated that the portfolio management team would undergo major changes in the upcoming year.³⁹ CTPF finalized their redemption procedures in the same meeting.⁴⁰

Conclusion

Whether driven by underperformance, a maturing real estate market, or LP specific allocation needs, exit queues have implications for investors: Investors in the redemption queue could face longer waits; new TPF investors could be funding the exit of others; managing liquidity to fund redemption requests could have further implications for fund performance.

Investors should consider asking UBS and the Trumbull Fund:

- What is the current value of the redemptions in the queue?
- What is UBS's policy on selling properties to fund redemptions?
- How does Trumbull Fund plan to fund the current queue and future redemptions if the queue grows?
- How was the approximate \$800 million reduction in the exit queue between December 2017 and April 2018 funded?
- How will UBS ensure a smooth transition as the TPF team loses to senior portfolio managers?
- Is UBS Realty currently on watch for performance and staff change issues?
- What is fund policy on placing managers on watch list for staff changes?



Endnotes

- 1 Comparing info from two reports: Ohio Bureau of Workmen's Compensation. RVK Presentation. Ohio Bureau of Workmen's Compensation. RVK update on Real Estate as of June 30, 2017 - P. 41; reports a total of 461 investors total. *Second: Ohio Bureau of Workmen's Compensation. RVK update on Real Estate as of March 31, 2018. UBS Trumbull Fund Profile. P 41. Shows a total of 430 investors. Accessed online in September 2018 at: <https://ohiobwc.boardeffect.com/>*
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- 3 As of December 31 2017. UBS Realty. Source: UBS Asset Management, Real Estate & Private Markets (REPM). Presented to Ventura County on February 26, 2018. P. 107. https://www.vcera.org/sites/main/files/file-attachments/business_meeting_agenda_for_feb_26_2018_-_master.pdf
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- 8 Ohio Bureau of Workmen's Compensation. RVK update on Real Estate as of June 30, 2017 - P. 42
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- 13 Comparing UBS Trumbull Property Fund reports from the Ohio Bureau of Workmen's Compensation. Ohio BWC Real Estate Investment Performance as of June 30, 2017. Ohio BWC Real Estate Investment Performance as of April 18, 2018.
- 14 Illinois State University Retirement System, Investment Committee. December 7, 2017. P. 46 http://www.surs.com/sites/default/files/minutes/2017_Dec07_Inv.pdf
- 15 North Carolina Department of State Treasurer Investment Management Division. August 17, 2017. P. 21. <https://www.nctreasurer.com/inv/IAC%20Resources/IAC%20Final%20Presentation%20Materials%2008.17.17%20FINAL%20FINAL.pdf>
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- 17 Chicago Teachers Pension Fund. May 2018 meeting minutes. P. 5 https://www.ctpf.org/sites/main/files/file-attachments/2018_may_minutes.pdf
- 18 Jon Peterson. *IPE Real Assets*. "Florida SBA divests \$150m from core open-ended property funds". October 5, 2017. Online: <https://realassets.ipe.com/news/investors/florida-sba-divests-150m-from-core-open-ended-property-funds/realassets.ipe.com/news/investors/florida-sba-divests-150m-from-core-open-ended-property-funds/10020962.fullarticle>
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