An interview with:

Peter Braffman
Managing Director, Real Estate Investments
GCM Grosvenor

INVESTOR PERSPECTIVES ON DIVERSITY & INCLUSION

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NAREIM DIVERSITY & INCLUSION SURVEY INTERVIEW SERIES:

GCM GROSVENOR

NAREIM
The business of real estate investment management

About the NAREIM Diversity & Inclusion Survey

For more than a decade, NAREIM has produced a Diversity & Inclusion (D&I) Survey for its members. In Fall 2020, NAREIM expanded its survey in an effort to help the entire industry become more diverse.

It's easy to talk of the lack of diversity in the real estate investment management industry. According to the NAREIM Diversity & Inclusion Survey 2021, just 15% of executive managers were women and 15% were non-white. However, there is a bigger issue at stake, something which is succinctly articulated by Peter Braffman of GCM Grosvenor in the accompanying interview.

Diversity is not just about gender or ethnicity. It's also about diversity of thought and the diversity of ideas within a team. Diversity is about having, and listening to, the different voices at the table to better prepare an investment firm for managing and executing upon situations, such as those we face today.

As NAREIM, in partnership with Ferguson Partners, releases its first ever Diversity & Inclusion Survey of real estate investment managers this month, we asked institutional investors to talk about their perspectives on diversity and inclusion and how they are working with investment managers to deliver lasting change for the industry. Enjoy the conversation.

Participant biographies

Peter Braffman is Managing Director, Real Estate Investments at GCM Grosvenor. He is a member of the Private Markets Investment Committee and serves on the firm's Global Investment Council. He leads the real estate investment practice and is responsible for real estate sourcing and underwriting activities. Prior to joining GCM Grosvenor, Peter was a Partner in the Customized Fund Investment Group of Credit Suisse Group AG. Previously, he was a Senior Vice President at Zurich Alternative Asset Management and, before that, a Vice President in the Merger and Strategic Advisory Group at Goldman Sachs. Prior to joining Goldman Sachs, he was an Associate at Kirkland & Ellis LLP. Peter holds a Bachelor of Arts in Biology and History from the University of Rochester, a Master of Business Administration from Northwestern University Kellogg School of Management, and a Juris Doctor from Northwestern University School of Law.

Zoe Hughes has more than two decades of communications expertise and is CEO of NAREIM. Prior to NAREIM, Zoe was Co-founder and Partner at the content creation and editorial consulting firm, Concept Journalism. She was Director, Investor Communications Advisory at the capital advisory firm, Shelter Rock Capital Advisors prior to Concept, and before that spent eight years in private real estate media, including as Co-founder and Editor of the digital media platform PrivcapRE and as Senior Editor and Head of Events at PERE. Zoe moved to the U.S. in 2007 and was previously Political Editor in the Houses of Parliament in the U.K. for several evening and morning regional newspapers.

Diversity data reveals correlation with returns

Data of diverse real estate managers since 2012 finds there was no sacrifice of performance and that diverse managers achieved either IRR or MOIC outperformance in six out of the seven years between 2012 and 2018.

Peter Braffman, Managing Director, Real Estate Investments at GCM Grosvenor, has been tracking emerging manager and diverse manager performance for the past decade. He opens up his data demonstrating there is no sacrifice of returns by an investment in diversity and that diverse real estate managers consistently perform relative to the traditional benchmarks. Braffman notes that the devil is in the details, of course. To get better, the industry needs to agree on definitions and standards, and increase transparency by reporting performance regularly and consistently.

Speaking with Zoe Hughes, CEO of NAREIM, Braffman highlights how he looks for managers who aren't only great investors, but who treat their employees the same way LPs underwrite managers, as fiduciaries.

Key highlights:

- GCM Grosvenor's study of upper quartile IRRs of 264 diverse real estate emerging managers from 2012 through 2018 found that in six out of seven years, there was outperformance or meeting their base performance. In one year, it was very competitive, but not outperformance.
- The industry needs to agree on definitions and standards, such as what constitutes a diverse firm — is it by ownership of the carry or management company?
- Reporting needs to be more regular and consistent. Data should be reported quarterly and by a greater number of managers. Values should be reported as "as of" rather than projected, and fees as net rather than gross.
- GCM Grosvenor evaluates managers not only on the ability to underwrite, invest and be a great investor, but also whether they are a great fiduciary and will provide transparency at both the financial and human capital levels.
- The industry will only become diverse when the junior pool is diverse. When juniors get trained, develop skills and develop networks, they either spin out and create their own firms and jobs, or they stay and run the firm.

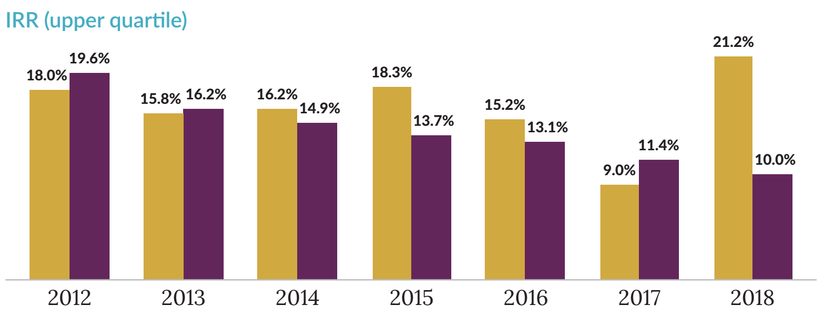
Zoe Hughes: Is diversity a driver of performance? Can we know?

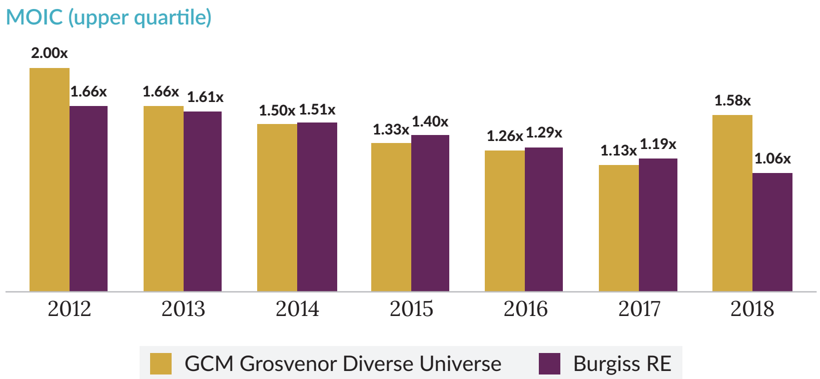
Peter Braffman: As an industry, we need to demystify the notion that if you're investing in emerging or diverse managers, you're limiting your subset and therefore you're sacrificing performance. This blanket statement is out there, but there is no evidence to support that.

There's very good data on diversity. We created our own repository of information on performance when I started at Grosvenor 10 years ago. The beauty of real estate is its opaqueness; you can find opportunities in areas where you can find information advantages. But if you're trying to source opportunities, you want as much data as you can get. We collect data from every group we meet with and we update the data every year. So this data set goes far beyond the teams we invest with and, as such, we have a pretty good look at the market. Through the hundreds of performance data points we

Real estate diversity and performance are correlated

GCM Grosvenor has tracked the performance of diverse real estate managers compared to the Burgiss benchmark since 2012 — with the data revealing there is no sacrifice of performance from an investment in diversity, and that diverse managers achieved IRR or MOIC outperformance in six out of the seven years between 2012 and 2018.





Source: GCM Grosvenor (Q1 2020), Burgiss Real Estate (Q1 2020).

get, we create our own index. Just to set the stage, we focus on the value-add opportunistic realm.

We measured the upper quartile IRRs of real estate emerging managers from 2009 through 2018. What we see is, every year but one, there's outperformance or meeting our base performance. In one year, it's very competitive, but not outperformance. I've seen this trend every time — outperformance in eight out of nine years, six out of seven years, etc. When you're seeing those kinds of trends repeatedly, over multiple years, you feel really good about it. We did the same study on private equity, and we can see the same trends, with a bigger subset.

What the chart also demonstrates is you don't need to see outperformance every year. You want to see competitive performance. Are you able to compete consistently over multiple vintage years? Are you consistently measured over multiple vintage years, that you're seeing either a competitive performance or outperformance?

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Hughes: Detractors would say, "You're tracking a small part of the universe. This is not the entire real estate investment management universe." What are the challenges with our data? Where can we do better so that there is no real challenge?

Braffman: The challenge with our performance data is that we collect it once a year. We rely on groups to report their performance. It would be ideal to have data reported quarterly when typical performance is shown and having a deeper pool. We have a pretty deep pool when we have a couple of hundred groups or funds contributing data. Statistically you're going to get close to where that's telling you something. But I don't always know what I'm comparing against within the benchmarks. I don't know how many value funds or opportunistic funds are in the benchmark indices. We're including credit managers in our benchmark, so that in some way may impact the relative performance.

As good as the indices like Burgiss and Cambridge are — I think they're excellent — they have limitations. You don't know always know what's in there, and not everyone reports into them.

The other thing is, we should be able to look at is performance by asset type, whether by office or multifamily. Let's be able to dissect leverage out of these different indices and see who's using financial leverage differently. As an industry, we have no ability to do those types of analysis.

WHAT IS THE DEFINITION OF A DIVERSE MANAGER?

According to GCM Grosvenor, a diverse real estate manager is typically defined as 25% or greater ownership by minority groups, including African American, women, Hispanic/Latino, veteran, disabled, Asian American and Native American.

Snapshot of universe:

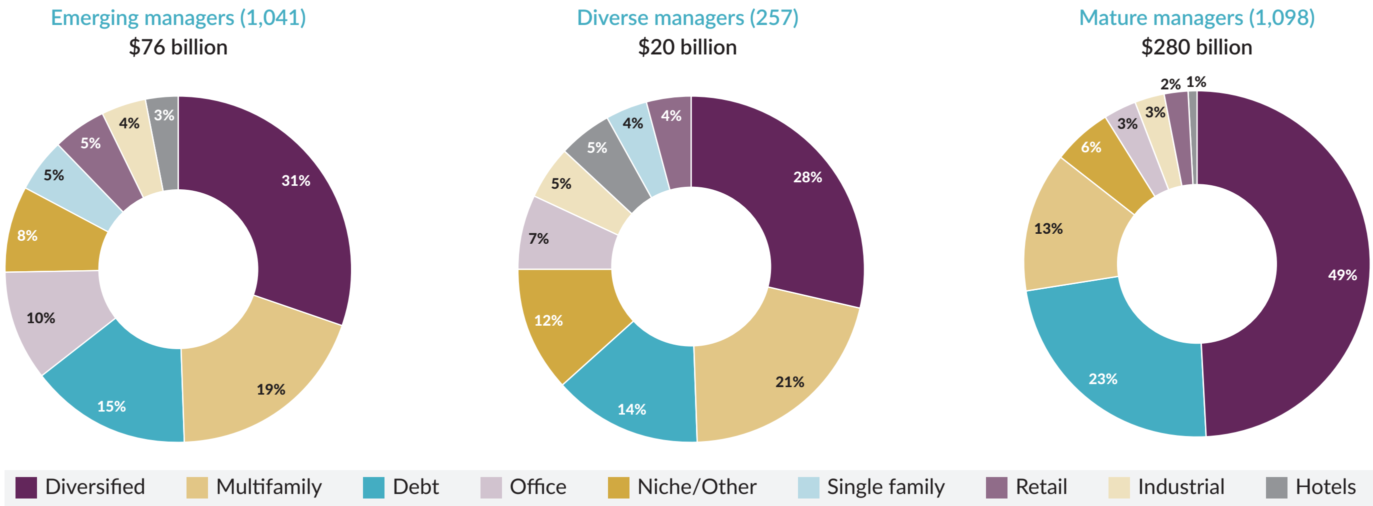
- Out of more than 6,500 emerging manager funds, 1,283 are real estate
- Out of more than 800 diverse manager funds, 264 are real estate

Note: Includes active North American funds with vintages from 2009–2019. Real estate diverse manager universe includes funds from 2012–2020.

Source: Preqin, HFR, GCM Grosvenor.

Diverse real estate managers are asset/sector specialists

One in four diverse managers were characterized as diversified managers, compared to half of all mature managers in 2019. More than 20% of diverse real estate managers specialize in multifamily.



Note: Data from 2009–2018. Includes funds launched since 2009 where GCM Grosvenor has sufficient information.
Source: Preqin, GCM Grosvenor.

> **The standardization of what's being reported is a huge issue in real estate. Some groups report projected valuations while others report "as-of" values — in other words, if I sell these assets today, what are they worth. There's a lot of noise in performance data.**

Hughes: There's a lot that goes into understanding performance — how it is driven, what is the makeup, how you are set up as a firm, who you are as a firm. You're trying to actually put a soft analysis on hard data.

Braffman: That's right. The standardization of what's being reported is a huge issue in real estate. Some groups report projected valuations while others report "as-of" values — in other words, if I sell these assets today, what are they worth? And if you're dealing with value funds where you haven't assigned value to yet, those marks are going to be pretty low. So, there's a lot of noise in performance data.

The treatment of fees can also be inconsistent. The incentives — how carry is being calculated and accrued, and how that reflects net performance — are inconsistent. I find a lot of groups report asset-level performance or property performance. It has to be net of fees; it's what you're actually returning to investors, not what you've netted at the partnership level but you haven't returned.

The best way I can, given what the resources I have, is to get as much information as we can, even if we know there's variable data in there. If you get enough data points, presumably it equals out a little bit. If you do it repeatedly over many years, again, that will give you a look through.

Hughes: It's a case of not letting perfect be the enemy of good. How do we then, if we want to start looking at performance and diversity and the correlations between the two, start improving?

Braffman: Let's first agree on definitions. What is a diverse firm? I get this question all the time. Is it 51%, is it 100% ownership? Is it ownership of the carry, is it ownership of the management company? Second, we need to establish consistent reporting on this, including data on headcount, diversity, seniority, etc. Just doing that consistently and transparently will be tremendous.

And then, do you meet the definition for ownership and are you a diverse firm? The other noise that's coming into the system right now is we're seeing a lot of people with good intentions. I had a call with an established group and they said: "We want to set up a subsidiary and it's going to be 30% owned by a diverse candidate who's going to lead this effort." I responded that it was fantastic; 30% to me is meaningful enough if it was an independent firm. They asked, "Well, is this a diverse firm?" In my opinion, it wasn't, because the controlling group was not diverse. That could be up for debate whether that was the right answer. We need to come to those conclusions.

Hughes: How do we agree to definitions on the issue of diversity and inclusion, given this is a very personal and subjective area of benchmarking?

Braffman: It does get subjective. Let's say you had two founders, one who's diverse and one who's not. The firm sells half the company to a passive financial investor. Is it not diverse? I don't know. To me, that is financing. If you sell a minority stake in your company to help finance its growth but the buyers have no active decision-making on you, I think that company is still diverse. Not everyone will agree with me.

What is critical is, really, control. If someone who qualifies as gender or ethnically diverse owns a meaningful ownership stake in a company and has a true measure of control in the company, that should be a clear indication of diversity. Someone diverse may own a piece of the carry, but leaves the company because they aren't a full partner. They aren't a founder or don't have control. All of a sudden, the firm is no longer diverse. Those are harder questions to figure out.

Hughes: As we look at diversity and inclusion, what we find is the industry is not particularly diverse at the ownership level. It's getting

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better, especially in relation to women at executive leadership levels. Over the last year, there has been a significant increase in the hiring of women into executive management. My question to you is, are investors looking to ESG metrics as a way of underwriting managers? Is diversity one element to underwrite a manager?

Braffman: There's an aspirational element and there's what actually happening. Aspirationally, you see last year in particular a greater desire around diversity. I'm seeing many more LPs intrigued and saying, "We really need to do something here." But the implementation is still in process.

The second piece, is what is being incorporated? The "E" part of ESG is something that in real estate we all understand because we've been doing that for a decade. "G" or governance is always critical in real estate, and particularly in fund management. I look at the "S" in the same way, which is to say, are you keeping your people, are you creating a climate that is conducive where people feel supported, where is there growth, and how are you going to measure that? It's not that easy.

> We see diversity and inclusion become material when we tell managers, "We're evaluating you, not only on the ability to underwrite and invest and be a great investor, but are you a great fiduciary? Is your house in order? Do you give us the transparency that we're asking for, not just at a financial level but at the human capital level?" Because that is your business; without your people what are you?

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Hughes: One of the issues we face as an industry is recruiting diverse talent into our business. There are many people with different ethnicities and backgrounds who don't even know this opportunity exists.

Braffman: Our business really is an apprenticeship business. The only way it's going to become diverse is because more junior people are diverse. They get trained, they develop their skills, they develop their network, and then they spin out and create their own firms and jobs. Or they stay where they are and run the place. That's the only way it happens.

We tracked spinouts from the early 1990s to 2010. We started with 11 groups and around $50 billion in AUM and we wound up with more than 110 and a couple of trillion dollars in AUM. In the 1990s, in that group of 11, there weren't many diverse young people. But if you look at 2010, it's very different. All of a sudden you wind up with 15% of spinouts that were diverse. If you go 10 years from now, and we're starting to see it already, it's going to look a lot more diverse.

Hughes: It's going to take time.

Braffman: There is hope in the data that these small things that are happening will lead to major things.

We looked at data from the U.S. Equal Employment Opportunity Commission for the composition of the workforce. In 1997, 23% of the financial services industry workforce was diverse. That went

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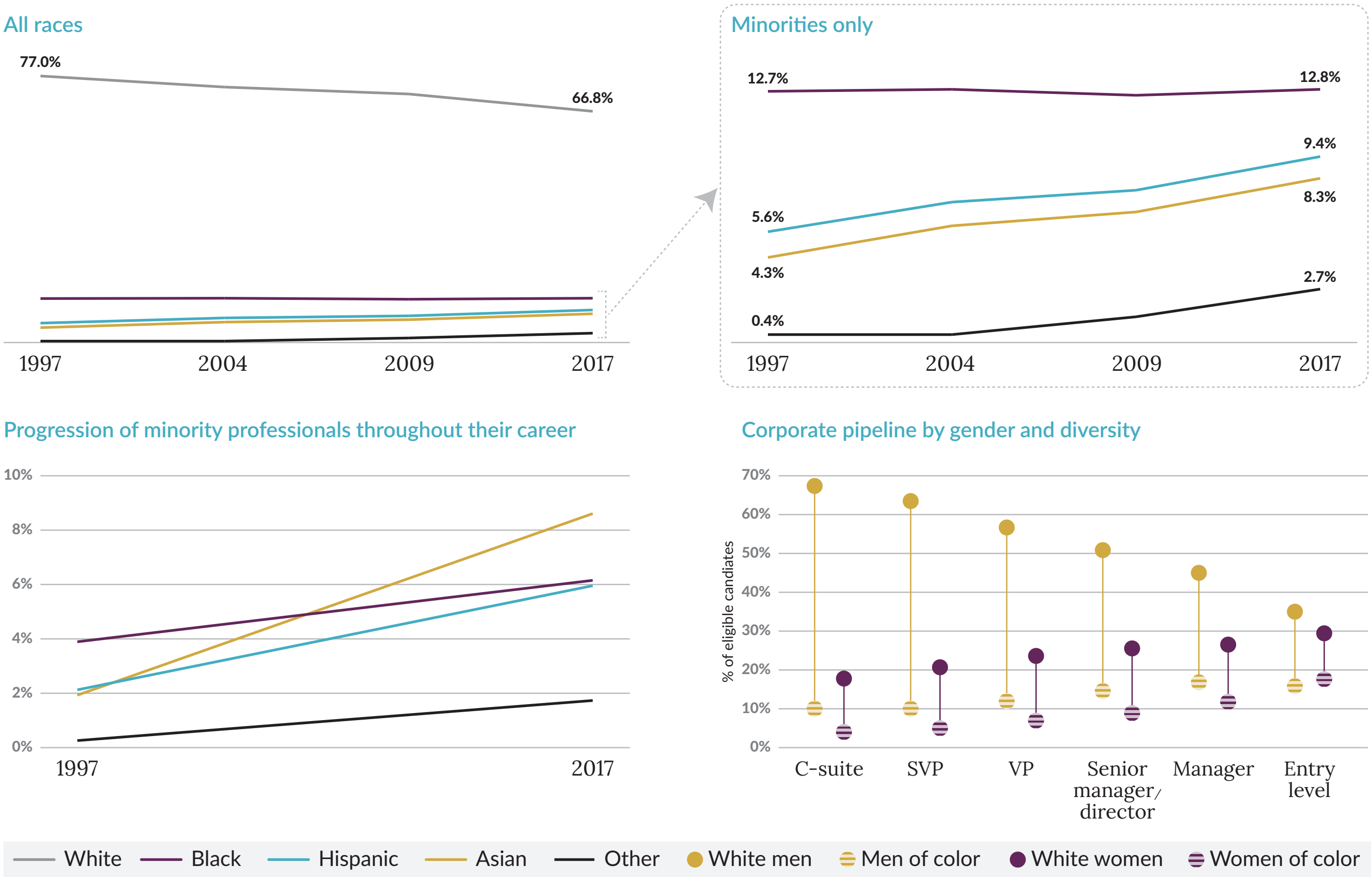
Minority professionals progress in the corporate pipeline

In 1997, just 8% of the junior pipeline was diverse — but 20 years later more than a quarter of senior professionals were diverse. From small kernels grow significant change. In 2017, the junior pipeline was 35% diverse, which could lead to major changes in another two decades. However, African Americans have not advanced to the same degree in financial services compared to Hispanics and Asians, with Black representation in financial services remaining flat between 1997 and 2017.



Source: EEOC, includes all job categories where a college degree is required. McKinsey "Racial Equity in Financial Services" (2020).

up to 33% 20 years later. When you break it down, you can see where the growth was — it was with Latinos, Hispanics and Asians. African Americans were essentially flat as a percentage.

When we drilled down, we found that, in 1997, just 8% of the incoming class — the junior professionals — coming into the industry was diverse. By 2017, 23% of the senior level — those vice president and above — was diverse. This kernel of diversity in 1997 translated into a bigger portion of the senior workforce being diverse a decade later.

In 2017, the entry level was 35% diverse, as opposed to 8% in 1997. How will that translate to the C-suite 20 years from now? The picture will look very different and that's the encouraging part of the data.

Hughes: There's no standard on how to report diversity. What are a few key steps that managers can do, without any standardization, to start pushing and moving the conversation forward?

Braffman: People get too caught up with checking the boxes. The issue is, how do you treat your people? Bottom line, do you provide them a path for growth? Are you invested?

Diversity gives you a window into examining these things at a very fundamental level. The way you care about it matters. If you're caring about diversity and inclusion, you're caring about everybody, and you care about their growth. You empower them to grow and to take ownership and take responsibility. That's what a lot of people want. They don't want to be led; they want to be treated like you and have a seat at the table, to be told that they are important to you. It's about organizations and leadership saying to their talent, "We're going to listen to what you want and to what's important to you." Now, the leadership has a seat at the table too, so this will be a conversation and debate. That, I think, is how we start to solve some of the issues.

Diversity will allow us to level the playing field so we all get that shot. But it's important to have honest conversations with employees, saying, "We have a path for growth for everyone but, at the end of the day, you are your own fiduciary. We're going to give you as much information as we can so you can make choices about your career, but not everyone's going to grow to run this firm. That's just the reality and that's okay."

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ABOUT NAREIM

NAREIM is the industry association dedicated to the business of real estate investment management. Founded in 1990, NAREIM today represents real estate investment management firms with combined assets under management of more than $2 trillion. For 30 years, NAREIM has been the home of real estate investment management business strategy benchmarking and best practices, where investment managers learn and share intelligence on business and organizational practices and performance.

For more information, contact **Zoe Hughes**, CEO, NAREIM at zhughes@nareim.org or visit www.nareim.org.