











Meeting Recap: Versus CIO Casey Frazier



MacBain, Charles
Manager

 Home

Categories

 Meeting Recap
 DD Updates
 Manager Overview
 Apogem Capital (fka Private Advisors)
 abrdn
 Adams Street
 AEA
 American Realty

On March 23, 2020, members of the CAPTRUST Manager Research team met with representatives from Versus Capital. In the meeting from Versus were CIO Casey Frazier and Consultant Relations Manager Spencer Schomer. Representing CAPTRUST were Ryan Hill, David Hood, and Charlie MacBain.

The two parties discussed the current positioning of the Multi-Manager Private Real Estate Income fund (VCMIX) and the firm's expectation for how it may be impacted by

the economic slowdown resulting from the COVID-19 pandemic. Casey also provided a brief update on the Real Assets fund (VCRRX).

Key Takeaways

- As Versus observed the economy moving to the later stages of the business cycle, CIO Casey Frazier and his team began shifting the VCMIX portfolio to a more defensive posturing by adding more to their public and private debt managers.
- VCMIX is in a good liquidity position because it maintains larger liquidity buckets relative to peers and had redeemed small positions from a handful of managers at the beginning of the year. They are also holding the new money they receive daily in cash.
- VCRRX also benefits from the added liquidity of its public securities sleeves.
- Casey is not too concerned about the health of the underlying managers in VCMIX and VCRRX as most of them still have large inflow queues, have not received many redemption requests, and are well capitalized.

Defensive Positioning

- Over the course of 2019, Versus began increasing its allocation to more defensive managers and sectors within VCMIX.
- In particular, Versus added to its public real estate debt allocation, which provides the dual benefit of more downside protection and additional liquidity. Both of these features have helped the fund hold up this year, relative to public equity markets.
- At the sub-category level, Versus also added to multifamily, industrial, and medical office, which should hold up better in a market downturn relative to retail and commercial office properties.
- Further aiding VCMIX is the fact that it does not allocate to sectors that are likely to experience significant stress from the pandemic, such as airports and energy-related properties.

Liquidity Conditions

- VCMIX is in a good liquidity position because it increased its public real estate allocation in 2019 and redeemed small positions from a handful of private real

estate managers at the beginning of 2020.

- The first move got VCMIX to a more desirable public real estate allocation of 22% as it had been as low as 17% at the end of 2018. The firm prefers to keep this allocation in a range of 20-25%.
- At the beginning of 2020, VCMIX made small redemptions from 5-6 managers as they sought to trim some lower conviction positions.
- The timing of these redemptions proved to be favorable and Versus expects to receive the cash back beginning in April.
- To further protect liquidity, Versus has been holding the new money from daily flows in cash.
- These measures, in addition to other mechanisms, such as an emergency line of credit, should help VCMIX elevated redemptions should they materialize.

Underlying Fund Outlook

- Casey is not too concerned with Versus' underlying managers at this point.
- The majority of them have large inbound capital queues and very few of them are seeing much redemption activity.
- In addition, most of their managers are only modestly levered with the portfolio average being 25% at the beginning of 2020.
- Casey also expects large institutional investors will want to continue to allocate to private real estate managers to take advantage of opportunities that arise as a result of the pandemic.
- Lastly, VCMIX should benefit from its exclusion of managers that use a lot of leverage and invest in less liquid sectors of the market.

VCRRX Update

- VCRRX has performed in-line with Versus' expectations this year. The fund's diversification and allocation to private assets have helped it hold up relative to the public markets.
- Versus did see a bigger move in its public sleeve, but the allocation to public debt has helped there also.
- Versus continues to overweight the private side of its portfolio to dampen market volatility and Casey is pleased with the overall equity/debt weightings at this time.
- One factor that has especially helped VCRRX is that its exposure to energy is very small, less than 3%. This has been beneficial as oil prices have collapsed

over the past month.

- Versus expects the cash flow impact from the economic slowdown to be minimal since the majority of its real assets investments are based on long-term leases with contractual cash flows that protect the owners (VCRRX's underlying managers) in times of stress.