[Allocators Podcast 2 - Rajeev]

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Intro: Hi, and welcome to the Allocators podcast. Where we go inside the mind of financial decision makers, and their allocation priorities for 2023 and beyond. I'm your host, Sheret Ross.

Sheret R.: Hello, and welcome to the allocator's podcast, where we go inside the minds of financial decision makers. I'm your host, Sheret Ross, and today, I'm joined by Rajeev Viswanathan, CFO and managing partner of forum asset management.

Forum is an alternative asset manager, investor and developer with an Enterprise value of assets under management exceeding 1.7 billion. Welcome Rajeev, it's a pleasure to have you here.

Rajeev V.: Yes, thanks a lot. Thanks for having me, Sheret.

Sheret R.: So before we start, do you mind introducing yourself, and providing a bit more background about the business and your role?

Rajeev V.: Sure. Rajeev Viswanathan, I'm the CFO managing partner as you said, Sheret, here at Forum Asset Management. Most people probably haven't heard of forum, but we've actually been around for 25 years. I would tell you that the last 25 years we're really focused on investing our own balance sheets into infrastructure, private equity and real estate, with a focus on development.

And I joined Forum about two years ago, to help build an asset management system. What that really means, for the first time we're inviting third parties to invest alongside us our private funds, in a similar verticals private equity infrastructure and real estate.

Sheret R.: So how does that work? Is it a fund structure or are you co-investing alongside a group of investors? Like how does it actually work in practice?

Rajeev V.: Yes, sure. So today, we've launched private funds, and so we are the sponsor of each of these funds. Generally, we're the largest investor of these funds. And what we've done is we've raised third-party capital from the private wealth channel, and institutional channels to invest alongside us, of these private funds that have their own Capital allocation mandates, their own strategies, their own risk return profiles.

Sheret R.: Got it, okay. So let's just jump into it. So thinking forward, looking at the next 12 months, I mean, the last 6 to 12 months have been pretty interesting in the markets. Walk me through how you're thinking about Capital allocation between the different asset classes that you have some exposure to?

Rajeev V.: Yes. Maybe what I'd start with by saying is, having these private fund structures, where forum invest alongside third parties, results in capital allocation decisions happening in multiple levels. Not only at forums balance sheet, but also, each of our fund mandates. So when we think about Capital allocation decisions, particularly over the last 12 months. What I'll focus my comments on really is forums balance sheet, the balance sheet that I'm responsible for as a private company.

I do wear quite a few other hats, in terms of helping manage our private funds, but I'll really focus my comments really at the Forum level. So the Forum level over the last 12 months, what we've seen is inflation and a significant rise in interest rates. I've been following things very closely over the last let's call it 12, 13 years, I've never seen a more volatile time. And so when we think about our capital location last year, and I'll say even going into this year, we're really on risk off mode.

And when we think about our balance sheet, the things that sort of take companies down is not having access to liquidity. And so, we've got four categories of where we allocate Capital broadly speaking, the four categories from riskiest to least risky, and also, that risk sort of has a return component, sort of venture capital, development, something that's part of our DNA we've been doing for 25 years, development projects, ground up real estate development projects. Things such as the Billy Bishop airport tunnel, which is something that we built. So that's sort of what we call bucket three, bucket two. Stable cash flowing assets that provide a yield, that have permanent financing on them.

And then I'll say sort of bucket one really is cash and instruments that are similar to cash. And so the way we've been thinking about things really is liquefying our balance sheet, having access to liquidity to be able to take advantage of, let's call it dislocation on the market. But also, making sure that we're able to protect our own balance sheet. So we were, I would tell you we're overweight sort of in our bucket too, in terms of risk return profile and we're looking now with some what's called stabilization and rates.

We're looking to sort of reallocate into our bucket three category, which is really development. But all that being said with maintaining a really strong balance sheet, and I would tell you more access to liquidity than we've ever had. Does that answer your question, Sheret?

Sheret R.: Yes, that's really interesting. I mean, and that seems to be, so it seems like you are arming the war chest to makes some bets in the next 12 months, is that a good way to think about it?

Rajeev V.: I think that's a good way to think about it. I would tell you that I was very fortunate to be at, for example, Brookfield early in my career. And its during periods like this where there's volatility, where there's dislocation in the markets, and those who have access to Capital who are able to move very quickly, are able to generate I would tell you outsized returns.

Sheret R.: And by dislocation, do you mean opportunity versus evaluations? Or what specifically are you drilling into that line?

Rajeev V.: Yes. I guess there's multiple ways to look at dislocation, what you sometimes see as undercapitalized sponsors on projects, and they need to raise Capital very quickly to be able to save their projects.

You have distressed situations where the lender has taken over a property or a project or an investment. Or you have things where, let's call it a sponsor needs to repatriate some Capital very quickly, and they're less price sensitive, and they want to basically be able to protect their own balance sheet.

So we're starting to see what I would say opportunities come up that we haven't seen for some time, and for those who are able to act very quickly, have certainty on Capital, and are able to underwrite and move, I think there's opportunities that are emerging.

Sheret R.: Are you seeing valuations stabilize? Or are you still seeing volatility in how things are priced?

Rajeev V.: I think this is the interesting thing between the public and private markets. Obviously, the public markets had probably one of their, a very bad year last year, things have sort of stabilized early in the year. So you're seeing sort of a disconnect between what's called public market valuations and private market valuations.

And what I'd say is we're seeing sort of private market valuations, there's a disconnect between buyers and sellers, and I would call it's in price discovery mode right now. So I would tell you generally speaking, we think values for real estate multiples for private equity, so on and so forth. Generally, I would tell you there's a downward biased evaluations or neutral.

Sheret R.: How are you seeing interest rates dictate your Capital allocation decisions, in terms of which assets you go after? Like I imagine the real estate opportunities right now are harder to underrate, just given some of the volatility in interest rates. So just want to get your comments on how you view the market right now.

Rajeev V.: So first, what I would say is for the last many years, real interest rates have been negative, when you factor in inflation. And that continues to be the case, although, less so with where yields have gone. I'll use in real estate for example, you talk about Sheret, generally speaking, real estates are the types of assets that we invest in. Generally, you're able to put on long dated financing, 10-year, 15-year financing fixed rate.

So you're able to take interest rate risks sort of off the table once you're able to fix it. And you generally build a very well staggered debt maturity ladder, so you don't have over risk in a particular period of time. And so like that sort of let's call it fundamentals around how you build, how you manage your debt, your indebtedness, I would tell you where we've been extremely active on things, really is on interest rate etching.

Given the volatility in the market and what we're seeing, we've basically, with quite a few counterparties establish credit. So when we see the opportunity to hedge out interest rate, let's call it lock-in sort of certainty, we're taking those opportunities.

We're trying to take risk off the table. There's way too many other variables out there today, that interest-free risk is something that we are more than happy to pay a bit of insurance on to take that out of the equation.

Sheret R.: Yes, that makes sense. Okay, so maybe just to pivot a bit in terms of how you, like how you purchase internally for Forum. Do you mind walking me through the last time you purchased, maybe it was a software, maybe it was equipment. Walk me through how those decisions were made, and potentially, a specific example, if possible.

Rajeev V.: Maybe, should I talk about software, Sheret, is that helpful?

Sheret R.: Yes. I think that's a good example, I think to just think about how CFO think about software.

Rajeev V.: Yes. So look, I alluded to earlier in this podcast that about two years ago, we launched an asset management platform which really means allowing third-party investors to invest alongside us and our funds. So part of that means building, what we call an operating platform, okay. To be able to service our investors, to be able to report to them, so on and so forth. So in the real estate space, one of the typical ERP systems is Yardie, that's well known to most real estate people.

So the decision around that was given our aspirations to grow our real estate business significantly, and particularly one of our private funds where we have rental housing, it was a pretty easy decision to be honest around how do we build a business and a platform that's scalable? So we have people, we've got the process, but we don't have the technology.

So that's a project that's still underway, with the idea that once we have a technology platform in place, the ability to grow our fund, let's call it from today 400 million of rental housing assets to 2 billion should be able to be done without much pain and efforts.

Sheret R.: So for Yardie, is that something that you identified the pain point, you had someone on your team source existing vendors, did some evaluation? Or was this a proactive approach by Yardie reaching out to your company or yourself, and making the hard pitch?

Rajeev V.: No, I would say it was the former. We understood it that we need to build that operating platform, that foundation, to be able to scale and grow. We call it a scalable platform, is the term that we use quite a bit. So we were pretty proactive on that. We knew it was one of those necessary foundational elements we needed to do, to achieve our objectives, near-term and longer term.

Look, I was going to say I think you get it, we're in one of the tightest labor markets, and so the ability to automate to leverage technology, you get multiple return on that investment.

Sheret R.: So in that vein, what's kind of keeping you up at night right now?

Rajeev V.: What's keeping me up at night? I would tell you, on the investment side of things, what's keeping us up at night is visibility into when things are going to settle down. We're still seeing a very volatile environment, it's very tough to raise Capital, it's very tough. We're finding opportunities, but what I would tell you is the capital, the people who invest alongside us are, everybody's on risk-off mode right now, they're waiting to see how things settle.

We have, I would tell you we have a pretty significant growth aspirations, and so being able to, where we want to take the business, one of the key things is being able to find like-minded investors to work alongside. And what I tell you is a lot of the like-minded investors today, everybody's sitting on their hats, there's a lot of uncertainty out there.

Sheret R.: So yes, I mean, even in our business, I feel in software and B2B SAS forecasts are constantly being updated, and I think there's just so much uncertainty with most businesses today that it's hard to truly perfect a forecaster right now. So it's interesting.

Rajeev V.: Absolutely.

Sheret R.: If you had to take, if you had a crystal ball, where do you believe interest rates are going next year?

Rajeev V.: Whoa, where do I think interest rates are going next year? I think it's relative to where people think they are today. I think they're going higher relative to the expectations today. I think what you're seeing is there's inflationary pressures that everybody thought was going to be tampered down with where banks took rates last year, and you're seeing that a lot of these inflationary pressures continue to be there.

When you talk about that, and you talk about how globalization in a lot of cases becoming more like-minded, trading partners, becoming more like-minded. You talk about it, Crystal Freeland said it one time, right? We need to be doing more training with like-minded countries. You're talking about generally an inflationary environment, really tough to get labor, even those you hear about tech layoffs. Really tough to get great people.

So I think the inflationary pressures are here to stay, you're not going to see rates where they were pre-COVID, yes, so they're going to be higher. I think they're going to be higher than what everybody expects.

Sheret R.: Do you sense that the folks that are sitting on cash blasts right now, will begin to deploy at a much more aggressive pace next year? Or do you see that trend continuing into next year?

Rajeev V.: I guess what I would tell you is when I think about Canada, they continue to be collecting capital. So talk about the Canadian Pension funds, right? They're all pension obligations they need to pay, are a lot less than what they're collecting in cash today.

So what I tell you is all of these Pension funds, whatever have a rate of return that they need to achieve. And so sitting on cash, even though it's better than what it was pre-COVID which was effectively zero, certainly better than it is today. What I tell you is they need to put money to work.

So I think this year, you're going to start to see more money getting put to work. But what that depends on is really that price discovery between buyers and sellers, which are still, there's still a disconnect there between the bid and ask.

Sheret R.: Yes. It's a bit of chicken and the egg situation right now, this is what I sense from the market right now. So all right, well, thank you Rajeev, appreciate you joining and sharing your insights. It was really great getting to chat with you, that's all the time we got for today. We'll see you next time on the allocator’s podcast.

Outro: Thank you for joining us on this episode of the Allocators. Join us next week for a new discussion where we get inside the mind of financial decision maker. I'm Sheret Ross, see you next time.

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