ASSET MANAGEMENT
a guide to best practices

ARTICLE OVERVIEW

The Institute of Asset Management defines Asset management as the "coordinated activity of an organization to realize value from assets". Effective asset management positively impacts the mission of the investment portfolio while at the same time optimizing the profitability and value for the participants. By taking a step back to view and coordinate all activities on a portfolio level, organizations are able to mitigate risk and optimize all aspects of the investment to be able to make the right decisions at the right time.

Now, let us ask you, how is your asset management? Are you comfortable with its effectiveness? Or are you ready to learn more about the tools that can help you optimize portfolio performance.

While the principles outlined in this paper apply to all types of investments, both public and private, the strategy that follows is built from years of supporting alternative investments. These investments include partnerships and other types of legal entities which have additional responsibilities, risk and compliance requirements not found in traditional investments – such as publicly traded stocks and bonds.

PROLINK™ SOLUTIONS

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Shawn McKenna is the Founder and CEO of ProLink Solutions, a company that specializes in enterprise solutions for housing finance agencies and businesses in the financial services sector.

With a background in banking, finance, and software development, Shawn has a long and proven track record as an entrepreneur and innovator, and ProLink has won many accolades under his leadership. Shawn has led the company to create award-winning solutions for its clients. Implementations of ProLink software have earned several HFAs recognition from NCSHA. The company was also recognized in 2013 as one of 50 Colorado Companies to Watch and was included on the Inc. 500|5000 List of the fastest growing companies in the US.

A Note about the Portfolio Mission

Effective asset management, at its core, is a strategy to help deliver on the mission of the investment portfolio. Before making investment decisions, it is important to outline and document the portfolio mission first. Some important questions to ask up front:

- Does the portfolio have an altruistic mission such as delivering affordable housing to the community?
- Is the mission solely profit driven?
- When a conflict between components of the mission occurs which takes priority?

By outlining the portfolio mission up front, asset managers can develop a framework which will guide decisions on all future investments, such as when to take on a new investment or the right time to offload an existing asset. Always remember to make the mission measureable and action driven.

Three Stages of Asset Management

Asset Management as a discipline can be thought of in three distinct stages: Origination, Portfolio Management and Disposition. Successful portfolio management requires continual monitoring of the financial performance, condition of physical assets as well as complying with any applicable regulations through all three of these important stages.

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Origination, often known as intake or new business development, is the stage that involves working with an investment partner to acquire new assets.

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Portfolio Management is the stage to integrate the recent investment into the existing portfolio.

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The final stage of asset management is referred to as disposition or preservation depending on the portfolio mission.

Origination

Origination, often known as intake or new business development, is the process of working with an investment partner to acquire new assets – either through a debt or an equity agreement. While each asset class has nuanced approaches toward the origination process, one clear commonality is that origination is the first opportunity to define the obligations and responsibilities for the investment between involved parties. Getting this part right will set the foundation for the life of the investment. Origination itself encompasses three critical stages: underwriting, defining the obligations and onboarding.

Underwriting and Pricing

Define Obligations and Responsibilities

Streamline the Onboarding Process

Underwriting and Pricing

Underwriting is the process of raising capital for an investment and is also the first opportunity to assign appropriate risk to each member of the partnership. It is at this early stage where organizations should be thinking about maximizing the value of the investment by properly identifying investment risk. Before finalizing your investment pro forma make sure to execute the following:

- Identify and analyze target ratios
- Develop forward looking forecasts for the investment
- Analyze sponsorship experience and track record
- Inspect the property or asset quality
- Review the historic performance (if an existing asset)

What may seem like a small consideration during the underwriting process can turn into a major point of contention between investment partners further down the road. Performing the appropriate due diligence in the underwriting stage mitigates investment risk and sets the foundation for a smooth partnership.

Origination

Define the Obligations and Responsibilities

Depending on whether the asset in question is a debt or equity investment, there will be a wide range of controlling documents shared between the parties involved which set the terms of the investment relationship. All too often, this information is gathered and documented in an ad hoc manner – leaving room for misinterpretation. The first step is to define these obligations:

- Who are the entities involved and what is the ownership structure?
- Are there any deal specific loan covenants or partnership agreements?
- What are the financial reporting requirements for the various deal participants?
- What type of key performance indicators will govern the expectations for the performance of the asset?
- How will taxes be managed?
- What compliance and regulatory requirements, if any, does the investment involve? Who is responsible for meeting those regulatory requirements?
- If any of the obligations are not met, what are the conse quences?

Properly defining the obligations and responsibilities of the partnership is a second opportunity to manage and mitigate risk in the investment – a common theme for successful portfolio management.

Underwriting and Pricing

Define Obligations and Responsibilities

Streamline the Onboarding Process

Origination

Streamline the Onboarding Process

Typically, once the underwriting process is complete and the obligations are agreed to, this critical information is documented in spreadsheets or disparate systems from what will be used to track asset and portfolio performance. The challenge with this approach is that the information can be modified without consent of the involved parties, or data can be poorly transferred from one system to the other leading to discrepancies which can result in potential partnership conflicts down the road. By unifying the asset management system with the system used to track partnership agreements and obligations, risk can be diminished ensuring the investment is set up for the highest level of success from day one.

Underwriting and Pricing

Define Obligations and Responsibilities

Streamline the Onboarding Process

“In order to perform portfolio management, you need to be able to see across the portfolio to coordinate activities."

- Shawn McKenna

Portfolio Management

Now that the investment has been approved and the obligations and responsibilities have been documented, it is time to integrate the recent investment with the rest of the existing portfolio. It is in the portfolio management stage where investors choose to adopt one of two options: manage investments on a singular basis or across a range of investments to maximize overall portfolio value. In order to successfully transition to a holistic portfolio analysis approach there are a few core strategies to follow: perform a periodic process of revaluation, have a strategy in place to handle problems with assets before they become troubled and keep investment stakeholders informed through timely and accurate reporting.

Perodic Process of Re-evaluation

Ability to Handle Problems

Regulatory & Investor Reporting

Periodic Process of Re-evaluation

Continuing with the theme of risk management, the ability to re-evaluate assets during the lifetime of the investment is essential. Monitoring the activity associated with a deal, from a portfolio standpoint as well as in comparison to industry benchmarks, is the best way to identify risk to investments and therefore the risk of the portfolio as a whole. Now it is time to integrate this information in a system which can monitor those agreements to determine if they are being met or unfulfilled. Some core considerations to track:

- **Monthly Operating Statements** – How is the asset performing in comparison to the defined obligations?
- **Annual Financials** – Are audited, unaudited and/or tax returns required?
- **Operating Budget** – What is the process for approving the annual operating budget?
- **Inspections** – What types of inspections are required and how often?
- **Loan/Reserve** – Is the loan up to date, has there been any type of default, have reserves deposits been waived or deferred?
- **Peer Performance** – How does the asset in question rate among other assets in the portfolio. If below average, what aspects of the above criteria are subpar relative to the asset's peers in the portfolio?

Through regular and automated monitoring of this information, investors can be confident that the information needed to take corrective action is available before it is too late.

Portfolio Management

Ability to Handle Problems

Timing is everything when managing a diverse portfolio of assets. While some systems track the performance of assets individually, proactive portfolio monitoring systems are required to identify problems which could impact the entire portfolio before they occur. Any asset management system worth its salt should be able to provide automatic risk ratings to the re-evaluation criteria just outlined. By assigning points to risk criteria on the portfolio level, insight is provided into the performance of both individual assets, as well as the entire portfolio. The asset management system should be able to send a notification when assets dip below a predetermined risk threshold in order to swiftly identify the problem asset and correct the root of the problem.

Work to adopt a single database of record which can integrate risk monitoring and departmental processes across the entire portfolio. By creating a real-time database of record for all documentation, activities and investment interaction all participants will have access to the information necessary to make the best decisions in the most efficient manner.

Perodic Process of Re-evaluation

Ability to Handle Problems

Regulatory & Investor Reporting

"Asset Management lasts the entire life of the investment making it the most influential of all of the investment processes."

- Shawn McKenna

Portfolio Management

Regulatory & Investor Reporting

Regardless of organization makeup, the final step in Portfolio Management is developing confidence in the process of reporting to stakeholders. Stakeholders require a high level understanding of individual asset details as well as the overall portfolio performance. The level of reporting is critical for government entities reporting to regulatory agencies, private entities reporting to investors, as well as bond issuers reporting to credit agencies.

Because each investment and partnership structure varies, stakeholder reporting can quickly become a burdensome task requiring manual data copying from an asset management system into spreadsheets and then sent via email. Transferring data from complicated data tables to meaningful charts and graphs represents a major and constant challenge. Regular investor conference calls can help, but maintaining an audit history of the decisions made can prove unsustainable.

Effective stakeholder reporting is an opportunity for significant organizational differentiation. Automated solutions which integrate directly with asset management systems can help close the loop on this process, opening up new transparency and helping improve the performance of the portfolio overall.

Perodic Process of Re-evaluation

Ability to Handle Problems

Regulatory & Investor Reporting

Final Disposition

The final stage of asset management is often one of the most overlooked. Depending on the portfolio mission this stage may be referred to as disposition or preservation. As with the stages that came before it, disposition is best managed as an integrated component of the entire asset lifecycle. Decisions made in the early stages of the asset lifestyle, come to light during the disposition/preservation stage. Organizations can streamline the process by focusing on the following:

- Track and monitor the disbursement of cash flow during all stages of the investment
- Keep an eye on any deferred development fees complicating the final disposition of an asset
- For non-regulated assets, be aware of how current market conditions are impacting the current value
- Understand the payment protocol and priority for capital accounts
- Compare the performance of existing assets to other portfolio assets prior to disposition in order to identify trends which may help at the time of the sale
- Ensure all partner agreements regarding the disposition process have been met

Integrating final disposition/preservation into the same system as both origination and portfolio management will help ensure the right factors are considered before final disposition. Also be sure to keep a legacy record of the life of the investment. Documenting the estimated vs. actual proceeds of the investment will provide valuable insight into future investments.

Conclusion

Much like the blind man and the elephant, where each person has a different understanding of the part of the animal they are inspecting, but are unable to see the animal as it truly is, all too often investment decisions are made on limited and imperfect amounts of information. In order to effectively manage a portfolio of assets, information must be gathered on all parts of that portfolio coupled with the ability to drill into the individual assets and take action as required. This transparency on both the asset and the portfolio levels is what allows investors to deliver on the mission of their portfolio.

From origination to portfolio management to final disposition, adopting a portfolio-level view of assets will help improve long term performance. By integrating all three of these crucial stages together in one unified system, investors can be confident in the ability to manage, monitor and proactively take action on all components of their portfolio.

About ProLink Solutions

ProLink Solutions is a software company that enables the real estate finance industry to efficiently allocate capital, manage assets, and maintain compliance. We apply industry-leading technology and expertise to automate business processes and improve data accessibility.

We specialize in orchestrating the workflow and business processes of our clients by developing tailored software based on the ProLink Framework. Our team is experienced in providing solutions for enterprise investment management in multiple industries, including Housing Finance Agencies, community development corporations, and international real estate companies.

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Alternative Investment Management (AIM)

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