

PROFILE

Apex to profit from nadir

● **Lucy Scott** meets the head of a new investment manager that is looking at bottom-of-the-market opportunities in Russia and Turkey

THIS SUMMER, ALISTAIR DIXON, WHO STEPPED down last year as chairman of RREEF's global opportunity business, launched Apex Capital Partners with Vojkan Brankovic, the former head of MGPA's emerging Europe division.

Dixon and Brankovic are heading into emerging markets such as Russia and Turkey to buy core assets at opportunistic prices, as banks turn the screws on distressed lenders.

But Brankovic, who will front the operation on a day-to-day basis, says Apex is not seeking to raise multibillion-euro funds or to pool investors into a single vehicle. "We will set up joint ventures in target markets," he says. "Investors will know from day one what they are buying. They will know the cash flow, the returns and the fees. That set-up is very attractive to institutions."

Dixon and Brankovic's model is a world away from their former lives, working for fund managers that raised billions. Earlier this year, Roger Orf, president and CEO of Citi Property Investors, argued that the change in investor sentiment since the onset of the downturn had resulted in a "breaking of the fund management model as we know it".

Go clubbing

In keeping with this new epoch, Apex will pick up deals using club structures, and team up with investors on a transaction-by-transaction basis. "Investors are not committing to something that will change," says Brankovic.

He adds that in "blind funds", investors have no influence on their geography and asset selection. "In a club deal, investors know the risks of investing in the property at the beginning of the investment process," he says.

Brankovic says he used to put together private placement memoranda for funds that were very general in terms of strategy. "But now the markets are so challenging that to get credibility,



To get credibility, investors need to know what they are investing in

Vojkan Brankovic
Apex Capital Partners

investors need to know who they are investing with and what they are investing in."

Serbian-born Brankovic, who has held senior positions at Baltic Property Trust, Morley Fund Management and Aviva, left MGPA last autumn after the fund manager shelved an opportunity fund aimed at Russia, Ukraine and Turkey because of investor concern over political risk.

But Brankovic's faith in Russia and its neighbours is undimmed. "People underestimate Russia, but it needs a lot of investment," he says. "We are looking at Moscow offices with cash flow, with tenants - assets that are performing. There are good assets around,

but you need to know how the market works."

Brankovic's knowledge of the Russian market comes from his time at Baltic Property Trust during the early part of the decade. "They were only just introducing a land code - legislation to formalise the transfer of urban land. You couldn't buy anything. There were no class A assets or tenants - no formal procedures."

"It is difficult to understand emerging markets without knowing the culture, the people, their habits," he says, citing mistakes made by westerners in recent years in Istanbul - one of Apex's target markets. "People don't like to shop in big boxes. They prefer to shop outdoors.

"With retail you have to look at the habits. You can't change them. It is the same in Moscow, where the climate is very cold. Retail outlets have to be covered and heated."

Apex's headquarters is in London, where Brankovic plans to hire a 10-strong team. The company will also recruit local teams of up to 20 staff in each office.

Indirect approach

Brankovic believes investors are not comfortable investing directly in emerging markets, which are "highly demanding, complex and intensive. You need to know how the system works. You can't just turn up and buy."

Apex will not seek to develop. "Why develop when you can get just as high returns with completed assets?" says Brankovic. Instead it will seek to make returns of more than 30% through active asset management and attracting tenants with better covenants.

"The real opportunity will come at the end of the year, after valuations. Banks can put pressure on borrowers when there is more evidence. Rents have to readjust in Moscow - they've been the highest in the world. Rents are down by between one-third and one-half from the peak. Ideally they need to be half to be sustainable."

However Brankovic recognises that investors may not always be willing to part with their money. "A year ago we could have talked to anyone, but now it is a bit different. People are going to be very cautious for historic reasons. But come January, the market will pick up and people will once again have the appetite." ●