EPISODE 496

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Bob Fraser. Thanks for being on the show Bob.

[0:00:33.1] BF: Fun to be here with you.

[0:00:35.0] WS: Yeah, I'm excited about this conversation just from a little bit of what Bob and I have talked about beforehand but a little about Bob in case you haven't heard of him before. He's on a mission to help investors take advantage of one of the most effective and overlooked avenues in real estate investing. Residential mortgage notes. As founder and principle of Aspen funds, Bob has purchased more than 1,000 mortgage notes earning double digit annual returns without the risk of traditional investing options.

Bob, thank you again for your time, I appreciate your sharing your expertise but give us a little more about who you are and let's dive in.

[0:01:14.2] BF: Sure, I'm actually not a real estate guy by background. I was a computer scientist and engineer. Which actually is a great training for, you know, a lot of things but I ended up in the 90s, started a tech company and raised 40 million dollars in venture capital, became one of the fastest growing businesses in the Midwest region United States and ended up winning the engineering entrepreneur of the year award, 300 employees, it just blew up.

I kind of got an MBA in syndication and you know, finance and became a finance guy after that, really loved finance so started structuring deals. Ended up helping nonprofits to raise money, also you know, syndicating good work so to speak, right? Started a hedge fund and then eight years ago, joined up with my partner and started this note businesses.

Investing in notes. Pretty much focusing on operations and finance, deal structuring, you know, using other people's money to make money.

[0:02:14.9] WS: Yeah, it's an incredible track how you've got where you're at now. It's like you didn't anticipate on many years ago or any or what computer scientists and raised over 40 million dollars in venture capital and then yeah, you've helped many organizations raise money or nonprofits.

[0:02:29.4] BF: There's so many different kinds of money, you know? One of the things that business schools really don't necessarily do a good job teaching how to raise money. Whether different kinds of money, how to make the pitch, how to attract investors, what they're looking for, how to keep them happy and you know, it's something you – it's important to be good at it if you're trying to syndicate.

[0:02:50.3] WS: Well, you brought up a great point there and I wanted to tell the listeners too, Bob has done numerous syndications, they've operated in numerous funds.

[0:02:57.2] BF: We have six funds today.

[0:02:58.5] WS: Yeah, six funds right now.

[0:02:59.8] BF: Just in our current business.

[0:03:01.0] WS: Awesome. Well, I'd love to dive in to – you've talked about how you know, what are investors looking for and how to keep them happy. You know, how you've been so successful in this side of the business but get us started.

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How do you know – you talked about different kinds of money and the importance of knowing what they're looking for. Help us to better understand.

[0:03:19.0] BF: Well, when we started, you know, when I started venture capital, of course, you start with friends and family. You know, the easy money and you know, that so called dumb money, you know? Which dumb money is great money, you know? It doesn't mean they're dumb, it just means they're not necessarily professional investors.

But when we started our current fund, my partner came to me and he's kind of our chief investment officer. He's the genius brain behind our strategies. I'm really the money and scale guy. He came to me and said, "I got this – we got this model. Here's this crazy model," I'm like "Okay, tell me about it," and I'm listening and I'm going, "This is too good to be true but let me take a shot," so I let him invest my IRA for six months. Im like, "Holy smokes, this is real."

The next thing I did, I just went and raised a little tiny beta test fund. That's with friends and family so people that I didn't have to do a lot of explaining, people that I had a lot of credibility with and explained the model to them, explained the risks to them so that you know, these are my friends. You really want to treat them well and you want to go after the people that where the risk fits the person, you know?

You want the investment to fit their profile so I tried to do that little tiny fund. Then, we did super well, made our investors a lot of money and then you're off to the races. The key really is track record and start small. It's okay to start with small deals and then the most important thing is to treat your investors well, right?

I mean, you know, treat them like you want to be treated. Take care of their money. Treat their money as super important. Communicate with them, right? No surprises. First rule of management, don't surprise your investors, right? Just be boring, send them money, do what you say, and at the end of the day, they leave with a really good feeling if you never call with bad news, you know, you do what you say so that's the key and then track record is everything. When you get a track record – right now, you know, we've been doing this for – we're in our eighth year now, same two strategies and you know, you show the charts of our returns and all of a sudden, investors just get really comfortable.

You get to our size now, we're getting – we're getting an audit done now, we're getting institutional capital at this point. Now we've graduated from friends and family to really extended friends of friends and now we're getting institutional capital and it's all because of a track record. We start with one kind of money and we move on to other kinds of money.

Started with small checks and now we're getting bigger checks, you know? All along, you just have to deploy it, you have to you know, dot your eyes and cross your tees and you know, we're very – I'm a computer scientist so I'm super analytical. We do incredible amounts of analytics. We're very cards face up. I play my cards face up if I'm a poker player.

No surprises to my investor. I disclose everything. We write a quarterly newsletter that has all the good, the bad and the ugly. It gives them confidence that they know – people know unexpected things happen, you know?

[0:06:26.7] WS: True.

[0:06:28.0] BF: What they don't want to do is feel like you're hiding or you're not being – you're not disclosing. We disclose everything and end of the day, we send them checks on time and try to do what we say and meet the – we don't over promise. It's all about track record and doing what you say, execution.

[0:06:48.3] WS: Yeah, got so many important things there. No surprises, communication. I loved that you said be boring.

[0:06:54.7] BF: Absolutely.

[0:06:56.0] WS: Be boring. I think that's interesting way to put it, you know? It's like, it goes back to no surprises but you know, in the track record and it is so important and most investors I talk to, when we talk about track record or they ask me about different things, obviously.

You know, when you're just getting started, it's difficult, you know, to have any kind of track record, build that rapport with investors, especially if they're asking about your track record and you don't have much, you know. How do you suggest somebody kind of navigates that conversation. I mean, obviously, you want to be honest, you want to say this is my first deal or my second deal. Whatever it may be. You know, how have you navigated or recommended to other people to kind of navigate when you're newer.

[0:07:34.7] BF: I think you do have to be honest. You have to say this is my first deal. With my beta test fund, I mean, I literally said, "Guys, it looks incredible. We've never done this." I went after the people who are okay with that. There's high risk profile people who like, you know what? Mom. Mom says you'll never make a mistake, you know? '

Mom put in some money, you know? It's those kind of people that's, "I'm with you, whatever you want." But you do disclose. "This is untested, we think it looks good, we've done our homework," and you know, my partner was super articulate and intelligent and I really could talk to anybody who had the issues and really answer them well but we didn't know.

It's so important to be honest. You don't want to oversell. I'd rather undersell and over deliver than over sell and tell people there's no risk which is illegal by the way. You get thrown in jail if you do things like that. I find so many people that raise money don't do it legally and you really need to pay attention to the laws and know what you're doing and know what you can and can't say. I would definitely recommend getting a lawyer, getting advice on what you can't say and if you're under the reg d exemptions, you know, you have to be very careful of what you say.

There's no guarantees, you need to disclose the risk but you start with those – just start small. Start with a deal, you know, quarter million-dollar deal, start small but then execute and there's a point – I even made my initial structure so investor-friendly that even, if you say opened it in a fund, if the value went down – I make a percentage of profits.

The value went down and then back up the next quarter. I would make a lot of money. I would literally change my PPM on the fly when I realized it was going to happen to undo that so that I wouldn't make the money. I sent out my investors, I'm only going to make the money if the share price increases over 12 months and not over one quarter.

Because I realize that I made a goof and so investors all of a sudden feel like gosh, I'm taking care of them, I'm looking out for them which I am. Another time, I couldn't – the profits were thin enough as we were getting early, you know started, we had high expenses out of the gate and it wasn't enough money for us to pay our AUM fee. I waved our AUM fee. I'm not going to take the money. I'm prioritizing my investors. I treat my investors, you know, like they're my mom and dad. I'm going to really take care of them and so people feel that comfort from me.

I'm going to do everything I can to make sure they get paid and take care of their money. You know, because they're trusting us, passive investor, think about it. It's all about trust isn't it? They're trusting you to make their decisions and take care of them. Well then, that's a huge responsibility. You just got to treat it like that, treat your investors super well, that comes across and then what happens as people start throwing money at all your deals because they know, they trust you.

That you take care of them and I work – we work so hard to never violate that trust and even when it hurts us, you know. We've run in to situations where we needed some short term funding, you know? For a rehab or something. And didn't have the cash. Well, we personally loan the fund money at you know, below market rates just because we're not trying to just make a dime for ourselves, we're trying to make our investors happy.

I really treat them above ourselves, right? We're in to make our own money as well. I mean, I'm not – you know, this is a for-profit business but we just – you just got to treat your investors like gold. And then they keep coming back.

[0:11:17.2] WS: Are there any like special techniques that you use as far as, just in communication with investors that you've seen has been very fruitful or something that they – we had talked about, you know, being able to raise money but wanting investors to want to keep investing with you, any other ways that you've been able to do that?

[0:11:33.6] BF: You know, it's like anything, it's marketing and it's a consistency. We run a quarterly newsletter and so it's just we're always in front of them. Literally, a lot of investors, you know, they ask all these questions upfront and you think they're going to be super involved and once they write a check, you never hear from them again.

Well, that's good and bad because now, you're out of sight, out of mind. I don't want to be out of mind, I want them to know I'm loving them and I'm loving their money and I'm taking care of it and I want them to know I'm working hard for them. I want them to know, I'm chugging it man. I'm burning the midnight oil, I'm making this, so I do regular communications, we make them look nice, it's a – you know, we typically do it one to two page little newsletter with data charts, facts and send it out. We've started an annual shareholder event and just like you know, Warren Buffett does, why not?

It's super easy to do an online conference like that and you know, prepare slides and that we just do a half a day event and I do add value added – I do things, I do a whole economic update, you know, one of our passions having been through three crashes. We're allergic to hyper cyclical assets here at Aspen but we also weigh a lot of attention to macroeconomic picture.

I do a whole economics presentation for my shareholders, try and really add value to them. I don't give it out except to them. We do that once a year and so we're trying to provide value but be in front of them and let them know we're working hard and then when there's new funds, you know, or new investment opportunities, they're rolling their – offering to roll their cash – you're top of mind.

[0:13:17.8] WS: Nice, that's so important. You've given many great examples of how you all have kept investors top of mind and given them priority, and just to really build that long term relationship. It's so important. I love the newsletter idea, you know. Are you sending that through email or through snail mail?

[0:13:35.4] BF: All email. We don't kill trees.

[0:13:38.9] WS: Okay.

[0:13:40.5] BF: It's all email and then you know, I have an investor relations person who calls them regularly and just lets them know what's going on if they want to talk – a lot of people don't want to talk, you know? That's fine. I think another missing element, we're masters of deal structure here and to make the deal, make the structure investor friendly.

For example, our income fund – one of the ways income funds lie to their investors is you pay preferred returns. You can pay not out of profits but out of capital. So literally I am sending him a check, they are feeling good about the check but it is actually taking capital away from the business. It is a return of capital in addition to profit, you follow me? I built into my fund. I can't do that. I can only write a check, a dividend check out of profits alone.

So that is honest, right? And I just said that if my fund changes the values down and then goes back up. I don't make money on volatility in my fund, which I could easily have done. So those kinds of things, deal structure really matters. The other thing we did, we figured out in the note space, these are not big monolithic apartment complexes. It is just not one deal. These are thousands of notes and so while 8% of my portfolio self-liquidates every year.

So I have a massive amount of cash flow in this. So I thought you know what? We could offer the Holy Grail to our investors of liquidity. So literally I put a liquidity provisions in. I price my fund in a quarterly basis and I say, "If you want your money back write me and tell me how much money you want and give me a 90 days' notice so that I can reserve that capital and I will pay you back." And so we actually made this deal structure super investor friendly.

And yeah, it is a little bit of a pain for us but so what? Investors love that and you know very few of them take us up on it you know but I put it in there and because the actual asset structure allows me to do that. You know we did another structure. So we realized we did an open ended fund with our second strategy. Well, the second strategy is a much lumpier strategy. When we figured out we are harming our returns because we are sitting on too much cash, we are shutting down the open-ended fund and going into a closed end structure that was much more capital efficient.

So one of the keys is structuring your deals to fit the assets and as much as possible to add investor – you know make it super investor friendly to the deal structure. Now we want to eliminate any barriers we can, any friction between that person sitting down to write that check and a check hitting in my inbox, you know? Just make it super easy. Investing with Aspen is like floating down a gently flowing river, you know?

[0:16:25.2] WS: That's good, yeah. Could you just highlight some of the things as far as structuring the asset in a way that's much more friendly to the investors just so we can say, "Okay these are some great things."

[0:16:35.6] BF: There is one, liquidity, okay? So you know, number two, we price our assets. We do actually an asset evaluation. We are not trying to hide investor returns. I mean sometimes you look at your mutual, have you ever buy a mutual fund or an investment and figure out how much money you made last month? You can't do it so we don't hide that. We make it super easy like I said, we make it investor friendly so that we are not taking fees.

If they're not making money, we are not making money. We try to make it very much what's good for the goose is good for the gander. So those kind of things we make it super investor friendly and one thing we did with our last, our most recent fund, we figured out a lot of people they want to roll the dice and want to get the high returns and a lot of people just really don't. They want to make much more steady, much safer. So I actually made two securities out of a single offering.

So a single asset, single fund has two securities. We have a debt security and we have an equity security and so the debt security is paid first. It is first money out but it is a fixed return. So those kind of things and I allow any number of any, you know tell me what you want. So one of the things that you want to go to an investor, you want them to say, "Hey, you know, do you want A or do you want B?" You don't want them to say no.

So you give them a choice, which one fits you better A or B? Not, "Hey how do you like A?" and so they choose and now they are making the choice between one security and another. It's been super well, we've ended up raising I think about a third of the fund has come in at debt and two thirds equity. Not only that, we have two different fund with two different services, one is a growth fund and one is an income fund to capture the two different big investor classes.

"Well, what are you after?" So if you don't like, you are not in that place where you want one, well you want the other. We are hitting an income fund, we are setting an income fund let's say to a young high earner and you say, "Well I don't really need income right now, just taxes," and says, "Well how about growth? Are you interested in growth?" "Oh heck yeah, you got that?"

"Yes." So it is having you basically have an inventory of investments that fit so I am not wasting my time.

Whenever I sit down with an investor I've got something that's going to fit them regardless of where they're at and generally we do so that I don't really get a lot of no's except for other reasons, you know?

[0:19:04.1] WS: Yeah, I love that. I love that having some options instead of just saying, "Okay this is it, like it or not."

[0:19:10.3] BF: It's a buffet. "Which one looks good?" versus, "Hey I've got smoked egg rolls today" you know? "You in the mood or?" you know?

[0:19:20.1] WS: Right.

[0:19:22.0] BF: No, I don't want that. That doesn't look good you know? Let's get a choice here.

[0:19:27.6] WS: Wow, you know that is some great information there and insight Bob and unfortunately, we are running low on time but we have to skip to some last minute questions but I did want to ask you, you mentioned like you have another team member or assistant that calls investors. I wonder how often is that? Does that person have a cycle of, okay, they need to call all of the investors quarterly or annually or how do you handle that?

[0:19:50.3] BF: You know we do it once a year and really it's related too. So they get the normal communication but we reach out to them and told them about the investor event, you know, the annual shareholder meetings. "Hey, we just want to personally invite you and tell you about this," so it is a more personal invitation and they can either fly down and come into our office and sit with us and meet us face to face or they can just click a link and watch.

So it is an excuse for a personal touch point, you know, and also if there's – we're raising a new fund and we are looking for a referrals, we will call people sometime and just ask how it's going and if they would like to make any referrals because a lot of people actually, they want to give you referrals. It is back of mind, you know? So what you're doing if you just ask, you know? And most of our investors love us. So they are happy to get, they actually feel like they're helping not us but their friend, you know? So it is just bringing it in front of mind.

[0:20:50.5] WS: That's some great advice right there. You know that's not been talked enough on the show about just asking for referrals.

[0:20:56.2] BF: That's right, just ask.

[0:20:57.6] WS: Yeah, wow. All right Bob, a few last questions. What's been the hardest part of this syndication process or business for you?

[0:21:04.0] BF: The hardest part is the cycle. You know, like I said, I have been through many and it doesn't matter how good your product is when the market turns. You could be selling free money and people won't invest in that. So the sphincters tighten up, you know all sphincters tighten when the markets crashes. So really the biggest lesson is to make hay while the sun shines because when the investor's appetite changes it changes.

You want to make sure your projects are buttoned up and can weather those things but that's been the hardest thing is trying to raise a counter cycle is impossible basically. It doesn't matter what you are offering.

[0:21:43.4] WS: So that fits perfectly right into the next question, how are you preparing for this potential downturn that everybody is talking about?

[0:21:50.5] BF: We have been shifting our portfolio max into much more safer assets, much more senior assets and we look at we've strengthened our underwriting to look at, to really measure the price to rent ratios because we know that rents are not going to necessarily go down, okay? So we are looking for different metrics that – just shifting portfolio mix is really our key strategy there.

[0:22:17.4] WS: What's a way you've recently improved your business that we could apply to ours?

[0:22:21.3] BF: Yeah, you know, we have fully automated everything with our staff. We have used electronic cloud base communication systems and CRM system. I use a program called Microsoft Power BI. It is analytics. I just can't recommend this highly enough, it creates the most amazing charts but every slices and dices your data. We know absolutely everything about our portfolio. I can look at it by location, by equity, by return and just run numbers like crazy.

You know you can't make a good decision if you don't have good analytics and now these analytics, this Microsoft Power BI it just does everything you could possibly imagine and it just costs, I don't know, 10 bucks a month or something ridiculous. You know, the amount of value I am getting from this and of course it then creates beautiful charts for my investors and it is all live. It is all live data. I have integrated everything. So use the tools that it is available to you.

I have integrated it with my bookkeeping system, I have integrated it with my loan servicing system. I have integrated it with our asset management system. So it is all live data and everybody loves it.

[0:23:31.5] WS: So it is called Microsoft Power BI.

[0:23:34.2] BF: Power BI, business intelligence.

[0:23:36.0] WS: And how does it get the information? It's just integrated and communicates with those other platforms?

[0:23:41.9] BF: Well, yeah it is not automatic but in some cases it is, yes.

[0:23:45.8] WS: Okay, wow. So tell me how you're finding investors right now?

[0:23:50.1] BF: We are continuing to leverage existing relationships. We've got some marketing partners that actually syndicated with wealth managers and that's where we are heading now. We are starting to talk to family offices. We are using Google and finding that and actually – that is tricky because you know – but it works if you do it right. You have to know what you are doing and you know, you should talk to my marketing guy if you want to get more and really how to use the Internet for fundraising. You know he is the expert so my technique is to find the expert.

[0:24:27.7] WS: Yeah that is a good technique.

[0:24:30.0] BF: And make sure he's happy so that's what I do. So we use the Internet, referrals and referral relationships and then we go to conferences. So just being visible.

[0:24:42.2] WS: What is the number one thing that's contributed to your success?

[0:24:44.9] BF: Track record and execution no doubt and even on the source side. We have now been in the business for so long we are becoming the go to source for our suppliers, our product who are part of these notes because we are so easy to work with. We do exactly what we say, we are very nice. We want to be nice to people and treat people with respect. You know it is so easy to be an A-hole and you just don't have to be.

So people want to work with us and so we have these incredible opportunities and we get the best deals and the best product, better than anybody else in our industry and then we treat our investors well too. I mean it really is, isn't it? It is the golden rule, right? Treat others like you want to be treated and that includes your suppliers and your sources, your investors, go to the conferences and be a nice guy, you know talk with everybody. It is just those little things.

[0:25:39.3] WS: Bob, how do you like to give back.

[0:25:41.7] BF: Yeah well, we actually give a portion of our profits to non-profits here and that's our just private information and we don't publicize that but it's definitely part of who we are. I serve on the board of non-profits and help them raise money, which is fun because at the end of the day we don't leave the planet with anything you know? So you want to make sure that everything that we are doing our fun businesses and we're making money doing it. We want to make sure we are leaving the planet a better place and taking care of others.

[0:26:17.1] WS: Yes, well thank you for sharing that Bob. A great interview, thank you so much for your time and sharing your expertise so freely with the listeners and myself but tell them how they can get in touch with you or learn more about you?

[0:26:28.6] BF: Sure, our website is aspenfunds.us. Check us out.

[END OF INTERVIEW]

[0:26:38.0] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

[0:27:18.6] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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