



Creating a client-focused, performance-driven culture for success in portfolio management

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, spoke earlier this year with **Mike Keating**, managing partner, portfolio management at BGO, about the importance of discipline, difficult conversations and a team mentality for successful portfolio management, and about how healthy debates and sometimes brutal honesty contribute to success in his professional development as a leader, in relationships with investors, and in the collaborative, decisive culture at BGO. Following is an excerpt of that conversation.

How do you approach portfolio construction, in terms of the principles guide your decision-making?

First, you've got to start with investors' key objectives, and keep in mind the specific product you're building. In my case, I manage a core, open-end strategy where investors want income, diversification, inflation protection, low volatility of return, and liquidity. Overarching those key objectives, we prioritize discipline in our investment process. I would describe it as delivering consistent and attractive risk-adjusted performance. The last 5 or 6 years have been really eye-opening because of the volatility in real estate, which is an otherwise low-volatility asset class to start with, and especially in core real estate, which is even more so. The returns in our core strategy have varied tremendously in the span of just a few years.

In an environment like that, you have to maintain discipline and build a portfolio that's going to endure all parts of the cycle. We really try to avoid chasing the "soup of the day" market trends and instead focus on rigorous underwriting and internal debate, knowing what we do well. We also have an extremely talented data science group at BGO, so we can leverage data-driven insights to make well-informed decisions. Ultimately, our guiding principle is consistency – remaining disciplined and aligned with what our investors expect from us in every investment we make.

In your experience, what does a truly aligned GP-LP relationship look like, and how do you work to build trust with investors over time?

Trust is built over time by being straightforward with investors – especially when the message isn't easy. We've had a lot of tough discussions with our investors in recent years. Prior to the COVID situation, it was pretty easy – returns were strong and discussions with investors were largely positive.

Since COVID, the landscape is much different. A higher interest rate environment coupled with broader market uncertainty has created a much more complex investment world. So we've made a very deliberate effort to be candid – especially when that means delivering tough news.

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You build trust with transparency and consistency of message. We have a clearly defined strategy, and I really try to be upfront with investors about what we're trying to build. Consistently reminding them of our long-term mindset, and where we are in a cycle, establishes a clear sense of alignment. That communication, that honesty is demonstrated; it's not declared. You have to show it. You can't just say that you're doing something. You have to show it over time.

How do you bring different perspectives together on your team to arrive at sound, well-tested investment decisions?

The structure and culture of BGO encourages diverse viewpoints. A big part of that comes from the firm's origins – when Bentall Kennedy and GreenOak merged in 2019, it brought together two real estate managers with different, but very complementary investment approaches. Bentall Kennedy was in Canada and the U.S., focusing mainly on core open-end funds, large separate accounts and strategies at the lower end of the risk spectrum – more evergreen in nature. GreenOak, by contrast, had a broader geographic footprint across Europe, Asia and the U.S., and was focused on more alpha-seeking, value-add, and opportunistic strategies. On paper, it was a perfect merger, and we didn't have a single office location in overlapping cities. We came together with all our various backgrounds including private equity, investment banking, and traditional real estate asset management. We literally cover the entire spectrum in terms of real estate experience

and perspectives – across risk tolerance, investment approach and product development. What I think is remarkable is we have a culture that encourages, and frankly demands, that everyone challenges any assumptions about an investment opportunity and how we think it's going to perform within a product or fund.

We excel at healthy debates here, but we also excel at making quick, decisive decisions. This comes to life in my investment committee, which is comprised of seven members ranging from our CEO to our head of research, as well as the day-to-day analysis and discussion among my PM team. BGO is a sizeable platform, and we move heavily and with certainty into sectors or markets. Once we have consensus and conviction, we move quickly. That's great for me as a portfolio manager because I hate indecision.

What's a hard-earned lesson from your career that continues to guide how you lead today?

There are two things here. The first lesson is remaining disciplined through cycles. You don't want to chase the hot new investment idea. You want patience and discipline, not cleverness.

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The second lesson was a personal one from my former long-term boss, who was the PM of the fund before me. In 2009 during the global financial crisis, I had decided to leave the firm and go to an operating partner, so he took me to a farewell lunch of sorts. Back then I thought pretty highly of myself – that I was a deal guy, and my talents were not being utilized. During that lunch, he said to me, "we're going to miss you, but you will be replaced." He said it in the nicest way possible. I remember at the time I just thought, "oh yeah, yeah," but that comment has always stuck with me. Eventually I came back to the firm and moved into portfolio management to work for him again and ultimately ended up taking over the fund a decade later. We're still great friends and we talk all the time. I didn't like hearing it at the time, but I really needed to learn that lesson. I never would have been able to become a PM without that hard truth. It's about the firm and the team. It's not about the individual. We serve the interests of our clients as a team.

It also goes back to the last question about bringing different perspectives together. In private equity real estate, there can sometimes be a tendency to elevate the individual over the organization. What I try to reinforce with my people is the importance of a true team mentality. It's about the firm, the product, and the collective effort – not any one individual.

We've won more than we've lost, but I've made enough investment mistakes in my career, 23 to 24 years now, that I know my decision-making isn't infallible. Humbling yourself allows you to make wiser, longer-term investment decisions. It also reinforces an important point: this isn't our money. We have a responsibility to our investors. Our mission is to serve them well – to deliver strong performance, generate sustained value and ultimately act as responsible stewards of their capital for the long term.

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Mike Keating is a Managing Partner and currently serves as the Senior Portfolio Manager for the BGO Diversified U.S. Property Fund, the MEPT Fund, and the BGO Daily Value Fund. Prior to his role in portfolio management, Mr. Keating was an acquisitions officer focusing on East Coast transactions. Since joining BGO and predecessor entities in 2004, Mr. Keating has been involved in over \$20 billion of real estate investments across all property types, and he currently serves on the firm's U.S. management committee.

COMPANY OVERVIEW

BGO is a leading global real estate investment management adviser, real estate lender, and globally recognized provider of real estate services. BGO serves the interests of more than 750 institutional clients, with expertise in the asset management of office, industrial, multi-residential, retail, and hospitality properties across the globe. BGO has offices in 25 cities across 12 countries, with deep local knowledge, experience, and extensive networks in the regions where we invest in and manage real estate assets on behalf of our clients in primary, secondary and co-investment markets. BGO is a part of SLC Management, the institutional alternatives and traditional asset management business of Sun Life. For more information, please visit www.bgo.com.

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