Investor &
Treasury Services

Private Assets - Podcast

Transcript

Murray Bender: RBC Investor & Treasury Services is pleased to present insights on the opportunities and challenges facing the financial services industry.

Today's podcast features Dirk Holz, Director of Private Capital Services at RBC Investor & Treasury Services, discussing some of the key opportunities and challenges within the private asset space.

Thanks for joining us, Dirk

Dirk Holz: I'm pleased to be here today, Murray.

Murray Bender: I think most everyone would agree, Dirk, that 2020 has been a particularly difficult year. Can you share with us your views on the main challenges facing the private asset industry and their impact on the industry?

Dirk Holz: Yeah, sure. Yeah. I think 2019, or the COVID-19 pandemic, was really a very challenging year, I think, for everybody, for us privately, but the same as well from a business perspective. And the private capital industry was as well heavily affected by the impact of COVID-19. Starting earlier this year that everybody has to move or working from home, setting up the infrastructure which was really I would say a challenge and a disruptive scenario to manage private assets now on both ends for the asset managers, the general partners, but as well for the banks and the service providers which are facilitating and servicing private asset strategies, administration services.

All these had to move from the stable office environment into a digital environment and everybody working from home, which I think was a challenge and was slowing down the overall markets and take a little bit the pace out, I would say, in the means of investment cycles and the speed how investments are done.

I would say, looking at the markets, at Preqin, one of the research companies in the private capital space, they have very good indicators about how the market and the industry is doing. What's quite interesting is, there is a significant amount of dry powder available, which means there are a lot of existing funds which have commitments and starting and looking at to investing the money. So this keeps, I would say, the industry moving a lot of capital or investment money available to be invested in these kinds of asset classes.

And that's really what is driving—and especially in the first three quarters of 2020 was driving the market. I see now after, I would say, over some of the lockdowns they're going back or down, and the industry was coming back a little bit there. But a lot of companies, especially the GPs preparing new funds and as well following up on the investments. So we are seeing now a lot of closings coming to the year-end, which will keep, I would say, the industry busy over the next weeks and months coming forward.

Maybe sharing as well some trends we are seeing from a client perspective. So I mentioned as well there's this dry powder available, so we are really seeing now we're coming to the year-end a little funds doing capital calls, calling in money and deploying investment money. So that's really something we are seeing, on average, these continuing to close their deals, I would say, in December and January. That's a very busy period we are seeing, and we believe that this kind of trend will continue by going forward in 2021.

But mainly as a side note, I would say we are actually quite sorry about—and that's directly linked to the private asset but it's all about the conference industry, which is, I would say, for private capital and private assets a major, major, how should I say, platform for communication and meetings. And I think this kind of industry in 2020 has really suffered, and I think this is a business which really still struggles to find the way how they can proceed further with their services, operating conferences and bringing people together going forward.

I would say for these kind of areas, that's something that I see really some challenges even going forward after 2020.

Murray Bender: Technology has really become a bit of a buzz word these days. What are some of the technology developments in the private asset world around things like artificial intelligence, machine learning, blockchain, and other emerging technologies?

Dirk Holzer: Yeah. I would say this kind of buzzword is really something we see since many, many years. But again, due to the pandemic I would say this is really a driver to push this forward. And in general, I would say the GPs, and as well the LPs, the investors, are really looking for data. So they are since a few years, and this is now really accelerated, that there is more and more demand on data and getting these datas in an easy way, accessible.

So I would say what is for us—what we are seeing with our clients, there's really demand for meaningful data. Not just that there are datas available, but even how the data can be put together. How you can create reports out of it or, I would say, really create value to what's the GPs and the LPs. That's really something, I would say, what we are seeing heavily over the last couple of weeks and months.

And we are seeing as well, and this is going on since a couple of years' time, a kind of evolution of the private asset space, meaning that this kind of business is getting more mature. It's getting more and more money allocated, and requires as well in the way how the funds and the investments are managed into a more standardized way, meaning that the requirements from the asset manager, the GPs but as well the investors, the LPs, are starting to change.

And in general, what I would say is we see a trend that the requirements from GPs and LPs are moving towards what we have seen many, many years ago on the mutual funds side and on the UCITS side. So that's really something we're seeing. There is more pressure on standardization and as well on data management. But as well, what is in value you can take out of data when you are delivering any kind of reports and platforms towards the clients and the investors.

Murray Bender: I understand that over the past few years there's been a fairly significant increase in the number of megafunds within the private asset space. What about the prospect for boutique and specialized funds?

Dirk Holz: Yeah, Murray, that's true. I would say it's always waves, right. We have seen, I would say in the early 2000, you have seen a lot of boutique funds. You know, smaller funds which are very specific in which investors they're approaching or what are their investment strategies, meaning different kinds of usages they're investing in, or different kinds of jurisdictions.

And then we have seen, I would say, a trend towards really the megafunds, which we have heavily seen as well over the last three, four years. They are the big players, I would say, in the private asset space, which are launching and running funds which have target sizes of $5 billion to $10 billion, or even sometimes up to $20 billion for investment volumes.

That's really something I think we will see to continue going forward. There is reasons behind it. These kind of funds, they have a different kind of position in the market. They can approach and follow deals which on smaller funds, on boutique fund, is not really able to pitch for. So big infrastructure projects or really big real estate portfolios, or as well any kind of private equity investments, where just the size of the target investment is a different one. There's as well a kind of scale effect, right. You know, these bigger funds from an administrative perspective and from a management perspective, you have kind of a scale effect managing the operational flows and as well the investments.

However, I would say it always depends from the risk profile. So I think there is for sure, and there will be always, a market for more boutique and specialized funds and these kind of megafunds. And this depends as well on the profile of the investors. What is the risk profile of an investor? Easily speaking, if someone is investing, a retail investor, the personal money just into one boutique fund, it's not as perfect because your risk diversification is not as sufficient as if you're maybe investing in a big megafund which just by definition, because of the investment volumes, have a far better diversification from a risk perspective.

So I would say we will see going forward, I would say both kind of scenarios, the more specialized boutique funds, but as well the megafunds. And I would say both will have their way to be successful going forward.

Murray Bender: Finally, as 2020 draws to a close, and unbelievably so, I might add, Dirk, what are your expectations for 2021 and beyond?

Dirk Holz: Yeah. I would say I really hope that we are able to cope with the pandemic. To get, I would say, back into a more normal life and as well a more normal business situation. Which I think though will be key to really come back to, I would say, the periods we have seen before. Globally, I would say there are a couple of trends. We are seeing more and more pragmatism and political instability all around the globe. That's in North America, that's in Europe which, I think, what we are seeing has an impact how private asset investments are done.

This is really driving, if there's kind of areas where from a political or even from a tax perspective or regulatory perspective, it's not as clear where the different kind of countries and jurisdictions are moving towards. That there is a shift in how money goes in and where the money is invested. So I would expect going forward there will be more and more pressure coming from the regulatory side, trying to, first of all, protect the investors. That's always the aim of the regulators, but in a way as well to see how different kind of jurisdictions, as they're in a way in competition, as well will be able to protect it against the global market.

That’s I would say a couple of trends. We touched base as well on the technology. So digitalization, automation, I would say how people will work future and cooperate. That’s something I will see will try to be changed as well going forward, and I think mainly leveraging on what we have seen in 2020.

We are seeing as well—and the private asset space has dramatically grown over the last 20 years. All the indicators we are seeing and the market is seeing, it seems like it’s continuing. So there’s more and more, let’s call it traditional investment money moving from more liquid and listed assets towards real estate, private equity, infrastructure, and private debt, and partly natural resources. So this kind of trend will continue.

And what we are seeing is that some of the bigger players on the GP side, that they are starting to move away from only approaching institutional money, and now starting to develop, I would say, investment solutions for retail investors, which will be, I would say if the retail markets and the retail investors will be as well offer them—I’m not sure how to say—a structure and solution. How they can invest in real estate and private equity infrastructure and private debt will dramatically, I would say, increase the investment power moving into these asset classes.

So that’s something we are seeing as of today. Some of the leading and the bigger GPs are now primarily working on these kinds of detail structures. And I would say this will be something we’re seeing in ‘21 and going forward, I would say, more and more. And this will be, I would say, as well a driver for the market. And you will see as well then some midsize and smaller GPs moving in the same direction, but I would say the market will grow dramatically bigger in the way of reaching additional investment money from retail investors.

Murray Bender: Thanks for updating us on the private asset space, Dirk. We really appreciate your time today.

Dirk Holz: No. Many thanks, Murray. I really enjoy the discussion with you. And many thanks.

Murray Bender: Today’s podcast has been brought to you by RBC Investor & Treasury Services, and we hope you found it useful. For additional insights on topics relevant to the financial services industry, visit rbcits.com/insights.

I’m Murray Bender. Thanks for listening.