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Virtual Asset Owner / Sovereign Academy 2021

Rapid Insights: Alternative Investments Trends

Frances Barney, CFA, Managing Director, Head of Global Risk Solutions
Dermot Finnegan, Global Head of Private Markets, Alternative Investment Services

Dermot Finnegan

So, I'm going to speak to you today about some of the trends we're seeing in the private markets space. It's been a turbulent 18 months for private markets, but we continue to see positive sentiment towards the asset class, and more importantly, positive cash flows towards the alternatives.

Per the latest Preqin data, alternatives stands at about $10.7 trillion worth of AUM in 2020, and the expectation is that will grow to $17 trillion by the end of 2025, which is a positive story all round.

We recently published an article, From Alternatives to Mainstream, where we surveyed a hundred investors and a hundred asset managers about their sentiments towards private markets. And overall, it was very positive with 83% of respondents saying private equity still remained an attractive asset class in the next 12 months, and over 91% of respondents saying private debt remained an attractive asset class over the next 12 months.

The primary drivers behind this, really, are the continuing search for yield, but also diversification in the face of a lot of volatility currently within the market, geopolitical volatility, environmental, economic, and of course, the most recent pandemic.

One of the things we continue to see as investors continue to invest into the private market space is investors maturing in their asks and needs. One of those areas really is around data and the search for greater granularity around data, transparency, and also around performance, which Frances will speak to shortly.

Additionally, some of the larger investors are looking for enhanced customizations, both around their strategy types and also their reporting requirements overall. This can be a challenge for asset managers who are typically managing data across multiple fragmented systems.

Managers are trying to pivot to future-proofing these systems with a focus on in-house data strategies, but this comes at a significant capital cost, leaving the larger asset managers with a clear competitive advantage over their mid-tier competitors. This scramble for scale is a key focus for the major players, as they look to reduce cost and improve the investor experience overall.

One area that the managers are really focused on is disruptor technologies that could help the mid-tier managers gain parity with the large-scale managers to improved access to data. Blockchain is one disruptor technology gaining significant traction within the market currently. Personally, I believe Blockchain still has a lot of work to do before we start to see its true impact. And currently, a lot of Blockchain players are setting up independent Blockchain technologies. We've yet to see the Blockchain utility that could really drive market change, and that the market could truly avail of.

That said, Blockchain could be the solution for providing liquidity in the private markets, and liquidity remains a challenge to truly ramping up AUM within the alternatives space, by gaining access to true retail investors.

We are still a long way away from fully tokenizing a full private markets asset, like the Empire State Building, but Blockchain could be used to tackle some of the simpler issues on a smaller scale. As it relates to asset owners, one of the key areas I believe could be addressed by Blockchain is the secondary space.

Secondaries are existing investor commitments to funds that could be tokenized, allowing investors greater opportunity to enter and exit funds through Blockchain secondary exchange. The ability to trade this position openly, at a market rate, could potentially incentivize more investors to enter into the typically illiquid market, providing greater cash inflows overall to the AUM.

Thank you for your time. I'm going to hand over to Frances now who is going to talk to performance, and critically, how it's measured in private markets.

Frances Barney

Thanks, Dermot. Flexibility in performance and risk measures and the definition of benchmarks is critical to enable effective monitoring. We're seeing changes in the benchmark providers for private equity indexes in a way that's causing some investors to review their policy indexes. The ability to customize private equity indexes to align with the mix of vintage years and type of investments can help avoid unnecessary noise.

Data quality is critical to effective performance and risk monitoring, particularly for alternative investments where the data is sometimes not available for several months, and can be redefined, after the fact, in a way that changes the return calculations. The ability to see lagged returns, which aligns with when the data was available, alongside non-lagged returns, which aligns with the final valuations is really helpful to enable appropriate due diligence.

Data relevant for alternative investments is often unique to the investor and the investment. ESG data, in particular, is often requested by the investor rather than something that's available as a publicly available dataset. It's important for investors to use their power when evaluating potential investments to establish expectations about the level of transparency needed to enable ongoing monitoring. Until industry or regulatory standards evolve and are adopted, the topic of ESG for alternative investments is really a conversation for every combination of investor and manager.

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