

INVESTORS WANT GREATER TRANSPARENCY AND BETTER SOURCING OF REAL AND ALTERNATIVE ASSETS

- Pedro Antonio Arias, Amundi



Despite strong institutional investor appetite for real and alternative assets, there are concerns over transparency and the ability of managers to source these assets at a fair price, as evidenced by Preqin's most recent annual survey.

Institutional investors want fund managers to cover the basic transparency requirements, such as communicating their investment strategy clearly as well as providing detailed performance data and information about their team.

But they are also keen to have more clarity on the real cost of investing in alternative assets such as private equity, infrastructure and real estate. The survey showed that fee structure is a key investor concern.

A MORE STANDARDIZED APPROACH TO FEE STRUCTURE IS REQUIRED

It behoves managers to address concerns over fee structures and alignment of interests. In recent years, there has been a strong focus from institutional investors on fee structures of more traditional asset classes and attention will now be switched to the more opaque and more expensive fee structures of alternative asset funds.

For example, investors want to know whether they pay fees on the capital they have committed or the capital that has been invested. If investors are paying fees on capital committed and the fund struggles to source assets, investors can end up paying high fees for effectively keeping their cash on deposit.

This problem could be resolved if the general partners of private market funds were to develop a more standardized approach to fee structures. There is already a trend for fees to be paid on capital invested rather than on capital committed and we believe this should become standard practice.

This is easier for the larger global players as they have the necessary economies of scale to support a low or zero capital committed fee while they source deals. Smaller fund managers, however, could find this challenging.

Asset managers need to be wary of complacency – while there is a strong demand for real and alternative assets in the current market environment, institutional investors will not allocate capital unless the fee structures are clear and equitable.

THERE ARE CONCERNS OVER SOURCING AND VALUATION

Transparency is not the only concern institutional investors have over these assets – limited supply is creating sourcing and valuation challenges.

According to the Preqin survey, while the majority of institutional investors have a positive perception of private equity, infrastructure and real estate, a significant proportion had concerns over the pricing and valuations of these asset classes.

The report showed that while 84% of investors were positive about private equity, 70% have concerns about pricing and valuation. Similar patterns emerged for real estate: 50% were optimistic about the outlook but 68% concerned about sourcing. And 44% of investors had a positive perception of infrastructure, while 54% were concerned about pricing and valuation.

These concerns are a reflection of the fee structure currently operated by most managers. If managers can collect fees from the capital committed rather than the capital invested, there is no incentive to invest quickly.

When investors get frustrated with this process, managers respond by making

one of two mistakes. Under pressure, they either pay too much for high-quality assets – because these deals are overcrowded – or they act too quickly and buy assets that look cheap but are low quality.

INVESTORS NEED A MANAGER THAT CAN TAKE A DIFFERENT APPROACH TO SOURCING REAL AND ALTERNATIVE ASSETS

To avoid the cardinal mistake of investing in an illiquid asset at the wrong price, investors will need to find those managers that are able, despite market pressures, to source fairly priced assets.

Different managers have different skills – this is especially true for illiquid real and alternative assets, where access to fairly priced assets is the key to delivering the target returns to investors.

Specialist managers have deep understanding of specific markets – such as real estate or leveraged buyouts – but lack scale. These managers struggle to meet the pressure from investors to source good-quality assets quickly. These firms struggle to provide a capital invested fee model as it leaves them lacking financial resource while searching for deals.

In contrast, global players have the financial strength and a worldwide network of partners, including banks, but often lack local knowledge.

LOCAL KNOWLEDGE AND GLOBAL CONNECTIONS ARE KEY

The ideal asset manager in the private markets world needs to combine the advantages of both a specialist manager and a global player.

Amundi could be classed as a 'glocal' company. We are a global player covering all asset classes – including traditional equities and bonds as well as alternatives – but we also have a specialist

understanding of European assets and markets.

The European market remains highly fragmented where local knowledge and contacts are vital. Amundi is the largest asset manager in the region and has long-term business and banking connections which give us access to assets and deals that rivals struggle to find.

At the same time, covering a wide breadth of asset classes creates synergies between our specialized teams, enabling us to discover new investment opportunities and to source deals. For example, there are synergies between Amundi's €500bn fixed income and €9bn private debt businesses.

A good illustration of this 'glocal' ability is when asset managers benefit from deep connections with a large network of local banks throughout a region, for example, in Europe.

These local banks introduce asset managers to small and medium-sized enterprises looking for private debt and equity investors. And if a family-run business is looking for private financing to fund an Asian expansion, then our global reach helps the firm to achieve this goal.

AIMING TO OVERCOME TRANSPARENCY AND SOURCING ISSUES

Transparency and sourcing issues in private markets mean only asset managers that can take advantage of a global scale and a local footprint can align their interests more closely with those of investors. Only 'glocal' managers, rather than boutique specialist players, can ensure investors get access to good deals at fair value, and soon after the capital is committed.

Asset managers with global scale and local knowledge are perfectly positioned to work with banks to provide finance to

local companies. The current low return environment is driving investor demand for these high-yield, inflation-linked returns these deals provide. And supply is growing, as companies look for a new source of finance as banks are less able to provide loans.

Asset managers have a central role to play in this trend, which we think will persist over the medium term.

AMUNDI

Publicly traded since November 2015, Amundi is the largest European Asset Manager in terms of AUM, with over €1,000bn worldwide (*). Headquartered in Paris, France, Amundi has six investment hubs located in the world's key financial centres, and offers a combination of research depth and market experience that has earned the confidence of its clients. Amundi is the trusted partner of 100 million retail clients, 1,000 institutional clients and 1,000 distributors in more than 30 countries, and designs innovative, high-performing products and services for these types of clients tailored specifically to their needs and risk profile.

End of September 2016 Amundi has created a dedicated platform for real and alternative assets. Real estate, private debt, private equity, infrastructure and alternative multi-management are now all part of a single integrated business line, bringing together some 200 experts in origination, structuring and management of these asset classes worth more than EUR 36bn in assets under management (**). Through this new platform, Amundi offers institutional or individual investors the opportunity to directly invest in the full range of real assets through dedicated or commingled vehicles (funds, co-investment, multi-management or advisory mandates).

PEDRO ANTONIO ARIAS

Pedro Antonio Arias joined Amundi in July 2013 to manage the alternative assets business line: Pedro Antonio oversees the Private Equity, Real Estate, Infrastructure investments and assets, and co-manages the private debt. He was previously Deputy CEO in charge of international development and real estate at the Casino group, the French retail Group. Pedro Antonio started his career in a law firm before moving to corporate and investment banking in various leading institutions. Pedro Antonio was notably involved in mergers and acquisitions across Europe and Latin America and eventually in co-head of the restructuring practice at Rothschild & Cie for Europe. Pedro graduated from ESSEC business school and Paris-Descartes University (Law degree).

www.amundi.com

(*) Amundi figures as of 30 September 2016. No.1 European asset manager based on global assets under management (AUM) and the main headquarters being based in Continental Europe - Source IPE "Top 400 asset managers" published in June 2016 and based on AUM as at December 2015.
(**) As at 31 December 2016.