How to take part in the growth of the private assets market?

Investors' appetite for private assets – those that are unlisted on a securities exchange – has exploded in recent years. According to research by McKinsey, total assets under management in private markets shot up from USD 4.7 trillion in 2016 to USD 7.3 trillion by the end of 2020[1]. And fund-raising looks set to hit new highs in 2021 after a short blip in 2020 due to the pandemic, showing investors remain confident in the asset class in the post-covid era.

What's more, the rise of private assets has become a global phenomenon: whereas in the past the market was dominated by US investors, the enthusiasm of investors in the rest of the world to allocate to private markets is catching up.

A range of compelling benefits

What's behind the huge increase in the size of the private market in recent years? There are a number of drivers.

The most obvious is that private assets provide the potential for high returns that are very difficult to come by elsewhere in the current environment. Over the long term the asset class has significantly outperformed traditional public asset classes, and our broad private markets strategy targets long-term annualised net returns of 8–10% per year[2]. That makes it a compelling proposition at a time that many fixed income assets are still yielding close to zero.

Another is that private markets provide access to sources of growth that are often hard to access in listed markets. For example, private equity provides exposure to early-stage growth that investors concentrating solely on the listed markets risk missing out on. This is particularly apparent in the tech sector, where companies are choosing to remain private for longer than they did in the past as there is more private capital around to fund their growth. Similarly, investing direct in areas like real estate, infrastructure and farmland provides access to a range of opportunities that often aren't available in the listed universe due to smaller asset value of the respective investments.

Possibly the biggest advantage of an allocation to private markets is the diversification benefits it can bring to a balanced portfolio. At Kempen our strategy invests in four kinds of private asset, all of which are complementary to the investments available in listed markets: private equity (including buyout and venture capital), infrastructure, real estate and land (including both forestry & farmland). Private equity provides access to smaller, faster-growing firms that have more scope to be improved than listed stocks. In infrastructure and real estate we tend to invest in smaller, more niche areas than listed funds, while forestry & farmland provides a range of attractive privately held opportunities that are simply not available on the listed market.

Finally, individual private assets may provide specific benefits. For example, real assets –infrastructure, real estate and land – have scope to act as a hedge against inflation. This attribute could be particularly attractive against the current backdrop of rising debt levels around the world. Meanwhile, farmland should act as a natural hedge against climate change: if the world doesn't achieve net-zero by 2050 there will be more pressure on food production, so farmland should rise in value.

Ability to incorporate ESG

The desire to do good has moved to the top of many investors' agendas in recent years, and private markets provides plenty of scope for investors to help make the world a better place.

We ensure we only invest with partners with impressive sustainability credentials and regularly engage with them on the ESG profiles of their underlying investments. We also take exposure to such diverse areas as renewable energy plants, sustainable farmland and forests, and drug developers, all of which are involved in tackling some of the major challenges the world is facing.

Making private markets accessible to a new range of investors

There aren't many free lunches to be found in the world of investments, and private markets are no exception as the asset class involves two main drawbacks. First, investors typically have to accept a high degree of illiquidity, committing to their assets being locked up for around 10 years. Second, private asset managers often demand investors allocate at least EUR 5 million to the asset class.

At Kempen we're delighted to be able to make private markets a realistic option for a broader range of investors. First, we ask our clients to commit their money to our strategy for a minimum period of three years, after which we aim to offer them quarterly liquidity under normal market conditions[3]. Second, we ask for a minimum of investment of EUR 125,000 – below what many other asset managers generally demand. Thanks to the discounts we're able to negotiate with our partners, we're also able to provide access to our strategy at highly competitive fees.

Tune into our webinar

To find out more about our private markets strategy and the potential benefits an allocation to the asset class could provide, please register **here** for our webinar on November 4th.

[1] Source: https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review, April 21 2021

[2] Source: The value of your investment may fluctuate. Results achieved in the past offer no guarantee for the future. Before you invest, it's important that you are aware of and informed about the characteristics and risks of investing. This information can be found in the available strategy documents via http://www.kempen.com/

[3] Source: There is no guarantee that withdrawals will be executed immediately due to the lower liquidity of underlying investments. The strategy is not obliged to sell an investment to facilitate a withdrawal.

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