



BAI Newsletter –April 2020

Editorial article from Annette Olschinka-Rettig, Managing Director, BAI e.V.

Dear Readers,

as is the case for all of you in your private and professional lives, the topic of the COVID-19 crisis is also of great importance to us in the association.

The BAI Alternative Investor Conference (AIC), which should have taken place for the 13th time in April, unfortunately had to be cancelled. However, the good news is that we have already been able to fix a date for next year: Please make a note of April 27/28, 2021. We will once again be offering an interesting programme that addresses asset managers, service providers, consultants and of course institutional investors. We are already looking forward to seeing you all there again.

This pandemic has far-reaching consequences for all alternative asset classes. These have been, and will continue to be, extensively presented in numerous BAI webinars by our member companies, to whom we would like to take this opportunity to express our sincere thanks for the short-notice realisation. Enormous numbers of participants show that there is a strong need for information on the behaviour of the individual alternative investment forms.

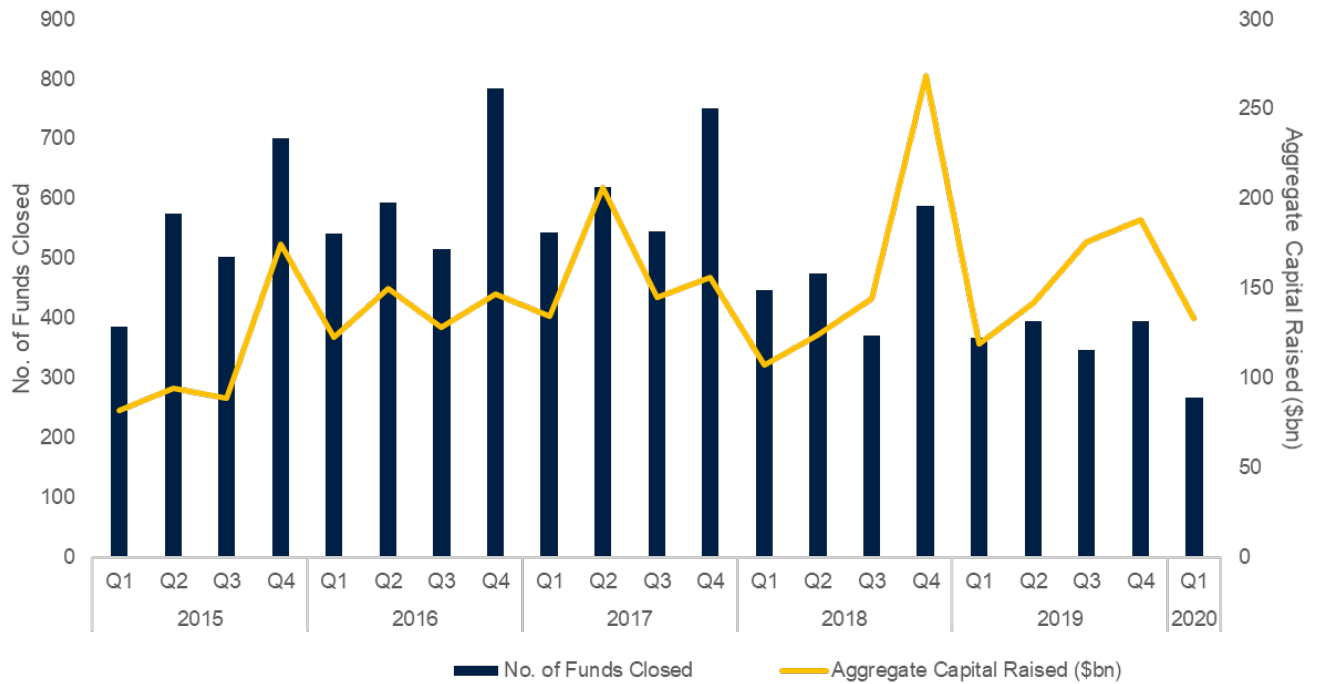
The impact of the Corona crisis on alternative investments cannot be conclusively assessed at this time. However, significant trends are already emerging:

Private Equity

Listed private equity investments show a drop in returns of around 26% in March 2020, with a strong positive correlation to developments in the stock markets. For unlisted private equity investments, the drop in returns is expected to be significantly lower, but measurable figures will not be available for several weeks.

Significantly fewer funds closed in the first quarter of 2020 than in the same period in previous years. However, the total committed capital still exceeded the comparable figure for the first quarter of 2019, with investors focusing in particular on Europe and North America.

Global Quarterly Private Equity Fundraising, Q1 2015 - Q1 2020



Overall, the crisis has a much stronger effect on venture capital than on buyout investments. Compared to the same period in 2019, for example, the number of venture capital transactions concluded in China fell by almost 50%, globally by 23%. In buyout transactions, however, the decline was only 17%. According to the Preqin survey, despite the fact that private equity is still seen as an attractive asset class by investors, the investment volumes planned for the next twelve months are declining compared to the previous year.

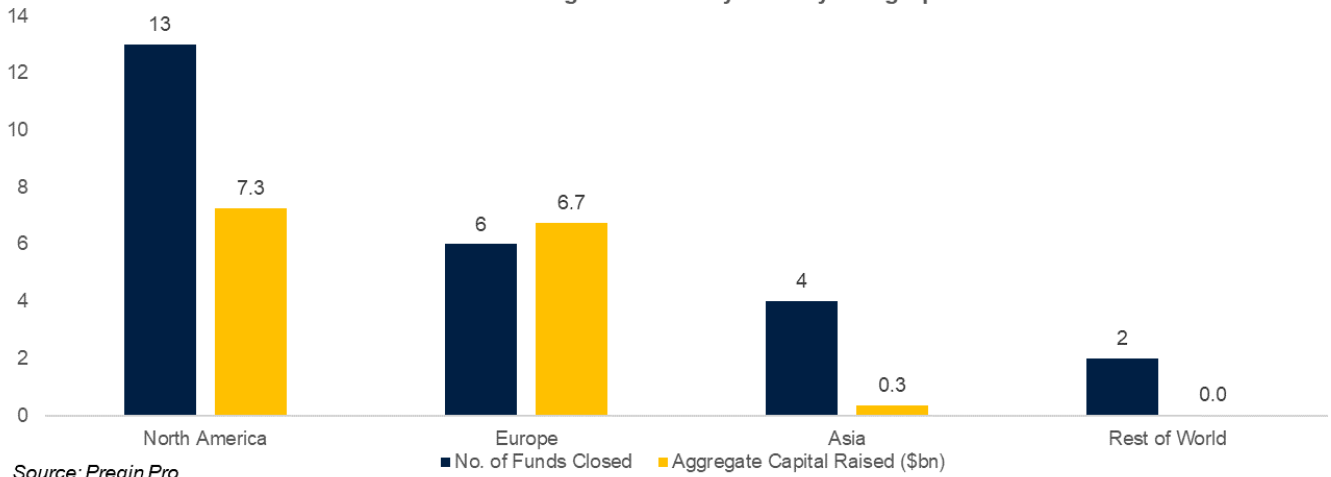
Please refer to the articles in this newsletter from P+P Pöllath + Partners and Universal-Investment for further aspects of the impact of the corona crisis on private equity, including liquidity management for example.

Private Debt

During the first quarter of 2020, the private debt asset class recorded a drastic decline in fundraising of minus 41%, one of the preferred investments being direct lending. By contrast, demand for venture and distressed debt has suffered a massive slump.

In view of the fact that conventional lenders are increasingly limited, which will increase the demand for private debt financing in the near future, the number of funds is rising steadily. More so than in the past, detailed credit assessments of borrowers or their business plans will be essential, which is a challenge due to the general planning uncertainties.

Private Debt Fundraising in Q1 2020 by Primary Geographic Focus

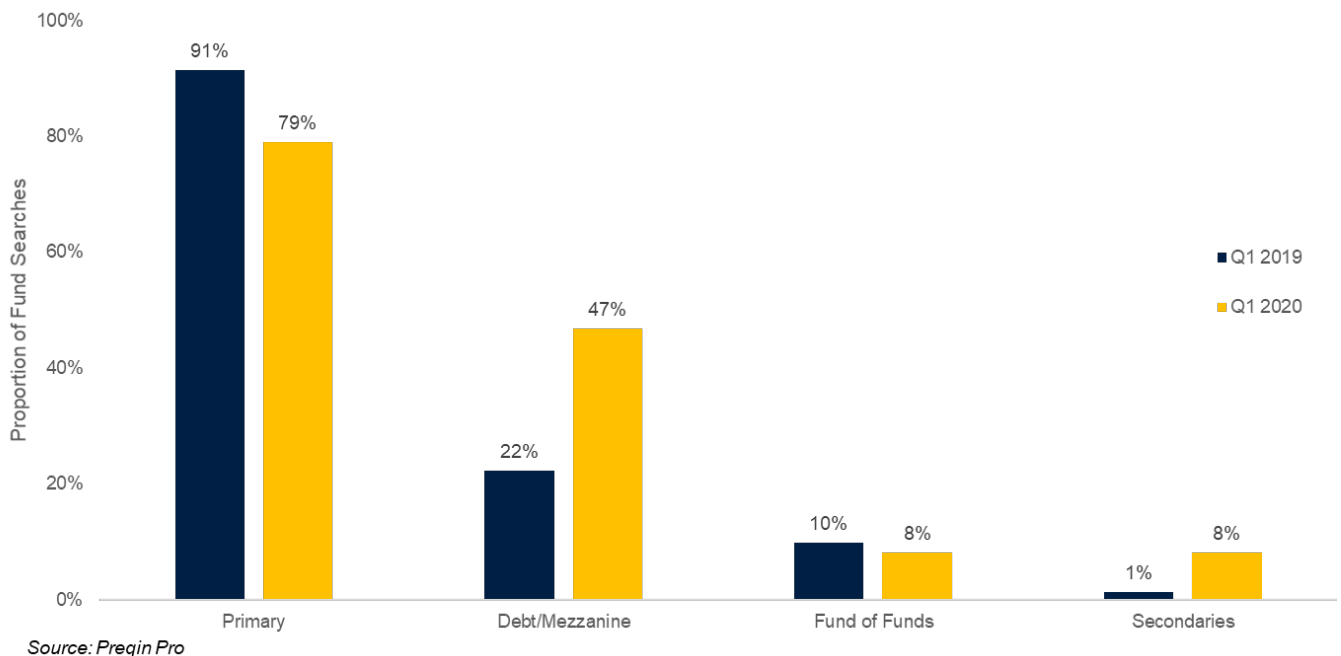


Infrastructure

For the most part, infrastructure is an asset class that is weathering the crisis well, though of course aviation infrastructure has been an exception. Regulated assets and renewable energies in particular are doing relatively well in these turbulent times.

Given this background, it is not surprising that fresh money can still be raised for infrastructure at a high level. Demand for infrastructure debt is particularly strong, especially since margins have been rising steadily since the beginning of March. Europe enjoys particular popularity among the regions.

Strategies Targeted by Infrastructure Investors over the Next 12 Months, Q1 2019 vs. Q1 2020



There has been at least a temporary shift in investment preferences. While transport and energy were previously the main focus, digitalisation and telecommunications as well as social infrastructure are now enjoying increased attention. Even if transaction prices tend to fall in the short term, EV/EBITDA multiples are expected to rise again in the medium term.

Real Estate

The real estate asset class continues to be a "safe haven" on the one hand, but on the other hand is impaired by encroachments on private autonomy (e.g. rent deferrals). Fundraising in this asset class also declined in the first quarter of this year. At present, investors increasingly prefer larger and more established fund managers. The number of property funds continued to rise in the first quarter. At the same time, there was a crisis-related decline in transactions concluded at the beginning of the year.

Hedge Funds

Depending on the strategy chosen, hedge funds were able to contribute to portfolio stabilisation. Nevertheless, the losses in the month of March 2020, at just under 9%, were still higher overall than the losses in the financial crisis in 2008 (e.g. -8% in October 2008). Especially strategies with a high correlation to equity markets recorded even higher performance losses in March 2020. Overall, the number of newly launched hedge funds in Q1 2020 is significantly lower than in the same period of the previous year.

Other Effects

Further general influences that affect all alternative investments are the global economic slump, expected stronger exchange rate fluctuations, also due to more pronounced nationalist tendencies, and oil price volatility. In addition, there are lasting changes in behaviour, such as reduced travel and more common working in the home office with corresponding effects on the airline sector and the need to expand the 5G network. An additional issue across all alternative asset classes is the pandemic-related state intervention in the rights and obligations of contracting parties, whether it be closures of hotels, for example, or interventions in the payment of rents or electricity and gas bills. It remains to be seen how this trend will continue and influence future investment decisions. The temporary closures of public authorities will generally lead to a delay in projects and thus to slower capital calls from investors.

Regulatory aspects are also affected by the crisis. On the one hand, it leads to delays, for example in the Solvency and AIFMD reviews. On the other hand, it is particularly important now to find pragmatic, targeted solutions for applicable reporting requirements and deadlines (e.g. the ESMA statement, which gives fund companies greater flexibility in the preparation of periodic reports). Against the background of the crisis, BaFin is also increasingly focusing on the issue of liquidity regulations for funds.

The short and medium-term effects of the Corona crisis will occupy us for some time yet. BAI will continue to monitor current developments in the asset classes, as well as regulatory updates. In this context, we would like to refer in particular to the special section on the COVID 19 crisis on our homepage. We are happy to receive further contributions from member companies there.

Corresponding to the main topic "Private Equity" of this issue, you will find these three articles on the following pages:

- Investing in Private Capital: Innovative digital tools to support investment controlling, by Kurt Zeimers, BNP Paribas Securities Services

- Corona crisis and normality - An update for private equity and venture capital fund managers, by Dr. Sebastian Käßplinger, P+P Pöllath + Partners
- Private Equity: Interesting asset class with special demands - even in the crisis, by Dr. Sofia Harrschar, Universal-Investment

I hope you enjoy reading

Annette Olschinka-Rettig

Sources:

Absolut Research, Absolute Performance April 2020

Preqin Ltd. (2020): Preqin Pro Quarterly Updates Q1 2020