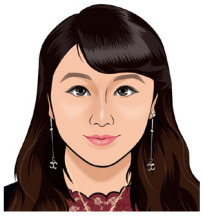
Private Markets as a Source of Investment Opportunity for Asia's Private Clients

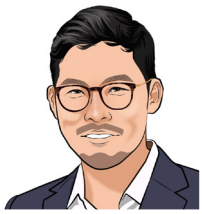
In the last iconic song he released, music legend David Bowie asked: 'Where Are We Now?'. As we approach 2023, that is a question that is as apt today in the global financial markets as it was in a very different context in 2013 when the great man released his last album 'Next Day'. But for those private clients with the wealth and wherewithal to invest well beyond the near-term - far beyond the 'next day' - they can consider a time frame a good number of years ahead. Ironically, Bowie himself, one of the world's leading modern art collectors in his time, would have been both delighted, but perhaps also somewhat shocked, to see the explosion of auction house prices for leading works of art since inflation has soared and since rates have begun to rise. Of course, art is more in the 'alternatives' basket than the private assets hamper, but it is indicative of the ability amongst those of real wealth to hold more less liquid assets for far longer. In the Digital Dialogue of October 6, Hubbis assembled a top-flight panel of experts to look in-depth at the evolution of the global private markets, looking from a 360-degree perspective at the pluses and minuses, and analysing where the market is heading. They also debated how the Asian wealth management community is positioning itself for what will very likely be the ongoing and rapid expansion of this segment of the global investment universe. As a whole, the panel were positive about private assets, but cautious over the timing and pricing of investments. One expert was far less positive, arguing that the public market doors are now open again due to the fall in listed equity valuations and the rise in risk free debt returns. All in all, a lively debate took place. Read on...

SPEAKERS

TARIQ DENNISON
GFM Asset Management



FIONA LIU
Hywin International



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THESE ARE SOME OF THE QUESTIONS THE PANEL ADDRESSED:

- The Big Picture – are volatility, inflation, global geopolitical uncertainties in the public markets driving more Asian private clients to the private equity and debt markets, and what are key attractions of higher allocations to private assets compared to public markets?
- What has happened to deal flows and valuations? Is this a good time to be entering or expanding in this market?
- Which types of private clients in Asia are driving this trend, and looking ahead, what sort of allocations should HNW and UHNW investors be making to private assets as a percentage of their total portfolios?
- In the private equity market – spanning from VC to pre-IPO funding, what are the key opportunities today and what are the key criteria investors need to consider?
- In the private debt markets – spanning from senior to subordinated, trade finance and much more – what types of deals are Asian clients buying into, and why?
- What about other private assets, for example real estate or alternatives?
- Do ESG and sustainability play a significant or growing role in private markets?
- What is the wealth management community doing to boost its private markets proposition and offerings?

Setting the Scene

With the right opportunities, investors can through private markets achieve returns that are at least in line with, or often considerably better, than public market returns, and with information flows and updates that allow for a good degree of monitoring of the underlying progress and performance of those companies and assets.

Accordingly, an increasing number of private clients in Asia have in recent years - as mainstream asset markets became so 'toppy' - been seeking to diversify their portfolios by including longer-term private asset investment strategies of all types, from plain vanilla early and later-stage private equity, to private debt of all types, private commercial real estate deals, hedge fund strategies, and others.

Such assets can offer investors strong long-term performance potential, while their historical downside resilience and lower volatility compared to public market securities also help make this asset class attractive for portfolio diversification and, to some extent, for peace of mind.

The trend in Asia reflects a seismic global shift towards private markets amongst leading investment institutions – from sovereigns to pension funds - and also increasingly in the private wealth sector.

To some extent, entry prices to such opportunities have dropped in sync with the drawdown in mainstream public market liquidity and valuations, and capital available has shrunk as the era of very easy money fades into the background. This should present a significant opportunity for the wealth management industry in the region to present their private clients – especially the family offices who are somewhat immune from the financial market vacillations – with some interesting deals. But amidst

The Asian HNW and UHNW clients that are taking up more of such opportunities of course need a highly professional point of access via private banks, the independent wealth community, and other key specialists. They need experts who can filter, package, promote and then monitor these investments, thereby opening the door to what are considerably more complex and longer-term holdings. For the wealth management community members who are investing in building and delivering this expertise, the carrot is significantly higher fees than in the public markets and a mor meaningful engagement with their clients.

Diversification and increased caution are even more essential today in the face of adverse market conditions

Opening the conversation, an expert observed that the global financial market conditions – especially in the developed markets – are driving greater need for diversification across public and also private markets. Within the private asset classes, investors need to be even more discerning, as do their financial advisors. "The intermediaries and advisors need to be much more rigorous in their filtering and selection of opportunities and try to help investors balance their exposures," he stated.

Correlations in global valuations – public and private - are clear for all to see, but there is less immediate suffering in the private space

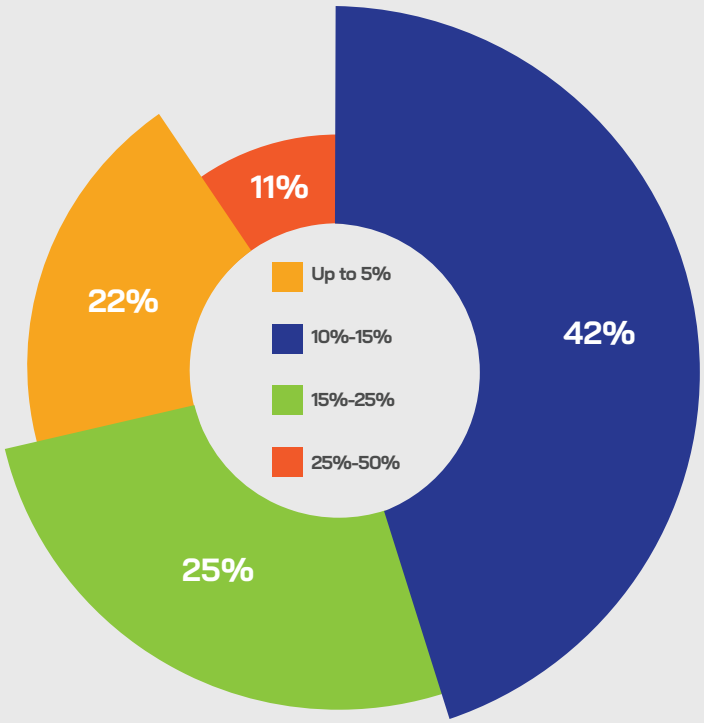
The same guest noted there is still significant correlation between the falls in public valuations and the impact on private valuations. "The only difference is there's no real mark to market on a daily basis, so you avoid the misery of constant price changes," he said. "You really only find our when somebody completes a subsequent round of funding, or if there is an exit or a liquidity event that generates a much lower return."

Another panellist observed that despite weaker valuations in market, despite geopolitical and inflationary and rate worries, and the spectre of a lengthy recession, their investors are looking to at least keep allocations to private assets at similar levels to recent years, and many of them are actually looking to increase that allocation as well over the next 12 months.

Nevertheless, another expert offered words of caution. Considering the HNW type investor space, he wondered if they have the wherewithal to invest for the necessary timeframes required to realise the real returns in private assets, especially if falls in public markets mean they might have to liquidate the illiquid private assets, or some of them at least. "This makes it even more important to have the right advice in exposures and allocations," he stated.

The Hubbis Post-Event Survey

FOR ASIA'S HNW CLIENTS, WHAT PERCENTAGE OF THEIR TOTAL INVESTIBLE/PORTFOLIO WEALTH SHOULD IN YOUR VIEW BE BROADLY IN PRIVATE MARKET ASSETS?



Expert Opinion

DAVID Z WANG, Co-Founder and Group CEO, Helicap

"In an environment where investors are yield-starved, we are seeing 9-11% returns for the private debt investments on our platform."

Private debt and credit of all types can offer somewhat of a safe harbour in the global storms

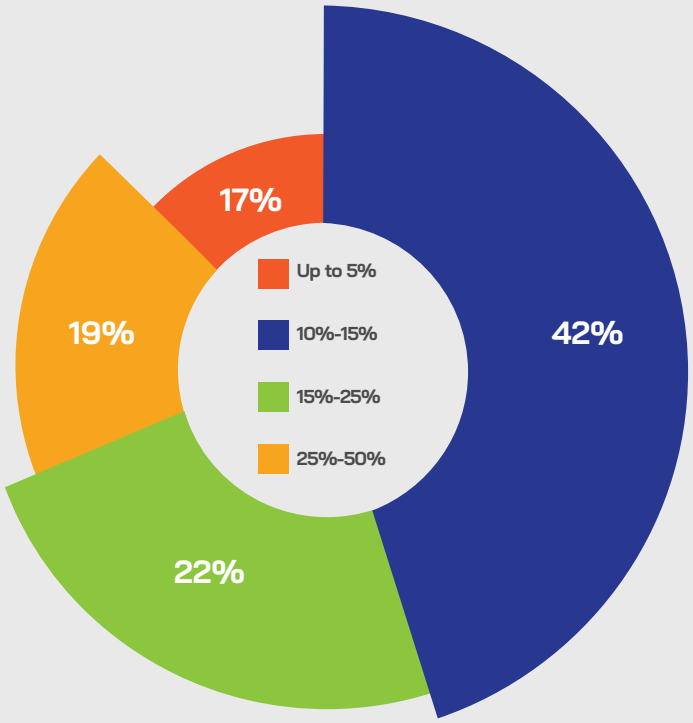
An expert in private debt offered his perspectives on the development of private debt in Asia, specifically Southeast Asia. He explained that the model has become more digitised, there is more venture capital involved in the region, and a lot of effort must be spent on educating the clients and prospective investors as to what private debt is, whether it is secured, where in the capital structure the debt sits, and so forth.

For his firm, he reported, they focus on a return profile of 8% to 15% on assets away from the shorter-term areas that the banks cover. "And clients are increasingly looking for structures that are more defensive, perhaps a defensive sector, or a defensive structure," he explained. "Senior secured loans are technically on the top of the stack."

He explained that one of their missions is democratising access to private markets and becoming the dominant digital private investment platform in Southeast Asia.

"Our vision has always been to provide liquidity to alternative lenders with the mission of enabling financial access for millions of underbanked SMEs," he explained. "Over the coming months, we will be expanding our suite of data-driven products and services to establish the platform as the go-to private financing arranger in SE Asia. We will continue to democratise access to private investments through a data driven FinTech investment platform that prioritises risk management."

FOR ASIA'S UHNW CLIENTS, WHAT PERCENTAGE OF THEIR TOTAL INVESTIBLE/PORTFOLIO WEALTH FOR ASIA'S UHNW INVESTORS SHOULD BE ALLOCATED TO PRIVATE ASSETS/MARKETS?



Expert Opinion

DAVID Z WANG, Co-Founder and Group CEO, Helicap

"Liquidity has always been a barrier in private debt investing. However, with structured credit, we are able to provide investments with tenure from 6 to 24 months on the Helicap platform."

Private credit can offer stability and diversification in an inflationary environment

He added that with the global economic landscape expected to face higher and broader inflation in 2022, and public markets witnessing a correction since the beginning of the year, private markets can present a portfolio diversification opportunity for investors. Private debt markets have shown a low correlation to public markets and can provide consistent risk-adjusted returns when robust risk management frameworks

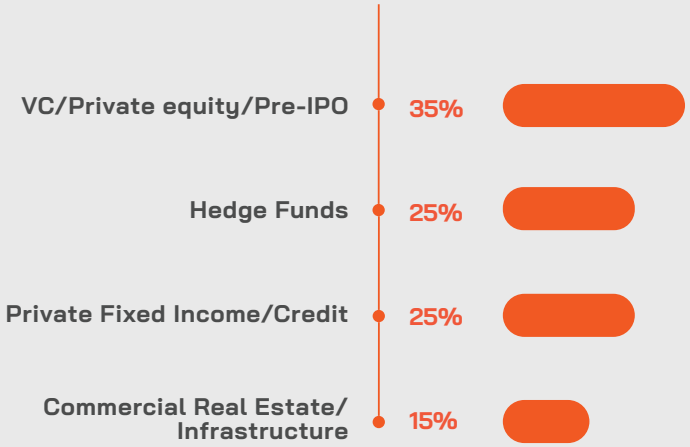
are applied. He explained they recognise that risk management is of the utmost importance with every investment they make, and that they have devised tried and tested technology to help make swift yet informed decisions on where to deploy money and the terms of those.

Since its founding, the platform has arranged some USD150 million in volume in over 300 completed deals, working closely with leading alternative lending platforms, and presenting investors with positive returns throughout. To achieve this consistent performance, the firm has developed a proprietary technology that can crunch millions of loan data points to evaluate the creditworthiness of more than 500 digital lenders and businesses across SE Asia and Oceania.

Connectivity and the opening of new doors to a world of private assets, but careful selection is the key

"We are essentially a marketplace connecting sophisticated investors and pools of capital with differentiated investment opportunities in the private market space," another guest told delegates. "There is a broad recognition that private markets and more illiquid opportunities play a key role in portfolios, but whether debt or equity to need to be highly selective. And it depends on what the investors want - if income is a requirement, credit is more interesting or infrastructure, if they don't need nearer term cashflows, there are plenty of opportunities in the traditional private equity and VC worlds as well, even though multiples have fallen, slowing deal flows."

FROM YOUR PERSPECTIVE, PLEASE RANK THE MOST RELEVANT AND IMPORTANT PRIVATE MARKET ASSETS FOR ASIA'S HNW AND UHNW PRIVATE CLIENTS IN ASIA



Expert Opinion

DAVID Z WANG, Co-Founder and Group CEO, Helicap

"We recognise that risk management is of the utmost importance with every investment we make. With our tried and tested technology, we can make swift yet informed decisions on where to deploy our investments and the terms of these placements. Hence our success of zero historical defaults."

The lower- and mid-market spaces are less crowded and offer more opportunity to achieve realistic entry valuations

The same expert indicated that the top end of the market, dominated by the giant global funds, is incredibly crowded and has been for some years. There is a massive wall of money there still waiting to be invested, which will keep entry points relatively high. But he said the smaller and mid-market segments are less crowded, especially the later-stage investments in private equity, as companies lead up to exits via the public markets, or M&A.

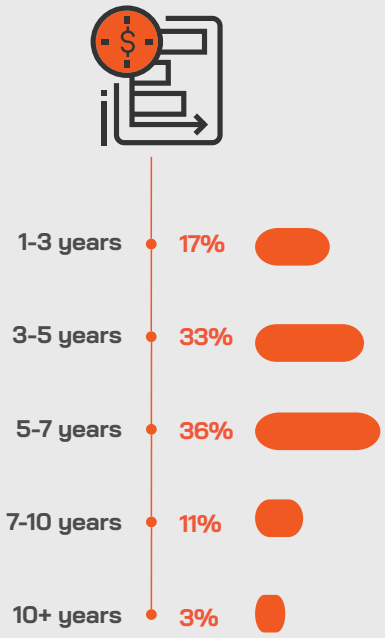
"I don't think this is a public markets versus private markets debate," he added. "We don't go out and tell people they should be in private markets, we work with established private market investors, many of them are family offices that pursue something similar to the endowment type model. We help them cut through the noise, refining the right deals from the plethora of opportunities that are out there to try, and focus attention on the ones that are more differentiated. And at our segment of the market, we are paying considerably lower multiples than for the megadeals that the giant funds are chasing."

He said they currently have roughly 300 LPs in our US network, half of them are multifamily offices and single-family offices, the other half are investment consultants, they are private equity of fund funds, they are university endowments, all of whom have an interest in those relatively smaller sub-USD500 million fund raising opportunities and writing cheques in the USD10 to USD30 million range. "And we are building the network globally, and certainly here within Asia," he reported.

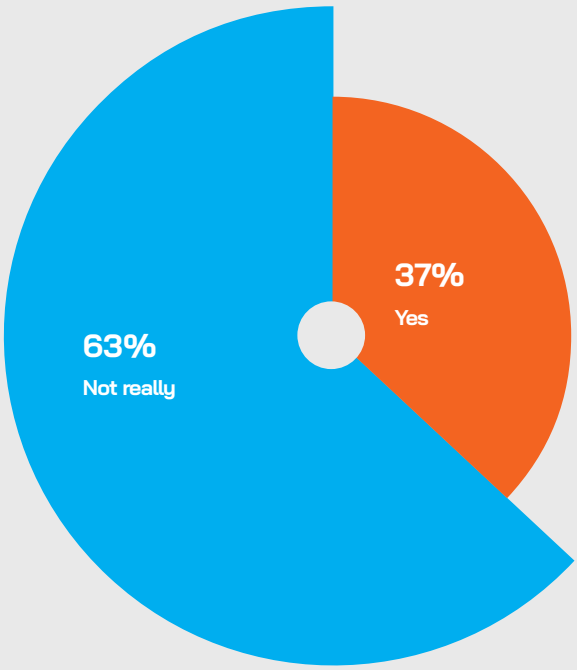
There are thematic investment opportunities to be explored as well in the private markets

And this expert added that amongst US and European investors there is rising interest in thematic exposures, for example to climate transition, ESG, diversity and so forth. "Real hard money is being allocated to those strategies," he reported.

APPROXIMATELY HOW MANY YEARS SHOULD ASIAN HNW AND UHNW INVESTORS IN PRIVATE MARKET ASSETS BE PREPARED TO LOCK UP THEIR MONEY?



ARE THE PRIVATE MARKETS USEFUL FOR INVESTORS TO EXPRESS THEMATIC AND ESG-DRIVEN INVESTMENT PREFERENCES?



China's private markets also appeal, and Chinese investors are expanding their participation

A guest highlighted the rising appetite for private investments amongst Chinese clients, noting that they focus on areas where China will expand and prosper, such as anything to do with consumption from China's vast population that is enjoying rising wealth, or infrastructure for China's vast nation, as well as high-end technology such as nano technologies, microfluidics, and other areas that will help boost efficiency and productivity. And of course, key areas of IT, biotechnology and medical technology, semiconductor, and other electronic equipment, as well as the internet infrastructure are all key areas likely to see continued strong and rising demand.

There is increasing institutional allocation to private assets, especially in the US

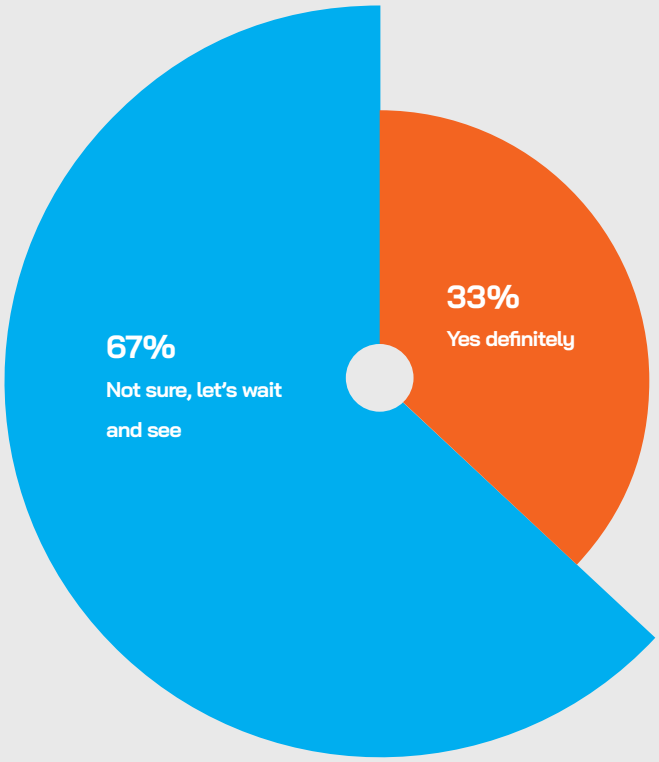
A guest highlighted that some of the largest endowment funds such as those related to leading educational establishment including Harvard, Yale, or Princeton are now allocating some 25% to 55% in private and alternative asset classes. "When you have so much capital, as they do, you can't diversify only in public liquid assets," he remarked.

It is easier to invest in private assets and markets if you have been personally involved in private wealth creation

The same guest explained that this type of diversification of allocations is taking place increasingly amongst wealthy private clients. "If we look at the typical family office, many of them have shifted to private assets, as the founders and those involved understand private businesses, having perhaps built and often exited or listed those," he explained.

"In effect," he added, "they were running what is effectively a private equity company or a venture company. Accordingly, they have a level of appreciation and understanding of how you can create value and build value, and they often want to then get exposure into the next generation

IS THIS A GOOD TIME TO BE INCREASING ALLOCATIONS TO PRIVATE MARKETS?



Expert Opinion

CONOR SMYTH, Founder & CEO, TritonLake

"With volatile public markets, alternative investments play an even more important role in asset allocation. Even in an uncertain world, we are seeing more and more interest in private markets with investors expecting to increase their allocations to alternatives in the short and medium term."

of entrepreneurs, or businesses and key sectors or technologies where they feel they can either benefit from the upside, and possibly even add value."

He explained that in the UHNW and family office space in which his form operates, they often want to emulate the leading global investors, pension funds, endowment funds and others, in order to participate in areas that they see as populated with greater analytical rigour and expertise. "Again, you need the right advice, bespoke solutions, and to recognise these are illiquid assets, so you need balanced portfolios."

He referred to a co-investment fund his firm had launched supported by the Hong Kong Government's Innovation Technology Fund, deploying capital into technology. "It is about giving entrepreneurs who have technology or great ideas the capital to go and execute, to get to a point where they can be sustainable and generate returns that can attract the next stage investors," he explained. "For these types of deals, you do not have to be a very large investor; you can participate via smaller tickets."

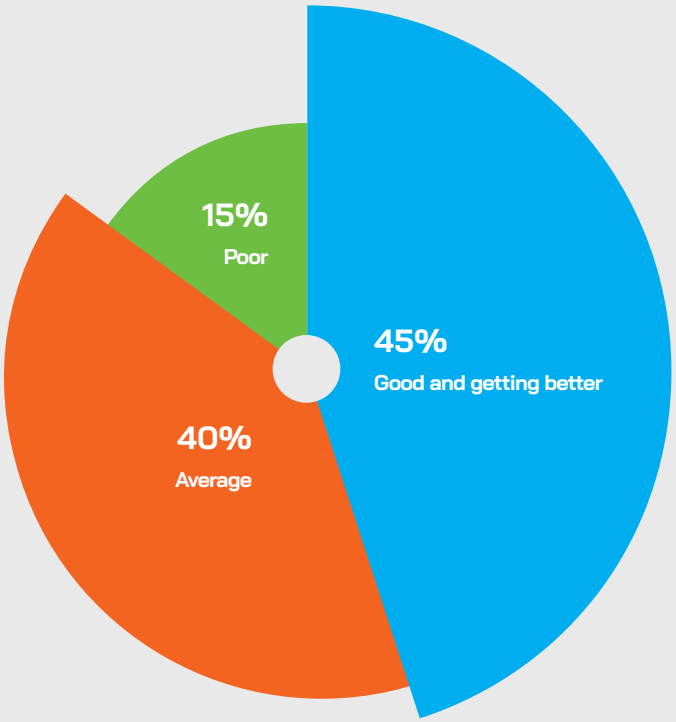
At the other end of the spectrum, the same firm has a Singapore-based fund targeting larger private equity and debt situations and aimed more at very wealthy investors and family offices that want broad-based exposure to private market opportunities. "The investors typically want to make sure that part of their portfolio is exposed to the top GPs with some of their best strategies, and to be able to diversify across vintages," he explained.

Expert Opinion

CONOR SMYTH, Founder & CEO, TritonLake

"When we talk about deal flow, we truly believe in bringing differentiated deal flow to LPs – and finding GPs the right investors for their opportunities. Our marketplace reduces the noise for both and connects investors to relevant opportunities on a global basis."

HOW GOOD A JOB ARE THE PRIVATE BANKS AND WEALTH MANAGEMENT FIRMS IN ASIA DOING OF PROMOTING AND EXECUTING PRIVATE ASSET INVESTMENTS FOR HNW AND UHNW INVESTORS IN ASIA?



Expert Opinion

CONOR SMYTH, Founder & CEO, TritonLake

"ESG, climate change, sustainability. Investors are allocating more and more to these strategies – but they are looking for real substance and being able to measure the impact – as opposed to just screening."

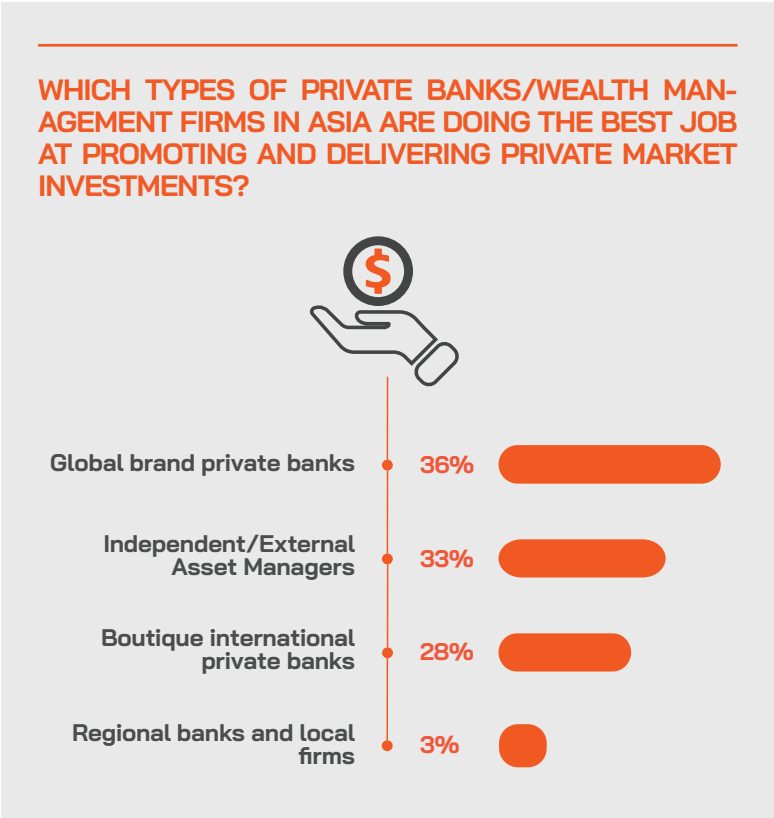
He added that smart asset allocation should be driven by capital preservation, diversification between various liquid or illiquid asset classes and hybrid classes.

There are also plenty of contrary views on private markets: for some advisors, it should be a case of avoid, as the listed equity and debt markets are coming back into the realm of again offering the type of value they have not presented for many years

Another guest said he was far less enamoured by private markets. He said that today, risk free returns of 4% in two-year US treasuries are available and far more compelling than the absurdly high valuations on all types of assets during 2020 and 2021. "With the markets down so hard, if you want equity returns with possibly a 10% plus expected return for the next 10 years, you can find that in public markets again, you do not need to go to private markets." Accordingly, he said private clients should steer clear of private markets.

He observed that the big change over the past decades is that 30 years ago, private companies tended to be cheaper than their equivalent public companies, but now it is actually the opposite. Today, a typical public company will trade at a deeper discount than an equivalent private company because there's so much more money from all these different sources willing to pay a premium for a private company for it not having volatility. But are they really getting a diversification benefit at a good price, or paying a premium for the prestige of saying they have private assets in their portfolio?"

He concluded that the best way to be a good investor is to never buy anything with the idea that you might have to sell it when the market is down, because they will sell it so far in the future. "In that sense," he said, "it actually starts to matter a lot less whether what you're investing in is public or private. What it really comes down to at the end of the day is properly understanding what



Expert Opinion

TARIQ DENNISON, Wealth Manager, US-Asia, GFM Asset Management

"Private assets provide the illusion of being volatile, but they only really provide an advantage to the buyer who has an informational or behavioural advantage that allows buying the asset at a much better price than would be available for anything similar in the public markets. Otherwise, the advantage is on the seller's side. I actually see very little advantage for most HNWIs having ANY allocation to private assets other than their own house."

you're investing in, having a good and realistic model including of the timeframe."

The final word – for most advisors, it should be a case of first dipping your toes in the water, gaining the necessary experience and confidence, and then building a diversified portfolio of private assets

A guest closed the discussion by remarking that nothing beats getting involved in one of these investments. "When the client is ready, and they do decide to deploy, normally we would prefer to put them into a fund, because the fund itself would have diversification," he explained. "The fund, if it is selected properly, should have investment professionals that know what they're doing with respect to that specific strategy. And from that experience, the client should be able to learn over time, whether or not first of all, these are the type of investments they want to be involved in and have exposure to. But I think the biggest challenge for individual investors, whether an HNWI or a very large and sophisticated family office is information and expertise." ■

Expert Opinion

TARIQ DENNISON, Wealth Manager, US-Asia, GFM Asset Management

"Physical real estate has long been a favoured asset class of Asian HNWIs, but most HNWIs really don't need any other private assets in their portfolio. The rare exception might be investments in private companies where they know the management and ideally have a voice on the board."