



MARKET COMMENTARY

BERGOS
PRIVATE BANK



SOUMAILA TÉKÉTÉ, CAIA, CIIA

Soumaila Tékété is a member of Bergos' Central Investment Committee and manages the Private Markets & Hedge Funds division. He joined Bergos (formerly Berenberg Schweiz AG) in 2016 as a cross-asset strategist and has since been responsible for various investment strategies. Previously, he held various portfolio management positions at Union Investment and DZ Privatbank in Frankfurt and Zurich.

ATTRACTIVE SOURCE OF RETURNS: PRIVATE MARKETS OPEN UP TO PRIVATE INVESTORS

Private markets investments are an integral part of many institutional investment portfolios. Now private investors are also increasingly gaining access to these illiquid investments. Supply meets demand. "The comparatively high historical performance of private market investments has aroused the interest of investors," says Soumaila Tékété, Head of Alternative Investments at the Swiss private bank Bergos. The major markets offer a wide range of investment opportunities across the entire risk spectrum. However, investing in these markets is complex and investors need to be aware of the liquidity risk.

For a long time, investments in private markets, such as private equity or private debt, were reserved for institutional investors. For some time now, high-net-worth private investors have also been taking advantage of the opportunities offered by these illiquid investments, which are not publicly traded on a stock exchange. Now the private markets are increasingly opening up to a broader circle of private investors. Soumaila Tékété sees several reasons for this development. "Private market investments were still rather experimental in the 1990s. In the meantime, the market has matured. In addition, some of the hurdles that excluded private investors from investing have been removed or at least reduced," says the alternative investments expert at Bergos. For example, 10 to 20 years ago, a minimum investment in the multi-digit millions was required, but today it is possible to enter some investment vehicles with significantly less capital. These include, for example, European Long Term Investment Funds, or Eltifs for short, which are aimed at private customers and offer a regulated framework. "They are a welcome additional product for private market investments, especially now that the rules have been improved and the investment hurdles lowered," says Tékété.

The current market environment is also helping to open up the private markets to retail customers. "The institutional sales channel is currently somewhat 'clogged'. Fundraising has become more difficult since the start of the 2022 rate hikes. Small private market funds in particular are struggling to raise capital," explains Tékété. With the rise in interest rates, liquid investments, both equities and bonds, have fallen sharply in 2022, while the more illiquid private market investments have proven to be much more stable. This has led to distortions in the asset allocation of institutional investors. The proportion of private markets was suddenly very high in many portfolios and the need for reinvestment was correspondingly lower. A reduced number of corporate transactions has since ensured that investments that have already been made are repaid more slowly. The steady inflows and reinvestments from institutional investors have therefore slowed down and fund providers are prepared to admit new investor groups.

Complex private markets require a lot of educational work

Tékété believes that the short-term growth of private markets is difficult to predict: “After the enormous growth during the central banks' expansionary monetary policy, the situation has become more difficult since 2022. Growth has recently been weaker than forecast. Not only are there fewer new capital commitments, the investment side has also stalled and many commitments have not even been called up yet. There is still a lot of dry powder.” In the medium to long term, however, the market for private assets will continue to grow. Institutional investors are likely to maintain their private markets quotas in the overall portfolio and the growing asset base will strengthen demand. There is also growth potential on the private client side.

“We are already seeing brisk demand for private assets from private clients. At the same time, the supply of corresponding products has increased significantly, and many semi-liquid funds are now also on the market,” says Tékété, but at the same time points out that private markets are complex and not as easy to invest in as equity or bond markets. A lot of educational work needs to be done.

Diversifier for the portfolio with illiquidity premium

There are several arguments in favor of investing in private market assets. The positive diversification effects of private assets can reduce the overall risk in the portfolio. Although there is an economic correlation between listed and private investments, the correlations between price fluctuations are relatively low. Private assets also provide access to smaller, younger companies that often offer greater growth potential than companies that are already listed on the stock exchange. However, private assets are not limited to this segment. The market is huge and diverse, and all risk orientations are possible.

Historical performance is a particularly convincing argument. Private assets have outperformed their listed counterparts in the past. Private equity generated higher returns than equities, private debt more than bonds. “Private investments offer an average premium of 2 to 5 percent higher than public markets,” says Tékété. In return, the investments entail a particular risk. In contrast to listed assets, private assets are not liquid and therefore cannot be traded flexibly. The capital invested is tied up for the long term, and even semi-liquid funds only offer limited opportunities to sell.

Playing future themes in pure form

The current environment favors some private markets segments. For example, Tékété considers the areas of direct lending and distressed lending to be attractive for more risk-taking investors, as well as secondaries. “There will always be such tactical opportunities. However, private market investments should be viewed over the long term. Capital commitments are often drawn down over several years. By the time the money is actually put to work, the market situation may have changed again. The market cannot be timed,” says the Bergos expert. He therefore recommends investing in promising long-term themes, which are ultimately the same as on the liquid side. These include, for example, demographic themes such as healthcare or structural growth themes such as logistics, IT infrastructure, electromobility or the energy transition. Tékété: “Such themes can often be played even more clearly and directly via private assets than via equities, where investments often have to be made in more broadly based groups.”



Bergos AG is an independent Swiss Private Bank focusing on private wealth management. Bergos AG emerged in 2021 with a new shareholder base from its former mother company, the Berenberg Group founded in 1590, and has been serving international private clients and entrepreneurs in the Swiss financial center for over thirty years. Its headquarters are in Zurich with an office in Geneva. The Swiss Private Bank is dedicated to “Human Private Banking” and specializes in wealth management and advisory services. With more than 130 employees, the focus is on providing expert guidance in all known liquid asset classes, as well as in private markets and alternative investments. Following a “beyond money” approach, we also offer expertise in art collecting and philanthropy. For entrepreneurial clients, Bergos AG offers access to M&A and other corporate finance services. Bergos AG offers private clients, entrepreneurs and their families a holistic, cross-generational service that focuses on security, neutrality, internationality and openness to the world.

This publication only serves information and marketing purposes. The information provided here is not legally binding and does not constitute financial analysis, a sales prospectus, asset management, or investment advice, and is not a substitute for legal, tax, or financial advice.

© Copyright Bergos AG.
All rights reserved

MEDIA CONTACTS

BERGOS AG
Kreuzstrasse 5
8008 Zurich, Switzerland

Sarah Thalman
Head of Communications

communications@bergos.ch
www.bergos.ch

GLT Communications
Kommunikationsberatung & PR
Utoquai 37
8008 Zurich, Switzerland

Jörg Röthlisberger
Founder & CEO
Tel: +41 44 396 90 90
Mobile: +41 75 44 88 000
jr@glt-communications.ch