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MARKET COMMENTARY

BERGOS PRIVATE BANK

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Soumaila is responsible for the Alternative Investments division at Bergos. He joined our bank in 2016 to expand our expertise in hedge funds and private markets, bringing with him 20 years of international experience in wealth and asset management. In his previous roles, he served as a portfolio manager and investment strategist for leading institutional asset managers and private banks in Frankfurt and Zurich.

THE ENVIRONMENT FOR PRIVATE MARKETS HAS IMPROVED SIGNIFICANTLY

Investments in private markets should not be reserved for institutional investors only. Such investments can also be attractive for private investors, says Soumaila Tékété, Head of Alternative Investments at the Swiss Private Bank Bergos. ELTIFs provide private investors in the euro area with efficient access to opportunities in asset classes such as private equity, private debt, and infrastructure. Including these in a portfolio can help optimize the overall allocation. The long-term outlook for these markets remains promising, and in the short term there are already the first signs of a revival in activity and demand.

“After the challenging years of 2022 and 2023, sentiment in the private markets has brightened again,” says Soumaila Tékété, Head of Alternative Investments at Bergos. The rapid rise in interest rates not only caused disruptions in the stock markets but also dampened the euphoria in private markets. Exit and deal activity declined sharply, although the market overall proved more resilient than many had feared. With hopes for a soft economic landing and imminent rate cuts, recent quarters have largely been characterized by a stabilization of economic conditions. Recently, there have been the first signs of a revival in private markets. Aggregate exit transaction volumes have risen again, even though the number of transactions and IPOs remains subdued. For the first time, fund distributions have exceeded new capital commitments. So far, investors have remained cautious – but they are gradually returning to the market. The prospect of further interest rate cuts has improved both the environment and sentiment and is likely to lead to a continued recovery in market activity and deal flow. However, market breadth is still lacking, and conditions therefore need to be assessed selectively. Valuations and outlooks are already attractive in some segments, while other areas, such as parts of the commercial real estate market, remain under pressure.

Private investors strengthen inflows into private markets

Although institutional investors continue to dominate the private markets, inflows from private investors are steadily increasing. While very wealthy private clients – the ultra-high-net-worth individuals – have long been taking advantage of opportunities in the private markets, these asset classes are still relatively new for many affluent and retail investors. “ELTIFs (European Long-Term Investment Funds) are an important product to make private markets accessible to private investors in the euro area,” says Tékété, adding: “They are a very efficient product. The liquidity requirements are somewhat higher than for other vehicles, and there are a few more restrictions. However, these rules primarily serve to protect investors.”

Even though interest in private assets among private investors is high, overall market penetration remains relatively low. “There is still plenty of room for growth. Building a strategic private markets allocation within a portfolio does not happen overnight, but gradually,” says Tékété.

Reasons for investing

There are many reasons why private investors should also consider adding private assets to their portfolios. A large part of economic value creation takes place outside the stock market. Those who limit themselves to listed securities forgo many attractive investment opportunities. Backtests also show that including private assets can help optimize a portfolio. “Through private equity, portfolio returns can be increased by 2 to 5 percent. The same applies to private debt and real assets such as infrastructure and real estate. At the same time, private assets offer greater stability and are less volatile than liquid markets. Investors should not miss out on these advantages,” says Tékété.

How large the share of private assets should be in a private investor’s portfolio depends on individual needs. “From an optimization perspective, there are no strict limits to portfolio allocation. The main restrictive factor is the illiquidity of these asset classes,” explains Tékété. Even though efforts are being made to create more liquidity in private markets, investors must be aware that, in a market stress situation, they may not have access to their capital for an extended period. Therefore, Tékété expects the share to be somewhat lower than that of institutional investors, who in some cases allocate more than 40% of their portfolios to private assets. However, for the allocation to have a meaningful impact on the overall portfolio, the share should be in the double-digit percentage range.

Benefiting from the structural growth of infrastructure

Tékété observes particularly strong interest among private investors in private equity and the higher-risk segment of venture capital: “These segments, despite their higher risk, seem easier for many investors to grasp. Infrastructure and private debt, however, are still less common among private investors.” Private equity offers higher returns than equity investments with manageable volatility, making it suitable for growth-oriented investors. An environment of rising deal activity and declining interest rates is favorable for the asset class. For income-oriented investors, on the other hand, real assets and private credit are particularly attractive. Tékété considers infrastructure an extremely compelling investment segment. The enormous global real-economy demand is driving high long-term growth forecasts and returns, especially in renewable energy generation and digital infrastructure. Moreover, the asset class provides strong inflation protection.

Evergreen structures provide easy access

Evergreen structures – open-ended funds without a fixed maturity – offer private investors an efficient and straightforward way to access private markets. They provide regular trading windows for redeeming shares within a defined liquidity framework. “This gives investors flexibility to adjust to changing personal preferences over time. Nevertheless, such a fund should by no means be seen as a tactical investment; in times of market stress, exiting may take longer than expected,” says Tékété. Unlike closed-end funds, there are no staggered capital calls. The capital is invested immediately, typically up to 90%, with the remainder held in liquid assets. While this slightly dilutes returns, a clear return advantage over listed securities remains. These vehicles are particularly easy to handle for private investors and extremely efficient when it comes to maximizing total value relative to paid-in capital.

Positive outlook for private markets

Private markets play an essential role in the real economy and in maintaining economic competitiveness. They are therefore also dependent on broader economic and geopolitical developments. Setting aside potential additional external shocks, the current situation is positive. Private markets are emerging from a challenging environment into calmer waters. The outlook for falling interest rates should provide a boost, and deal activity is beginning to pick up again. Investor demand remains strong. Surveys show that institutional investors intend to continue investing across the various private markets segments. In addition, new demand from private investors is emerging. These investors should understand that private markets investments are long-term in nature, where market timing is only possible to a limited extent. The principle "time in the market beats timing the market" applies. Target allocations should therefore be built up gradually and maintained over time to generate sustainable added value. The upcoming market revival offers an opportunity to build positions – particularly for private investors, as the gaps in many portfolios remain significant.

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Bergos AG is an independent, internationally operating Swiss Private Bank focusing on private wealth management. Bergos 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 and illiquid asset classes, as well as in alternative investments and private markets. Following a "beyond money" approach, we also offer expertise in art collecting and philanthropy. For entrepreneurial clients, Bergos 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.

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