The industrialisation of private capital

Sustained inflows into private capital are placing growing pressure on operational infrastructure that is struggling to keep pace with investor appetite.

Karine Litou
Global Deputy Head of Private Capital, BNP Paribas Securities Services

In the context of low interest rates and an uncertain economic outlook, institutional investors have continued to flock to private assets in the search for long-term performance and diversification. Private capital assets – a category which includes private equity, infrastructure, real estate and private debt funds – now account for more than 10% of investors' portfolios, up from a modest 2-3% just a few years ago.

This rapid growth shows little signs of abating. In 2021, global private capital assets under management surpassed $8 trillion, and are predicted to reach $13 trillion by 2025, according to Morgan Stanley. Global dry powder also reached new heights, surpassing $3 trillion, with private equity accounting for around 68% of the total.[1]

The other side of the coin

While rampant growth in the segment has presented a significant opportunity for fund managers, it has also highlighted the shortcomings of traditional operating models used to manage non-listed assets. In-house fund monitoring processes that have historically relied on physical paper and spreadsheets are struggling to keep pace with the scale and reporting demands being placed on them by sharp increases in allocation. This was reinforced during the pandemic, with in-sourced operating models facing scalability challenges during times of heightened disruption. In addition, private capital assets suffer from a lack of standardisation in terms of the reporting and accessible data required to perform the detailed and transparent analysis that investors are accustomed to receiving with listed assets.

Supporting future growth

To truly capitalise on the rapid growth of the segment, fund managers will need operating models that can handle complexity at scale – via automation and industrialised reporting capabilities – and expand quickly into new markets without taking resources away from the front office. For this reason, outsourcing is becoming increasingly attractive. The unique challenges presented by the asset class are leaving managers with little choice but to seek out platforms that can meet their current and projected growth in private investments.

At BNP Paribas Securities Services, we are at the forefront of this transition. We continue to assist leading private capital investors with the management of their unlisted assets, including the day-to-day management of cash flows, capital calls, fund distributions, monitoring of investment portfolios and performance calculations. Our integrated end-to-end offering, coupled with a best-of-breed approach to technology and systems, aims to maximise efficiency, enabling our clients to focus on their core business activities.

Gaining the digital edge

As the sector matures, another major evolution is the growing digitalisation of reporting tools for both management companies and investors. In addition to customised reporting capabilities – as well as document management and workflow functionality to streamline the operating model and digital user experience – quantitative analysis and tools to support decision-making are becoming a must-have.

To meet this need, BNP Paribas Securities Services has acquired a stake in leading private capital fintech, AssetMetrix, to further digitalise our private capital offering. The partnership will enable us to fast track the development of best-in-class solutions for non-listed investments, giving clients access to fully digital reporting and analytics capabilities as part of a uniquely integrated service offering.

Integrating ESG considerations

Along with the wider funds management industry, the integration of ESG into the investment process is rapidly gaining prominence in the private capital sphere. This was confirmed in the latest BNP Paribas ESG Global Survey on the incorporation of ESG among a group of 356 institutional investors, representing in excess of $11 trillion in assets under management.

> **"41% of investors incorporate ESG considerations within infrastructure, followed by private equity/debt (38%) and real estate (37%), with asset owners leading the charge compared to asset managers."**

The research showed that, while equities remain the primary asset class used to deploy ESG considerations (60%), there is a growing ESG consciousness within alternative asset classes, particularly private capital. In fact, 41% of investors incorporate ESG considerations within infrastructure, followed by private equity/debt (38%) and real estate (37%), with asset owners leading the charge compared to asset managers.

Despite facing the aforementioned challenges with standardised measurement and reporting relative to listed assets, non-listed assets have considerable potential for ESG impact. For instance, a majority private equity shareholder has the ability to influence change within a company and impose reporting around certain ESG criteria.

Indeed, the role that financial institutions have to play in helping investors move capital towards investments that deliver positive ESG outcomes cannot be understated. The new direction of travel is clear. Spurred on by mounting investor and regulatory pressure, and stark warnings from the IPCC on how urgent the fight against climate change has become, the issue will only grow in its importance in the months to come.

About BNP Paribas Securities Services

To navigate the quickly transforming private capital landscape, it is imperative that institutional investors seek out partners that can optimise their operating models to help them overcome the scale and complexity hurdles they will face in the coming years.

We believe robust platforms built with a digital-first mindset will be the cornerstone of the segment's future growth, and this is guiding our ongoing investment in our core systems and technology. This approach, along with our strong presence in key fund domiciles and team of private capital specialists, allows our clients to meet their growth challenges of today, while capturing the opportunities from continued allocation.

FOOTNOTES
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