

Private Capital: What Does the Future Hold?

Speaker Key:

DP	David Pett
KM	Kevin McCreadie
AL	Ash Lawrence
RO	Robert Olsen

Time code	Speaker	Text
00:00:06	DP	Part three of a three-part series. Keven McCreadie, AGF CEO and Chief Investment Officer considers the future of private capital, with special guest Ash Lawrence, Head of AGF Private Capital, and Robert Olsen, Partner, Vice-Chair, and Private Equity Leader at Deloitte Canada. I'm your host, David Pett. Let's get into it.
00:00:41		Okay, let's get to round three. So, I want to talk a little bit about the future of private capital now. We've talked about the current environment and some of the opportunities that exist in this environment. We've seen a lot of growth in the private capital market, just generally speaking, how big of a market does this become, say, five years, ten years from now? The sky's the limit on this?
00:01:06	AL	That's a hard one to predict. What I would say is if I look backwards, a lot of the growth is institutions relooking at how they invest and redoing their allocations, getting comfortable with it, and then growing their allocations to that scale. I think as I look forward, you've got two factors that, potentially, have very big numbers associated with them.
00:01:30		One is retail investors, and whether you can get the right structures and interest in place to actually tap that pool of capital. And the second is just the role that private markets are playing, generally, in the economy today, versus, or sitting opposite the public markets, and where companies are going for financing and what the different features are of that. It's a much more even footing at this point about companies deciding how they're going to finance their business equity or debt, and which direction they go.

Time code	Speaker	Text
00:02:03		And so that market has opened up on the deal side, I'll call it, as well as on the investor side, especially if you think about the decisions now companies make between should I IPL or should I just go to market and find a buyer. That's a different decision than it was 15 years ago.
	DP	So, beyond the growth, I'm curious to know where it evolves from here, private capital. Are we going to see a smattering of new... You talked about that universe and what it includes.
00:02:32		You've got your real estate, infrastructure, private equity, private debt, is there something else out there, or is it subsector down, like you talked about, Robert? How does this evolve from an asset class or asset type?
	RO	I won't put it past the industry to come up with a bunch of other subclasses because it's happened continually for 20 years or 40 years.
00:02:57		We went for a long period of time, where it was, really, just a couple of asset classes and we ballooned from there. So that will continue to happen, where there'll be subsegments of what were asset classes before. So that will certainly happen. But I think what is, basically, going on right now is if you were a company wanting to sell and you've just been through COVID, you've just been through talent issues, work-from-home issues, and now you've got, potentially, a recession, still supply chain issues going on, and inflation, and interest rates, my goodness.
00:03:34		And then you've got this succession issue that's a global issue, that private companies have to sell, and the public markets hasn't been the alternative that they've chosen, generally, that's gone the other way. They've chosen to sell to private capital groups, that trend continues. So, the pool of companies looking for private capital as a solution is growing.
00:03:59		So, forget about how much... We want to talk about the capital side of things, but actually, the demand for capital from private companies keeps growing at an astronomical level. And that's just getting bigger. We may have a pause in deal flow and maybe we'll be down 30%, or whatever, all that's going to do is create this bigger pool of companies. If you're a 65-year-old who had a

Time code	Speaker	Text
		company and you've been through this and you decide to hold on for two more years because the market's a little tougher, you know you were ready to sell two years ago.
00:04:31		So, I think that side of things will continue to increase.
	KM	Yes, I think we're about to go through a great period of innovation. Whenever you have this kind of dislocation coming out of it, whether it be COVID, and the normalisation process of rates and other things, there are going to be things that break. But there are going to be great opportunities for things. I think of the climate space, climate transition, early-stage tech that's playing into climate.
00:04:57		These are things we weren't talking about ten years ago. There are going to be ESG-focused private funds at a greater degree than we've ever thought that are going to try to sell these new-world problems that we're having. So, those, I think, in my mind, are going to be emerging spaces within the private space. There are funds doing it now, but very few, but you're going to see that become more mainstream. Energy transition is something Ash and I talk about, or public guys talk about. There's going to be a need to finance that, to Robert's point.
00:05:28		So, I think those create opportunities, when there's capital that's sitting over here, wants to deploy, and there are people seeking it because of the need. The need won't be filled by banks and more traditional players.
	AL	Yes. I would just add one thing to that, maybe on the other side, from the investment strategy side. What we've seen over the last few years is huge developments in structuring of vehicles for these types of strategies, any private capital strategy.
00:05:56		I think that's going to continue. I think to hit on Kevin's innovation comment, you're going to see a lot of innovation on the structure side. I think things like secondary markets and tokens, you start putting some of those things together, and liquidity starts to improve, that changes the dynamic of who might want to come in and invest. So, I think you're going to see a lot on vehicles, fund structures, what channels that you're targeting with some of these structures. And then, layer in all these new

Time code	Speaker	Text
		technologies on top of that, I think you're going to see a lot of that over the next ten years.
00:06:29	DP	And you've mentioned, Ash, this final question, here, how asset allocation is driving this and part of this demand. Maybe my last question to each of you is within that bucket, and I know for everybody it's a little different, where do you see this... Institutions are already allocating a big bucket to the alternative side and the private capital side, but where do you see that going in the future?
00:07:00		The 60/40, where does that end up being? Is it a 30/30/40 kind of thing?
	KM	I think one of the shakeouts we have to see now, fixed income actually offers income again, first time in 15 years. Some of that allocation may seep out on the institutional basis. I don't know yet how that... It doesn't feel like it, but then more on the liquid side of things, there'll be things like absolute return strategies, which are going to look great, that have been really challenged.
00:07:31		So, I'm not sure, that would be the question mark for me on the traditional institutional investor. But on the, what I call, equity-like private capital, I don't see that shift. I think the biggest incremental growth is going to be, what I call, the high-net-worth and retail investors, who are going to get more comfortable with the size of that allocation. They're going to get comfortable with the liquidity of that portion of their portfolio.
00:07:57		They're going to see, I think, the potential diversifying of fact and the ability to grow outsized returns. They'll start to, maybe, not exactly look like institutional investors, but I think that you're going to see some pretty good growth in those allocations from that private individual, high-net-worth individual, I think.
	AL	Yes, I would agree with that last comment Kevin made. Data is a little bit hard to come by in the US and Canada on how much private capital... If you set aside alternatives, which might include liquid alternatives.
00:08:31		Arguably, in the US, it's somewhere across the whole market, less than 5% in the retail markets. Canada, less

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		<p>than 2%, probably, in the retail markets. So, small movements and allocation from that group can equate to lots of dollars that need to be invested. I think that is where you're going to see it. The reality is, right now, there's a lot of retail investors dabbling. They have an allocation that really doesn't impact their overall portfolio returns.</p>
00:08:59		<p>A little bit of a everyone's in private equity, I want to do a little private equity. As that education ramps up, you'll start to see it again. Are they going to get to the 50% of some of the larger Canadian pension funds? No, very unlikely. But if they start to move up to five and then move up to ten, that's a lot of activity in the private capital markets, in terms of investor demand.</p>
	RO	<p>It's a very recent phenomenon, where any individual can, basically, get into an alternative space.</p>
00:09:30		<p>It wasn't that long ago that if you didn't have \$5 million you weren't getting into a great fund, and sometimes more. Now you have the accessibility for high-net-work individuals is exceptional. That's only going to increase as the market understands what it truly means to be in the private markets and the returns it can provide. And diversification. It's not about it should be the only place you should be, just it should be part of your allocation.</p>
00:09:55		<p>And one last thing, the thing that's going to happen, and you see the managers doing it, they're great at innovating into trying to track more capital to try and make their investing strategies even better. I was just listening to the co-CEO of KKR last night, and he's talking about making ownership of the portfolio company broad-based across all individuals. So, if you think about the private equity model, it's typically saying, the fund will say, we'll take 10% of our equity, and we're going to give that to the C-suite to create exceptional value.</p>
00:10:31		<p>And that's been the way they've done things since the beginning of private equity investing. This new approach is saying no, we're going to... It takes a lot of work. You've got to have great communication, you have to understand where you're starting from, you have to really educate the populous of your entire workforce but saying let's give equity to everyone. And so, they've started this</p>

Time code	Speaker	Text
		pilot project, there's five or six great funds, and they're trying on some portfolio companies to really have broad-based ownership.
00:11:02		But it's, obviously, easy to say, to pull it off, takes a tonne of work. He was talking think of five or six years of effort to get it to the right place, so maybe it doesn't help you in this one sale. But if you think of subsequent sales of a portfolio company, it actually will add tremendous value. The point being, constantly looking for innovation to drive exceptional value and differentiate what they're doing
00:11:27		So, I just think the industry creates these opportunities which is great for investors, back to why high-net-worth individuals are going to increase their allocation, as are institutions, who are probably going to do the same thing over the next ten years.
	DP	Okay, great. Let's end it there. Thanks, Robert, for being here, and Ash, as well, and Kevin. Until next time.
		For a transcript of each episode in this three-part series on private capital, please, visit agf.com/podcast .
00:11:58		And don't forget to subscribe to hear more from us at Apple Podcast, Spotify, Google Play Music, Stitcher, Podcast Attic, and Pocket Cast.
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00:12:55		The specific securities identified and described herein should not be considered as an indication of how the portfolio of any investment vehicle is or will be invested. And it should not be assumed that investments in the

Time code	Speaker	Text
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