

Preqin
Markets in Focus:
Alternative Assets
in Europe



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## **Contents**

### 0. Introduction

- 4 CEO's Foreword Mark O'Hare, Pregin
- **5** Real Assets, the 'Winning Bet' for a Post-COVID World – *Dominique Carrel-Billiard*, *Amundi*
- 7 The Complexity Premium: What Is it and How Does it Work? Nils Rode, Schroders Capital
- 9 Executive Summary
- 10 In Numbers: Key Facts
- 11 Alternatives in Europe: At a Glance

## 1. Private Equity & Venture Capital

- 14 Rock-Bottom Financing Costs Fuel Buyout Strategies
- 18 League Tables

## 2. Private Debt

- 21 Derisking Portfolios in a Challenging Market Thierry Vallière, Amundi
- 22 Opportunity Knocks as Liquidity Taps Are Turned off
- 26 Bespoke Credit Investing: Your Flexible Friend – David Allen & Deborah Cohen Malka, AlbaCore Capital Group
- 27 League Tables

## 3. Real Estate

- 30 Geographical Redistribution and ESG Are the Key Trends in Real Estate – Marc Bertrand, Amundi
- 31 Adding Value Will Be Key to Return Generation
- 34 League Tables

### 4. Infrastructure

- 37 Why Renewables and Hydrogen Are a Perfect Match *Michael Ebner, KGAL*
- 38 Abundant Dry Powder in Europe Will Drive Investment
- 42 League Tables

### 5. Natural Resources

- 45 Capital Concentration Deepens as UK Loses Hold
- 48 League Tables

## 6. Hedge Funds

- 51 Hedge Funds Are Dead! Long Live Hedge Funds! *Keith Black, CAIA*
- 52 European Funds to Benefit from Patchwork Recoveries
- 55 League Tables

#### 7. Countries

- **58 UK:** UK Looks to Maintain Lead as Growth Slows
- **60** France: 2020 a Record Year for Fundraising
- **Switzerland:** Venture Capital Stands out in Quiet Market
- **Germany:** Decarbonization Agenda Opens Opportunities for Private Capital
- 66 Italy: How the Pandemic-Ravaged Economy Could Make Reparations
- **68 Luxembourg:** Winning the Battle for the Brexit Spoils

## CEO's Foreword

I'm delighted to introduce Preqin's latest *Alternative*Assets in Europe report, produced in collaboration with leading European asset manager Amundi, who shares our vision of providing the investor community with more reliable data, transparency, and standardization for private markets to accompany their growth.

You don't need me to tell you that 2020 was a difficult year and that many challenges remain, both in terms of living with coronavirus and returning economies to growth. Alternatives have rebounded, highlighting their position as a mainstay of both economic activity and investment strategies.

At the halfway point of the year, Preqin recorded €236bn of private capital transactions in Europe, close to the €284bn total for the whole of 2020. Fundraising has been strong, with private equity, venture capital, private debt, infrastructure, and natural resources all on track to beat 2020 totals. In real estate, where investors are grappling with profound change, there are clear signs that prices are correcting and activity is picking up.

Investors have been rewarded for sticking with their alternatives programs. In PEVC, for example, buoyant exit markets have pushed median net IRRs for vintages 2011-2017 to between 14.0% and 19.4%. It's early days for 2018 vintage funds, but they're currently delivering a 22.0% median net IRR.

Alternative assets are a dynamic market, with managers constantly revising models and introducing new products that meet the needs of investors. We're delighted to have extended our coverage in this report to include both closed and open-ended funds. Preqin conducted extensive research and surveys of managers across Europe for these tables, and we're constantly looking at how we can make our data more comprehensive and accurate for all our users.

As alternative assets play an ever-greater role in investors' portfolios, so too grows the demand for reliable and powerful tools to monitor progress and performance in the portfolio, and to evaluate and plan new investments. This calls for a seamless combination of the best data and workflow tools, which is why we're delighted to welcome Colmore to the Preqin family and to offer these wider capabilities to Preqin's customers globally. (Please see page 12 for further details.)



Mark O'Hare

**Pregin** 

Over the past 12 months we have continued to invest to deliver you – our network of over 170k global alternative assets professionals – better data, tools, and insights to help you discover new opportunities, benchmark your performance, and find top-tier industry partners. This year alone, we:

- Acquired Colmore, a leading private markets technology, services, and administration business

   a transaction that will help boost transparency in alternatives markets
- Enhanced ESG Solutions to provide you with critical visibility of GP-LP environmental, social, and governance factors at a firm, portfolio, and asset level, with more than 500k transparency metrics tracked
- Launched Preqin Insights+ subscription service, delivering exclusive analytical content tailored toward providing actionable research for LPs, GPs, and service providers
- Continued to achieve data growth across our platform, with our investor profiles up 10% to more than 20k, our fund profiles up 17% to 133k, and our GP coverage up 12% to almost 47k profiles.

As you have come to expect from Preqin, The Home of Alternatives™, we will continue to invest heavily to ensure you have the most comprehensive view of the alternative assets industry.

Thank you for your ongoing support, and happy investing.

## Real Assets, the 'Winning Bet' for a Post-COVID World

A new post-COVID cycle could see a resurgence of inflation. Real assets can meet the economic challenges and fulfill investor expectations on both performance and impact

While fallout from the pandemic has accelerated several long-term trends, it has also given rise to some misguided predictions. The crisis is paving the way for a new economic cycle, which could well be marked by a resurgence of inflation. Real assets are emerging as the major beneficiaries of this new environment. They appear to meet the global economic challenges at hand as well as the expectations of institutional and retail investors with regards to performance and impact. Together, these reasons are driving a democratization of investment solutions in this asset class.

More than a year after the COVID crisis began, the health situation seems to be improving. We can only hope that a complete normalization will be achieved, allowing us to emerge from the repeated 'stop and go' phases the economic and financial world has experienced over the past 18 months. There is hope for a return to a sustainable economic trajectory. And amid the many predictions made during this period, we are beginning to distinguish the likely scenarios from those that are exaggerated, and from over-enthusiastic forecasts announcing a brave new 'post-pandemic world.'

## COVID Triggered Evolution, Not Revolution

Among the long-term trends, the digitalization of economic activity and trade, as well as the strategic importance of supply chains, are clearly not to be denied. This crisis has also rekindled the willingness of governments and central banks to steer economies and financial markets by means of aggressive policies; these are currently ongoing and help to maintain a low interest rate environment. Lastly, the main lesson of this crisis is undoubtedly a



Dominique Carrel-Billiard Global Head of Amundi Real Assets

**Amundi** 

global awareness of the fragility of our environment and our way of life, as well as a growing recognition of environmental, social, and governance (ESG) issues.

Some, however, may have been a bit hasty in tolling a death knell for the globalization of the economy. Likewise, the office is not about to disappear in favor of teleworking. And lastly, the latest predictions of soaring inflation remain a matter for debate.

Inflationary pressures are still contained, but very real, as evidenced by a jump in the Consumer Price Index (CPI) to 5.0% in May.¹ Supply chain disruptions, notably in semiconductors, wood, and some raw materials, could fuel this inflationary situation. It is too early to know whether the trend will be temporary or structural, but it is necessary to seek protection against a resurgence of inflation to which certain so-called 'safe' asset classes are highly exposed.

Real Assets Perfectly Positioned to Prosper
In this context, real assets appear to be the 'winning

<sup>&</sup>lt;sup>1</sup> https://www.bls.gov/news.release/pdf/cpi.pdf

bet' for the post-COVID world, as they aim to combine protection against inflation with the prospect of higher returns than traditional liquid assets.

Regarding the first point, it should be noted that real estate, infrastructure, floating-rate private debt, and private equity all offer the prospect of cash flows that will adjust to a resumption of inflation and absorb a large part of its effects.

The performance of real assets remains equally attractive in the case of contained inflation. According to our experts, they offer the best return prospects of all asset classes. Thus, over 10 years, all things being equal, our experts anticipate that private equity markets should offer a possible risk premium of 230bps in the US and 200bps in Europe compared to listed equities, while real estate assets should offer a risk premium of 450bps compared to public bonds in the eurozone and 390bps compared to investmentgrade bonds. Infrastructure should offer a premium of more than 300bps compared to these same investment-grade bonds. Such a sizable spread of anticipated yields should accelerate capital flows into real assets as investors seek to optimize their risk/ return trade-off.

## **Delivering Real Improvement in ESG**

In addition to these financial advantages, real assets are also in line with the high expectations observed in terms of ESG. We are convinced that real assets are

a 'shorthand for ESG.' They can contribute directly to the energy transition, particularly by financing green infrastructure. On this topic, analysts anticipate that the European Union's new environmental objectives should lead to a threefold increase in the volume of investments in renewable energy over the 2020-2030 period, as compared to the last decade. Similarly, private equity funds provide corporate governance access to directly influence choices regarding companies' social and environmental practices.

Real assets can thus be seen as meeting the aspirations of investors, which should favor wider adoption, especially among individuals. The latent demand for such products is becoming increasingly clear and will result in the emergence of new distribution channels. Thanks to its strong positioning in European banking networks, Amundi is in a privileged position to make these assets accessible to a wide range of populations.

However, the expected growth of investments in real assets should not come at the expense of being selective. The current prices that prevail in several of these asset classes indeed raise the spectrum of a potential imbalance in the risk/return ratio. This should prompt a flight to 'core' strategies, where risks are contained. As it happens, these also constitute the core expertise of our teams at Amundi.

**Dominique Carrel-Billiard** is Global Head of Amundi Real Assets. He was previously CEO of La Financière de l'Echiquier and CEO of AXA Investment Managers Group.

**Amundi** is Europe's largest asset manager by AUM and ranks in the top 10 globally. With close to 4,800 professionals based in 35 countries, it now manages more than €1.8tn of assets across investment hubs in Boston, Dublin, London, Milan, Paris, and Tokyo. It provides its 100 million clients - retail, institutional and corporate - a complete range of savings and investment solutions in passive, active, and real assets.

A subsidiary of the Crédit Agricole group and listed on the Paris stock exchange, Amundi launched Amundi Real Assets (ARA) in 2016 to provide easier access to unlisted investments. Bringing together capabilities in real estate, private debt, private equity, and infrastructure in direct investments or in multimanagement, ARA is comprised of 220 specialists and manages nearly €60bn of AUM.

## The Complexity Premium: What Is it and How Does it Work?

The return advantages of private assets have been chalked up to lower liquidity. Nils Rode, CIO at Schroders Capital, says this simple view must evolve to include an understanding of the 'complexity premium'

The 'illiquidity premium' is synonymous with private assets. While it remains important, investor understanding of private market returns should evolve to include the 'complexity premium.'

The illiquidity premium is appealing in its simplicity. Private assets typically have holding periods of several years or more and illiquidity is often seen as a disadvantage. Therefore, the investor is compensated by a performance premium. But there are problems with the view.

The first is the view that illiquidity is inherently a risk. The second is that as private assets grow in popularity, liquidity is rising. If illiquidity were all private markets had to offer, it would suggest their appeal would dwindle as allocations rise, which we strongly refute.

We challenge the traditional view of the illiquidity premium and, more importantly, encourage investors to adopt a broader appreciation of the benefits of private markets. Indeed, we argue that a large proportion of private asset returns are generated by the convergence of a unique situation or opportunity and a corresponding skillset. This is the complexity premium.

## Should Investors Be Paid to Invest in Private Assets?

The idea of the illiquidity premium implies that unless investors are paid for accepting illiquidity, they would not do so. However, expected outperformance is not the only benefit of private assets. There is also a lower actual volatility, as well as diversification opportunities and the possibility of achieving sustainability and impact targets.



Nils Rode

Schroders Capital

Furthermore, if liabilities are managed/matched, as is the case for many institutional investors, the availability of interim liquidity may not be a problem at all.

### In Private Assets, Illiquidity Is a Choice, Not a Risk

When investing in private assets, illiquidity is a certainty. In addition to the typical multi-year investment holding periods, there are carefully designed fund or mandate structures with fund lives of 8-12 years that lock up capital. Private asset investors accept illiquidity not as a risk but as a choice

What's more, for the private asset managers managing the capital – and their investors – that illiquidity becomes an opportunity. Illiquidity allows them to be more patient and selective in deal-sourcing and exit management. It creates time to develop the assets in their portfolios.

The point here is that illiquidity is not necessarily a bad thing. Moreover, illiquidity is not the only driver of excess returns in private markets. The strong rise in interest in private markets means these markets are much larger, and much more liquid today than they were in the past, and yet outperformance persists

and appetite for private asset investment continues to grow. The appeal extends far beyond an additional return for a longer lock-up period.

#### Is There a Risk Premium or a Skill Premium?

If there is outperformance in a private asset strategy or investment, the standard explanation is that investors have taken on more risk (in the form of illiquidity or other risks). The higher risk leads to lower entry valuations and thus to better performance – the compensation for the risks taken.

In this theoretical model, whether the risk materializes or not is explained by statistics. Numerous real life investment examples make clear that the difference in performance delivered by private assets cannot only by explained by luck and random events. Instead, it is to a large degree decided by skill advantages that some managers have over others. A more appropriate description is to explain private asset returns as a combination of risk factors and skills advantages.

Skill differences are generally more pronounced in private assets than in listed investments, as access to investments and information is much more limited. Investors also take a much more active role in sourcing, accessing, negotiating, transforming, and exiting an investment. Within private assets, skill differences become especially pronounced in what we call the 'long tail' of opportunities – the smaller deals sourced in less efficient markets that make up the vast majority of investments.

#### **Embrace the Complexity Premium**

In our view, return premia can be captured in private assets when two factors meet:

- A situation is particularly complex in terms of access, risks, and opportunities.
- Rare skills are deployed to source, select, negotiate, develop, and exit the investment.

The nature of the complexity premium differs depending on the type of asset, but both of these things are needed for it to emerge. A complex situation without the appropriate skills to engage with it cannot offer the possibility of capturing a complexity premium.

#### **Sources of Private Asset Complexity Premium**

Complexities of a private asset investment can contribute to value generation if matched by the appropriate skills at all stages of the investment lifecycle, from sourcing and access to selection and execution, transformation, and exit. No two investments capture a complexity premium in the same way.

Let's take an example from our private equity team. It sourced a co-investment opportunity in a residential care home through a close primary investment relationship and selected it based on prior experience with a similar business model. The fund manager demonstrated specialist skills in developing the company, improving the quality of care, which benefited all patients and increased revenues. This ultimately laid the groundwork for a successful exit. None of these drivers of complexity premium relates to liquidity.

In another example, our real estate team identified an opportunity with a distressed seller to acquire an office building in the Old Street area of London, an area they expected to rise in attractiveness for tenants from the tech sector. The team initiated extensive refurbishment work and pre-let most of the building to two growing tech and marketing companies *before* construction was completed.

These examples show how the value creation process creates illiquidity, not the other way round. In private capital, complexity is to be embraced and captured.

**Nils Rode** is Chief Investment Officer at **Schroders Capital**. He joined Schroders Group in 2005 and is based in Zurich. Before joining Schroders Capital, Nils worked at SkyOnline and McKinsey & Company. Nils wrote a book on strategic management of knowledge-based businesses, holds an MBA from ESCP Europe, a PhD in Economics, and a Specialisation Certificate in Data Science. This article is one of a series he has written on the complexity premium in alternatives.

Schroders Capital is the private markets investment division of Schroders Group. With \$65bn AUM and 498 employees, it covers a broad range of asset classes out of 19 offices globally.

## **Executive Summary**

## Europe sets out on the road to recovery

#### The Economy

Europe's economies are poised to deliver their strongest growth in decades, with the EU forecasting 4.2% growth in GDP in 2021. Growth is, of course, relative and the rise is a rebound from a dismal 2020, when GDP contracted by an unprecedented 6.1%.

Considerable uncertainty remains. Much of the pain of the pandemic was postponed by widespread stimulus, support measures, and abundant liquidity at ultra-low cost. While the expansionary policies will ultimately have to be reined back in, governments, the EU, and central banks have thus far been cautious about withdrawing support. In Italy, for example, the first action of former European Central Bank (ECB) President Mario Draghi when he took over as Prime Minister in February 2021 was to launch a €242bn Resilience and Recovery Plan.

#### Investment

Private capital activity got off to a flying start this year. The €236bn of deals completed in H1 2021 is already close to 2020's full-year total of €284bn. Infrastructure has been a bright spot, with H1 2021 deal value of €87bn equal to the 2020 total. Governments are pushing infrastructure investment as a way of stimulating economic growth and meeting carbon reduction targets. While public borrowing costs are extremely low, governments may be constrained by the increased debt taken on during the pandemic and are keen to involve the private sector.

With deal activity relatively robust in venture capital, private equity, and even real estate, the one private capital sector struggling to find transactions is private debt. However, activity in the asset class is likely to increase as support measures are withdrawn.

#### **Fundraising**

2021 is on track to set a new fundraising record, with €159bn of capital raised by Europe-based private capital fund managers in the first six months of the year. If momentum is maintained, this would build on the €269bn raised in 2020, which itself was just €2bn shy of the record set in 2019. While there has been a decline in the number of funds raised since a record 579 closed in 2017, there were still more than 500 Europe-based funds hitting a final close in a year blighted by the pandemic.

Private equity & venture capital (PEVC) accounted for exactly half the capital raised in H1 2021, a slight increase on the 48% share in 2020. The biggest growth was in infrastructure, which has seen its share of the private capital pot rise from 6% in 2011 to 15% in H1 2021.

#### **Performance**

The rapid recovery of stock markets in Q2 2020 and acquisitive corporates, often looking to bolster technology capabilities, allowed for strong performance across alternatives. Indeed, the 22.0% net median IRR currently being reported by 2018 vintage PEVC funds is the highest in two decades, and while short-term returns are subject to significant adjustment, median net IRRs for vintages 2011-2017 have increased by 1-4 percentage points.

Hedge funds also performed well, minimizing losses as markets fell in H1 2020 and rebounding more quickly than public markets. After several years of net outflows from the asset class, net flows turned positive in H2 2020, although they have plateaued this year.

## In Numbers: Key Facts

€79<sup>bn</sup>

Aggregate buyout deal value in Europe in H1 2021, pointing to a large increase over 2020's \$102bn full-year total

14.0-22.0%

Range of median net IRRs from Europe-based PEVC funds of vintages 2011-2018

6,645

Number of active alternative fund managers in Europe, which is also home to 3,373 active investors

€213mn

Average size of infrastructure deals in 13 leading European markets in H1 2021, up from €96mn in 2020 (see page 11)

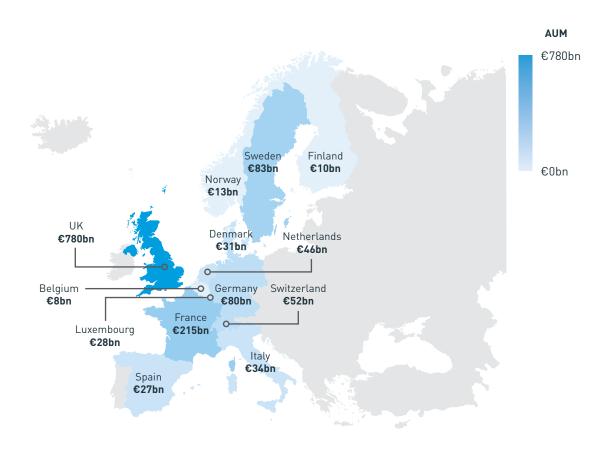
5.2%

Median target allocations to private debt by Europe-based LPs. The actual median allocation has risen to 4.0%, suggesting allocations will continue to rise until targets are met

€6.8bn

Aggregate value of office investments in Europe in H1 2021, down from €17bn in full-year 2020. The value of industrials deals is rising, hitting €7.4bn in H1 2021, already a higher total value than full-year 2020

## Private Capital in Europe: At a Glance



		Aggregate Value of Private Equity Deals in 2020 (€bn)	Aggregate Value of Private Equity Deals in H1 2021 (€bn)	No. of Active Investors in Alternatives	No. of Active Alternative Fund Managers
UK		24.7	37.3	928	2,420
France		10.6	5.0	227	619
Germany		24.7	6.1	550	996
Switzerland		14.7	4.7	520	461
Netherlands		1.9	6.0	252	483
Luxembourg		0.0	0.9	71	239
Belgium		0.8	0.1	86	132
Italy		6.0	1.0	227	241
Spain	6	6.5	7.8	129	378
Sweden		5.2	0.8	112	298
Denmark		1.4	0.8	92	135
Norway	#	0.5	0.0	91	108
Finland	+	0.0	0.2	88	135

Source: Preqin Pro

PRIVATE EQUITY, MEET VALIDATED FEES

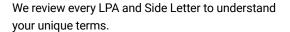
## **YOUR CHALLENGE**

Private equity fees are complicated. This complexity limits their clarity. While GPs deliver great reporting, we know that due to your fiduciary duties to your stakeholders and increasing legislative and regulatory pressure, you'd like the option of third-party fee validation. A full forensic audit can often run away with money and is a one-off exercise.

There is another way.



Our Fee Tracking and Validation Service is a simpler, more cost-effective way to get greater confidence in your underlying fund charges.





We work off existing GP documentation and industry fee templates, providing a non-intrusive validation service.



On a quarterly basis, we track your management fees, carried interest and expenses.



We model expected vs. actual fees, and investigate / resolve any variances.



Using our proprietary scoring matrix, we deliver easy to understand reporting on individual funds and your cumulative portfolio.



Discrepancy?! Don't worry. As a former LP, we can manage the delicate conversation with GPs to ensure that we have all the required data inputs.

COLMORE IS THE WORLD LEADER IN THESE SERVICES, SUPPORTING SOME OF THE LARGEST LIMITED PARTNERS GLOBALLY



Are you an ILPA Member? Colmore is exclusively offering ILPA members a 20% annual discount on recurring service fees.





2,559

Number of active Europebased investors in private equity 4,608

Number of private equity fund managers in Europe

€79bn

Aggregate value of private equity-backed buyout deals in Europe in H1 2021

## Rock-Bottom Financing Costs Fuel Buyout Strategies

## Private equity has rebounded convincingly from COVID-19 with limited signs of market distress

Despite the market turmoil of 2020, the European PEVC market managed to climb to \$866bn in AUM as of December 2020 – up 19% compared with 2019 (Fig. 1.1). Having said that, the increase is less than the 22% seen in North America, in part due to a weaker rebound in comparable public equity markets. The MSCI Europe Index posted a relatively modest 6% gain in 2020, compared with a 21% gain for the MSCI North America Index.

Europe also had a comparatively weaker recovery in private equity deal activity. While there was significant fiscal and monetary stimulus in the eurozone, it wasn't as large as the response from Washington. Europe's fiscal stimulus to tackle the COVID-19 fallout totaled 11%<sup>1</sup> of GDP, with Germany (39% of GDP) and France (24%) providing much of the impetus. By comparison, US fiscal stimulus totaled 27% of GDP.

Private equity fundraising in Europe appears to be back on track. In terms of the number of funds closed, the European market reached the peak of its cycle in 2017; a record 317 funds closed that year, raising a total of €94bn (Fig. 1.2). Since then, however, the number of funds reaching a final close has been in gradual decline year on year, with only 272 funds closed in 2020, representing a negative 5.0% CAGR over that period.

### **Favorable Conditions for Leveraged Buyouts**

Despite the decline in number, several large fund closures have ensured the total amount of capital secured by private equity funds has continued to climb in Europe. Indeed, mega buyout funds, those

aiming to raise \$1bn or more in commitments, have remained popular with institutional investors.

Low government bond yields across Europe have helped buyout funds grow to 74% of the PEVC market in terms of AUM, compared with 57% in North America. While to some extent this reflects Europe's advanced demographics, whereby the population has amassed high savings at a time when consumption is comparatively weak, the euro currency has also contributed to a structural build-up of excess savings which has weighed on interest rates.

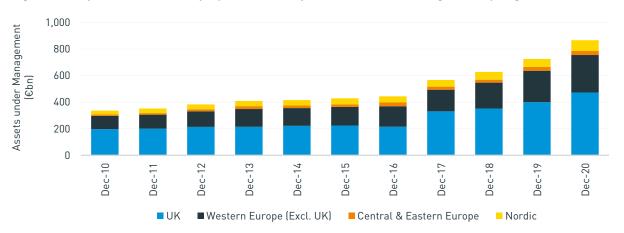
This is particularly true of Germany. As the most advanced country in the eurozone with comparatively strong productivity growth, Germany's economy has been increasingly producing more than it consumes. The resulting current account surpluses can no longer be self-corrected by a higher deutschmark, and so excess savings have weighed on government bond yields.

While low, and negative, savings rates don't bode well for savers in the region, they're ideal for borrowers such as buyout funds. Low cost and abundant leverage have helped to improve the financials of buyout funds and bolster expected returns.

That said, the ECB's monetary policies in response to the European Debt Crisis of 2012 and the COVID-19 pandemic have led to a rise in 'zombie' companies which are kept afloat by the continued extension of cheap credit. As much as 21% of European companies in 2019 could have been classified as

<sup>&</sup>lt;sup>1</sup> https://www.statista.com/statistics/1107572/covid-19-value-g20-stimulus-packages-share-gdp/

Fig. 1.1: Europe-Based Private Equity & Venture Capital Assets under Management by Region, 2010 - 2020



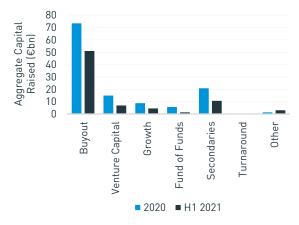
Source: Pregin Pro

Fig. 1.2: Europe-Focused Private Equity Fundraising, 2010 - H1 2021



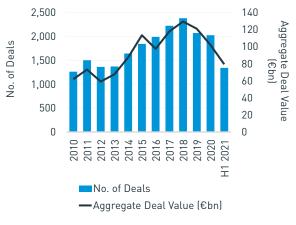
Source: Pregin Pro

Fig. 1.3: Aggregate Capital Raised by Europe-Focused Private Equity Funds Closed by Fund Type, 2020 vs. H1 2021



Source: Pregin Pro

Fig. 1.4: Private Equity-Backed Buyout Deals in Europe, 2010 - H1 2021



Source: Preqin Pro

Fig. 1.5: Venture Capital Deals in Europe, 2010 - H1 2021



Source: Preqin Pro

zombies.<sup>2</sup> Government measures in response to the pandemic have heightened the issue, although at least some of the increase is likely to subside once restrictions are fully eased. Nevertheless, the option to restructure through buyouts is an increasingly attractive one.

#### Venture Capital Playing Catch-up

By contrast, venture capital as a strategy is less prevalent in European private equity. This may reflect Europe's relative lack of presence on the global technology stage. In total, technology companies account for only 8% of the region's public equity index<sup>3</sup>, compared with a much higher 22% weight for global equities. What's more, the region hasn't been able to produce a major internet giant to rival the US and China.

Nevertheless, European venture capital deal flow has been strong in 2020 and the first half of 2021, mimicking the global trend (Fig. 1.5).

Fig. 1.6: Private Equity-Backed Buyout Deals in Europe by Industry, 2020 vs. H1 2021



Source: Preqin Pro

Fig. 1.7: Venture Capital Deals in Europe by Industry, 2020 vs. H1 2021

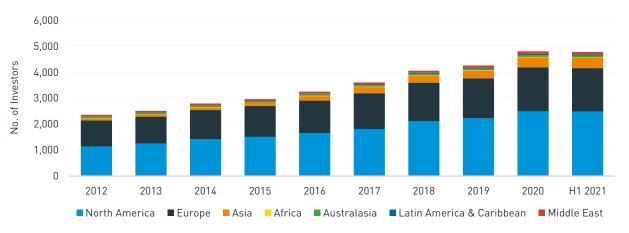


Source: Pregin Pro

<sup>&</sup>lt;sup>2</sup> https://www.ft.com/content/da175a86-17ad-44bf-9237-db8d4708fb21

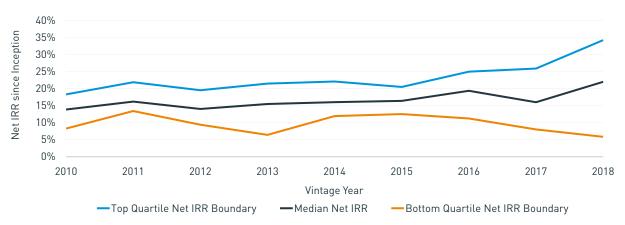
<sup>&</sup>lt;sup>3</sup> https://www.msci.com/documents/10199/db217f4c-cc8c-4e21-9fac-60eb6a47faf0

Fig. 1.8: Number of Private Equity Investors with a Preference for Europe by Location, 2012 - H1 2021



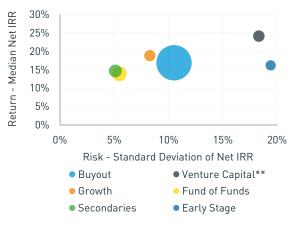
Source: Pregin Pro

Fig. 1.9: Europe-Focused Private Equity & Venture Capital: Median Net IRRs and Quartile Boundaries by Vintage Year



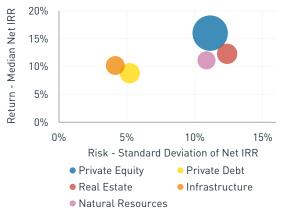
Source: Pregin Pro. Most Up-to-Date Data

Fig. 1.10: Europe-Focused Private Equity & Venture Capital: Risk/Return by Fund Type (Vintages 2009-2018)\*



Source: Preqin Pro. Data as of July 2021

Fig. 1.11: Europe-Focused Private Capital: Risk/ Return by Asset Class (Vintages 2009-2018)\*



Source: Preqin Pro. Data as of July 2021

<sup>\*</sup>The size of each bubble represents AUM.

<sup>\*\*</sup>Excluding Early Stage.

## League Tables

Fig. 1.12: Largest Europe-Based Fund Managers by Private Equity Assets under Management

Firm	Headquarters	AUM (€bn)	AUM Date
SB Investment Advisers	London, UK	133.3	31 March 2021
CVC	London, UK	73.4	31 March 2021
Ardian	Paris, France	71.2	25 June 2021
Partners Group	Zug, Switzerland	49.4	30 June 2021
AlpInvest Partners	Amsterdam, Netherlands	45.5	24 June 2021
Permira	London, UK	44.0	12 May 2021
LGT Capital Partners	Pfäffikon, Switzerland	37.9	30 June 2021
EQT*	Stockholm, Sweden	32.6	30 June 2021
Hg	London, UK	31.6	31 March 2021
Cinven	London, UK	28.8	31 March 2021

Source: Preqin Pro

Fig. 1.13: Largest Europe-Focused Private Equity Funds Closed in 2020-H1 2021

Fund	Firm	Headquarters	Fund Size (mn)	Fund Type
CVC Capital Partners Fund VIII	CVC	UK	21,300 EUR	Buyout
ASF VIII	Ardian	France	19,000 USD	Secondaries
EQT IX	EQT	Sweden	15,600 EUR	Buyout
Apax X	Apax Partners	UK	11,771 USD	Buyout
Coller International Partners VIII	Coller Capital	UK	9,000 USD	Secondaries
Ardian Buyout VII	Ardian	France	6,500 EUR	Buyout
Nordic Capital Fund X	Nordic Capital	Jersey	6,100 EUR	Buyout
Hg Genesis 9	Hg	UK	4,400 EUR	Buyout
Hg Saturn 2	Hg	UK	4,850 USD	Buyout
Vitruvian Investment Partnership IV	Vitruvian Partners	UK	4,000 EUR	Buyout

Source: Pregin Pro

Fig. 1.14: Largest Europe-Focused Private Equity Funds in Market

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
Permira VIII	Permira	15,000 USD	Buyout	Global
BC Partners Fund XI	BC Partners	8,500 EUR	Buyout	North America, Europe
West Street Capital Partners VIII	Goldman Sachs	8,000 USD	Buyout	Western Europe
Montagu VI	Montagu Private Equity	3,500 EUR	Buyout	Europe, Western Europe
Partners Group Secondary 2020	Partners Group	4,000 USD	Secondaries	America, Europe, Asia
Rhone Partners VI	Rhône Group	3,000 EUR	Buyout	North America, Europe
CCP XI	Charterhouse Capital	2,500 EUR	Buyout	Europe
Inflexion Buyout Fund VI	Inflexion Private Equity	2,000 GBP	Buyout	Europe
Permira Growth Opportunities II	Permira	2,500 USD	Growth	Asia, Europe, North Africa
EQT Growth Fund	EQT	2,000 EUR	Growth	Europe

Source: Preqin Pro. Data as of July 2021

<sup>\*</sup>EQT PE AUM has been calculated based on the deduction of Public Value AUM from Private Capital AUM present in the EQT 2021 Half-Year Report: https://cdn.sanity.io/files/30p7so6x/eqt-web-prod/f5ce19d8995c2475f137ed224fdb9c2be92ce557.pdf

Fig. 1.15: Largest Europe-Based Investors in Private Equity by Type

Investor	Allocation to Private Equity (€bn)	Investor Type	Location
ABP	32.3	Public Pension Fund	Netherlands
Pensioenfonds Zorg en Welzijn	16.0	Public Pension Fund	Netherlands
Wellcome Trust	11.0	Foundation	UK
Universities Superannuation Scheme	9.4	Private Pension Fund	UK
VidaCaixa	9.0	Insurance Company	Spain
Keva	7.6	Public Pension Fund	Finland
Varma Mutual Pension Insurance Company	7.2	Insurance Company	Finland
Skandia Life Insurance Company	6.3	Insurance Company	Sweden
Ilmarinen Mutual Pension Insurance Company	6.1	Insurance Company	Finland
Prudential	6.0	Insurance Company	UK

Source: Preqin Pro

Fig. 1.16: Top Performing Europe-Focused Private Equity Funds (Vintages 2009-2018)

Rank	Fund	Vintage	Fund Size (mn)	Туре	Net IRR (%)
1	Hg Mercury 2	2017	575 GBP	Buyout	136.9
2	BioGeneration Ventures II	2012	23 EUR	Early Stage	103.4
3	GMT Realisation Fund	2017	149 EUR	Buyout	88.6
4	Mandarin Capital Partners Secondary	2015	88 EUR	Secondaries	68.2
5	HVOF II (Holland Capital)	2013	16 EUR	Buyout	67.0
6	Earlybird Digital East Fund I	2014	150 USD	Early Stage	61.0
7	Earlybird Growth Opportunities I	2009	5 EUR	Growth	60.7
8	4BIO Ventures I	2014	10 USD	Venture Capital (General)	59.3
9	Cathay Innovation Fund I	2017	287 EUR	Venture Capital (General)	58.3
10	Nordic Capital Fund IX	2018	4,311 EUR	Buyout	57.0

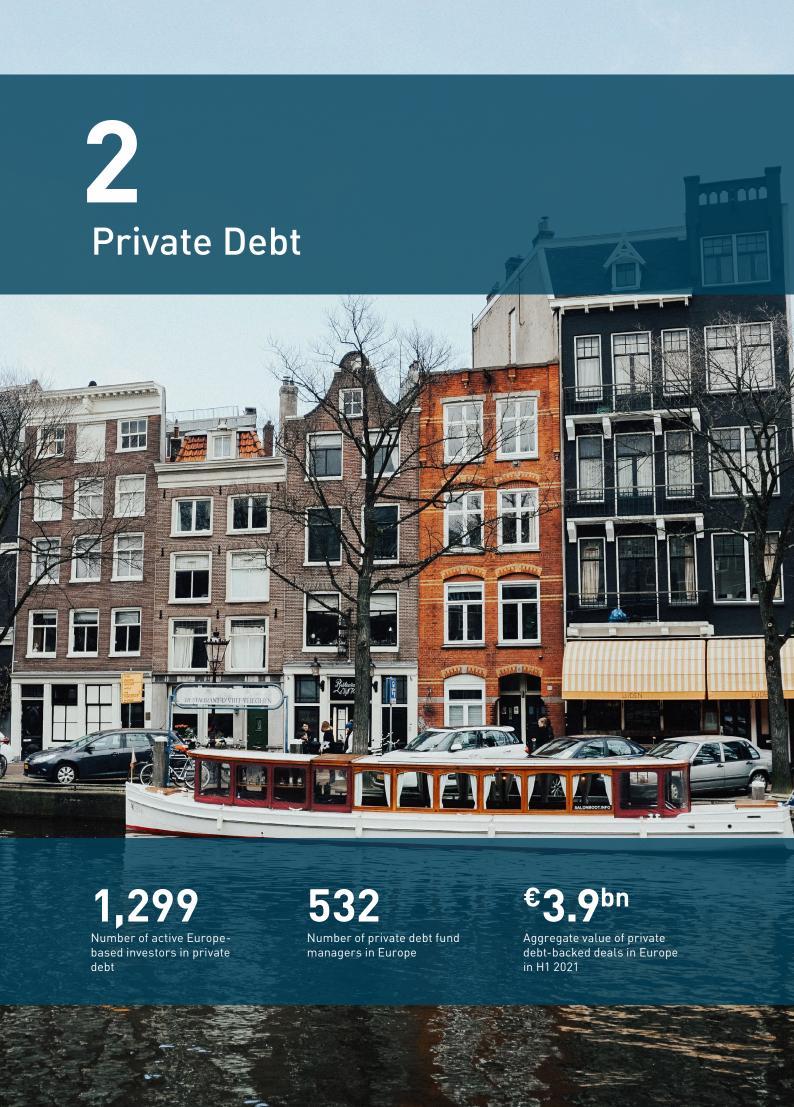
Source: Preqin Pro

Fig. 1.17: Most Consistent Top Performing Europe-Focused Private Equity Fund Managers (All Vintages)\*

Firm	Headquarters	No. of Funds Ranked	No. of Funds in Top Quartile	Average Quartile Rank
Dawn Capital	UK	4	4	1.00
Earlybird Venture Capital	Germany	3	3	1.00
Holland Capital	Netherlands	3	3	1.00
Synova	UK	3	3	1.00
ATP Private Equity Partners	Denmark	4	3	1.25
Main Capital Partners	Netherlands	4	3	1.25
KJK Capital	Finland	3	2	1.33
Gilde Buy Out Partners	Netherlands	5	3	1.40
Hollyport Capital	UK	5	3	1.40
Inflexion Private Equity Partners	UK	12	7	1.50

Source: Preqin Pro

<sup>\*</sup>The most consistent top performing fund manager table is based on the average quartile ranking of a manager's funds. The entire pool of PEVC funds is ranked within each vintage year according to its net IRR, with each funds given a quartile score, and a manager given a quartile ranking that is an average of all its funds.



## Derisking Portfolios in a Challenging Market

The financing earmarked for recovery and the needs of corporations create significant opportunities in the private debt space. However, one should remain careful and disciplined in a challenging market

## We haven't seen a liquidity crisis or exploding default rates; is it fair to say the private debt market is doing well?

Indeed, prospects are looking good, with significant demand for financing from companies, either to rebound post-crisis or to address areas of underinvestment highlighted by the health crisis – in digital infrastructure and supply chains, for instance. The need to reduce debt is also driving interesting asset disposal opportunities. In contrast, financing remains constrained, as banks focus on managing their own portfolios.

That said, it's important to be aware of the divergence taking place in the markets between the best credits, where competition is fiercer than ever – driving pre-emptive offers and shorter evaluation periods – and more complex applications in the areas of tourism, events, or other sectors where visibility remains poor in the short term. Particular caution will be called for when state aid to companies runs out, as default rates will rise accordingly.

## Is a company's ESG positioning also a criterion in choosing between credits?

Extra-financial analysis has always played a key role when it comes to investing in illiquid assets, as it's important to avoid taking on long-term risk. The rapid development of environmental, social, and governmental (ESG) themes, however, means that methodological rigor is increasingly necessary. We closely consider the relevance of selected ESG criteria with respect to each company, its sectors of



**Thierry Vallière**Global Head of
Private Debt

**Amundi** 

activity, and the measurability of its commitments in order to forestall attempts at greenwashing.

When we undertake a transaction, we study ESG both in terms of risk management and support for change, working with companies to select criteria for improving their trajectory.

## You speak of the market as challenging – does this have an impact on investors' strategies?

Opportunistic investors seized on the window offered by market dislocations, favoring turnaround and restructuring strategies. As of now, yields have returned to their pre-crisis levels and valuations remain high. There is a flight to quality reflected in more conservative investments in segments where risk-adjusted return appears consistent with investors' objectives. Investors are protecting themselves from a potential deterioration of the situation as government support winds down, especially by looking to senior debt strategies, in which Amundi has extensive expertise.

Thierry Vallière is Global Head of the Private Debt Division and co-Chairman of the Investment Committee at Amundi. Amundi is Europe's largest asset manager by AUM and ranks in the top 10 globally, managing more than €1.8tn of assets. Amundi Real Assets (ARA) brings together capabilities in real estate, private debt, private equity, and infrastructure. It has 220 specialists managing more than €60bn of AUM.

Disclaimer: This information constitutes a summary of prevailing economic conditions and, as a result of being simplified, is partial or incomplete. Please see the full disclaimer on page 71.

## Opportunity Knocks as Liquidity Taps Are Turned off

## GPs will need to get creative as interest rates normalize

On the face of it, private debt in Europe is thriving: AUM has increased more than fivefold over the past 10 years (Fig. 2.1). The number of Europe-focused private debt funds closed in the years immediately following the GFC hovered just below 20, but has consistently been in the 50s and 60s since 2014 (Fig. 2.2). Between 2010 and 2020, aggregate capital raised increased more than 9x. The aggregate value of private debt-backed deals reached a record high of €14.5bn in 2019, followed by a second-highest total of €14bn in 2020 (Fig. 2.4).

The emergence of private debt in Europe over the past decade has come as no surprise. Banks reining in lending to meet stricter capital regulations after the GFC created an opportunity. Ultra-low interest rates in the first part of the 2010s, then 0%, and negative rates across much of the continent have pushed allocators to place their money in the hands of private debt managers in recent years, particularly those running direct lending strategies (Fig. 2.3). Preqin data indicates that Europe-based investors' actual allocations to private debt have risen over the past six years, in tandem with the decline in interest rates, as the search for yield became their raison d'etre.

#### Pandemic Alters the Opportunity Set

When COVID-19 began to batter Europe's economy, companies that would have otherwise become insolvent were propped up by government support packages. With this increased liquidity, companies had less need to tap the coffers of private lenders. These lenders, however, were flush with dry powder even before the pandemic, and LPs committed

additional capital to the many GPs raising new funds in anticipation of widespread and inevitable distress. The influx of capital – on top of a growing pile of dry powder – that was to be directed to a market segment that had no use for it has compounded investors' concerns of an already tight deal market.

In fact, the number of private debt-backed deals in Europe reached a peak in 2017 (336 deals), and has declined every year since (Fig. 2.4). At the same time, the aggregate value of these deals continued to rise, up from almost €9bn in 2017 to €14bn in 2020. This suggests that investors may be piling more capital into the fewer available opportunities, which would increase the concentration of risk in a narrower pool of assets. LPs' and GPs' early-pandemic ambitions of capitalizing on unprecedented distress and default were mostly met by meager deal flow, rather than once-in-a-fund-lifetime investment opportunities.

Government and central bank intervention, however, will likely soon cease¹ as Europe emerges from the COVID-induced economic crisis, albeit more slowly than other developed regions. Less government support for corporations will mean more debt restructurings, M&A activity, and investment opportunities for private debt managers in strategies such as special situations and mezzanine financing. As Europe's economies reheat, companies will also likely borrow more to take advantage of growth opportunities that result from reopening and loosening public health mandates.

## Rising Rates May Force Managers to Pivot

'Lower for longer' may not last as Europe's economy

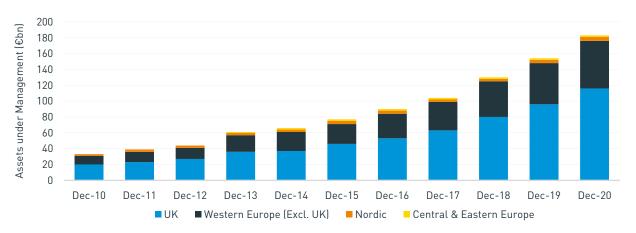
<sup>&</sup>lt;sup>1</sup> https://www.reuters.com/article/us-ecb-policy-deguindos/ecb-can-start-phasing-out-emergency-stimulus-when-vaccinations-pick-up-de-guindos-idIJSKBN2CK07F

gains steam, which will potentially push interest rates higher.<sup>2</sup> The ECB is forecasting real GDP growth of 4.0% in 2021 and 4.1% in 2022, as the region's economy rebounds from a 6.9% slump in 2020.<sup>3</sup> If rates rise on key reference rates such as the 10-year German government bond, widely regarded as a benchmark for safe European debt, that signals a longer-term reversal of the negative yield trend in Europe in the past decade. Positive

rates will mean that private debt deals may yield more for fund managers, but will also result in fewer LPs committing to the asset class because they can find safer and more stable returns in higher-yielding bonds.

Still, there's plenty of capital at the ready for private debt managers to deploy and work to be done to find worthwhile deals. Interest rate increases are

Fig. 2.1: Europe-Based Private Debt Assets under Management by Region, 2010 - 2020



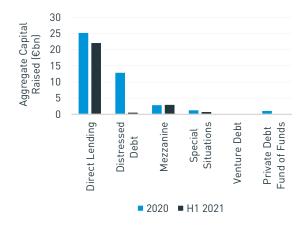
Source: Preqin Pro

Fig. 2.2: Europe-Focused Private Debt Fundraising, 2010 - H1 2021



Source: Pregin Pro

Fig. 2.3: Aggregate Capital Raised by Europe-Focused Private Debt Funds Closed by Fund Type, 2020 vs. H1 2021



Source: Preqin Pro

<sup>&</sup>lt;sup>2</sup> https://www.bloomberg.com/news/articles/2021-05-25/upside-down-world-of-negative-bond-yields-is-shrinking-at-last

<sup>&</sup>lt;sup>3</sup> https://www.ecb.europa.eu/pub/projections/html/ecb.projections202103\_ecbstaff~3f6efd7e8f.en.html#toc4

only expected to be incremental in the short term, so managers needn't worry about the wells drying up. GPs may have to be creative and resort to strategies beyond their traditional mandates or turn to new opportunity sets, such as financing leveraged buyouts in which their own firm's private equity arm is participating, or providing higher-returning loans to companies that can't get credit elsewhere.

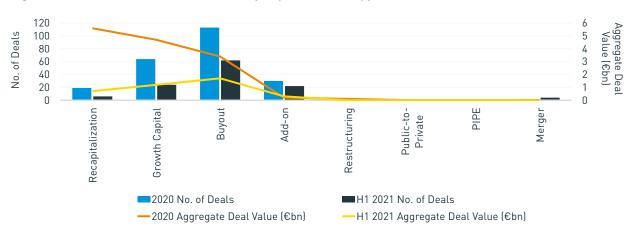
All told, European private debt stands at a crossroads; for now, investment opportunities are scarce amid government-sponsored liquidity, and competition is fierce. However, European economies are poised to grow as the pandemic wanes and countries reopen, which will increase the opportunity set in traditional lending as well as in more creative solutions and products.

Fig. 2.4: Private Debt-Backed Deals in Europe, 2010 - H1 2021



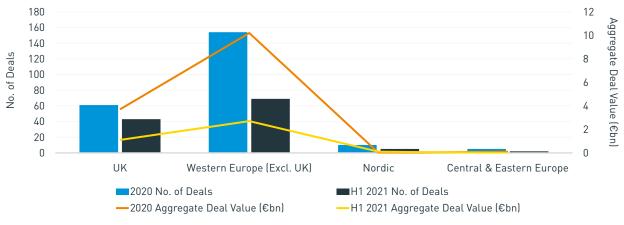
Source: Pregin Pro

Fig. 2.5: Private Debt-Backed Deals in Europe by Investment Type, 2020 vs. H1 2021



Source: Preqin Pro

Fig. 2.6: Private Debt-Backed Deals in Europe by Region, 2020 vs. H1 2021



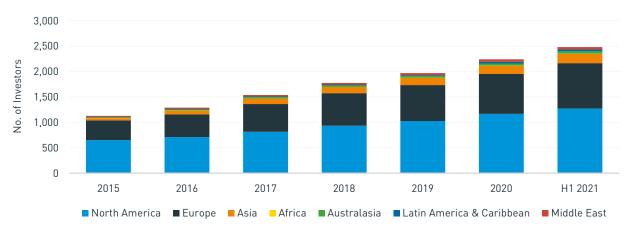
Source: Pregin Pro

Fig. 2.7: Private Debt-Backed Deals in Europe by Investment Type, 2010 - H1 2021



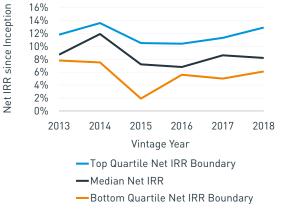
Source: Pregin Pro

Fig. 2.8: Number of Private Debt Investors with a Preference for Europe by Location, 2015 - H1 2021



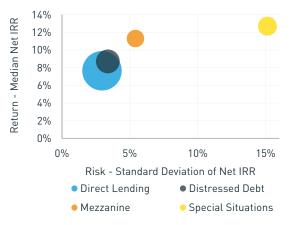
Source: Pregin Pro

Fig. 2.9: Europe-Focused Private Debt: Median Net IRRs and Quartile Boundaries by Vintage Year



Source: Preqin Pro. Most Up-to-Date Data

Fig. 2.10: Europe-Focused Private Debt: Risk/ Return by Fund Type (Vintages 2009-2018)\*



Source: Preqin Pro. Data as of July 2021

<sup>\*</sup>The size of each bubble represents the capitalization of funds used in this analysis.

## Bespoke Credit Investing: Your Flexible Friend

After a year dominated by public markets in 2020, pipelines have been filling up with private credit opportunities. For investors, the asset class offers a compelling balance of risk and reward



**David Allen**Managing Partner and
Chief Investment Officer

## AlbaCore Capital Group

#### How has private debt changed?

**Allen:** In the early stages of COVID there was a tremendous opportunity to buy secondary positions in the public market. Dollar prices were at once-in-a-decade levels – 70 cents for investment-grade and first-lien debt. We had very little activity on the private side, as treasurers and CFOs put acquisitions on hold as they tried to make sure the holes were plugged and the boat wasn't sinking.

Since then we've seen a huge pick-up in M&A activity, and in primary and private markets issuance. There's a lot of demand for capital, whether for acquisitions, capex, or working capital for reopening. Today, 80-90% of our activity is on the private side.

#### What opportunities are you seeing in Europe now?

**Allen:** Most people want capital for positive reasons. Default rates are around 2% and trending lower. If you survived to June 2021, you're probably going to stay afloat. There's a lot of demand for pre-IPO acquisition financing to build scale and market position.

Cohen Malka: There's also been record leveraged loan issuance as people took advantage of the market tightening to extend maturities or refinance expensive facilities that had been put in place last year. We're seeing a lot of activity from sponsors



## Deborah Cohen Malka

Managing Director and Deputy Portfolio Manager

## AlbaCore Capital Group

trying to find new ideas so they can deploy the big funds they have raised.

## To what extent is anticipating the market key to success as a private debt investor?

Allen: It's like going to the farmer's market or the fishmonger: you don't know what's best until you look closely. We show up at dawn and see what comes in and looks good. We'll take a look at everything and the two things we never compromise on are credit quality and relative value.

What role does ESG play in your credit selection? Cohen Malka: We apply an ESG screen to every investment to look at factors that may lead to risk of loss. Increasing numbers of loans have margin ratchets that link to ESG, which is a result of a strong push from the investor community. Right now it's difficult because there's a lack of transparency, but we're working on the KPIs and industry engagement and making progress. ESG analysis is going to be more important and extensive going forward.

## What returns can investors get from private debt?

**Allen:** The struggle is when someone compares private debt with private equity – private credit is lower risk. On a risk-adjusted basis and when comparing private credit with public credit, the view is that you can get paid more, which is both realistic and achievable.

Founded in 2016, **AlbaCore Capital Group** is one of Europe's leading specialist credit investors focusing on public and private corporate credit markets. The senior investment team has been investing with this hybrid strategy for over a decade and has invested over \$17bn together at AlbaCore.

## League Tables

Fig. 2.11: Largest Europe-Based Fund Managers by Private Debt Assets under Management

Firm	Headquarters	AUM (€bn)	AUM Date
CVC	London, UK	23.9	31 March 2021
M&G Investments	London, UK	23.8	31 December 2020
ICG	London, UK	23.2	31 March 2021
Partners Group	Zug, Switzerland	21.8	30 June 2021
Hayfin Capital Management	London, UK	20.0	2 July 2021
Allianz Global Investors	Frankfurt, Germany	19.1	20 April 2021
Alcentra	London, UK	18.9	31 December 2019
Arcmont Asset Management	London, UK	13.4	31 July 2021
Permira Credit	London, UK	10.0	20 April 2021
Amundi Real Assets	Paris, France	9.5	30 June 2021

Source: Preqin Pro

Fig. 2.12: Largest Europe-Focused Private Debt Funds Closed in 2020-H1 2021

Fund	Firm	Headquarters	Fund Size (mn)	Fund Type
Ares Capital Europe V	Ares Management	US	11,000 EUR	Direct - Senior
Fortress Credit Opportunities V	Fortress Investment	US	7,000 USD	Distressed Debt
GSO European Senior Debt Fund II	Blackstone Group	US	6,102 USD	Direct - Unitranche
Hayfin Direct Lending Fund III	Hayfin Capital	UK	5,000 EUR	Direct - Senior
Permira Credit Solutions Fund IV	Permira Credit	UK	3,400 EUR	Direct - Senior
Ares Pathfinder	Ares Management	US	3,600 USD	Direct Lending
KKR Dislocation Fund	KKR	US	2,800 USD	Distressed Debt
Park Square Capital Partners IV	Park Square Capital	UK	2,200 EUR	Mezzanine
BlackRock European Middle Market II	BlackRock	US	2,100 EUR	Direct - Senior
Arrow Credit Opportunities	AGG Capital	UK	1,700 EUR	Distressed Debt

Source: Pregin Pro

Fig. 2.13: Largest Europe-Focused Private Debt Funds in Market

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
ICG Senior Debt Partners IV	ICG	8,000 EUR	Direct - Senior	Europe
ICG Europe Fund VIII	ICG	7,000 EUR	Mezzanine	Europe
LCM Credit Opportunities 4	LCM Partners	4,000 EUR	Distressed	Europe
Special Situations Fund V	Strategic Value Partners	4,000 USD	Distressed	Europe
European Direct Lending IV (	Alcentra	3,000 EUR	Direct - Senior	Europe
Barings European Private Loan III	Barings	3,000 EUR	Direct - Senior	Europe
Pemberton Mid-Market Debt Fund III	Pemberton Capital	3,000 EUR	Direct - Senior	Europe
AlbaCore Partners III	AlbaCore Capital Group	2,500 EUR	Direct - Blended	Europe
Pemberton Senior Loan Fund I	Pemberton Capital	2,500 EUR	Direct - Senior	Europe
Oaktree European Principal Fund V	Oaktree Capital	2,000 EUR	Special Situations	Europe

Source: Preqin Pro. Data as of July 2021

Fig. 2.14: Largest Europe-Based Investors in Private Debt by Type

Investor	Allocation to Private Debt (€bn)	Investor Type	Location
Aegon Netherlands	30.2	Insurance Company	Netherlands
Bayerische Versorgungskammer	13.1	Public Pension Fund	Germany
NN Group	9.7	Insurance Company	Netherlands
BT Pension Scheme	5.3	Private Sector Pension Fund	UK
Swiss National Accident Insurance Institution (SUVA)	4.9	Insurance Company	Switzerland
BNP Paribas Cardif	4.1	Insurance Company	France
SOGECAP	3.9	Insurance Company	France
Universities Superannuation Scheme	3.9	Private Sector Pension Fund	UK
Pension Protection Fund	3.7	Private Sector Pension Fund	UK
Lloyds Banking Group Pension Schemes	3.6	Private Sector Pension Fund	UK

Source: Pregin Pro

Fig. 2.15: Top Performing Europe-Focused Private Debt Funds (Vintages 2009-2018)

Rank	Fund	Vintage	Fund Size (mn)	Туре	Net IRR (%)
1	Oxy Capital II	2018	73 EUR	Special Situations	34.2
2	SouthBridge Europe Mezzanine Fund	2015	65 EUR	Mezzanine	34.0
3	DBC III (DBAY Advisors)	2018	335 EUR	Special Situations	28.0
4	Strategic Value Special Situations Fund IV	2017	2,850 USD	Distressed Debt	27.6
5	Permira Sigma 2	2012	30 EUR	Fund of Funds	26.9
6	VGO Special Situations Fund II	2018	300 USD	Special Situations	23.7
7	AnaCap Credit Opportunities I	2010	59 GBP	Distressed Debt	21.0
8	CVI Credit Value Fund (CarVal Investors)	2011	844 USD	Distressed Debt	19.4
9	Permira Sigma 3	2012	40 EUR	Fund of Funds	19.2
10	Armada Mezzanine Fund III	2009	EUR 103	Mezzanine	18.8

Source: Preqin Pro

Fig. 2.16: Most Consistent Top Performing Europe-Focused Private Debt Fund Managers (All Vintages)\*

Firm	Headquarters	No. of Funds Ranked	No. of Funds in Top Quartile	Average Quartile Rank
Inveready Asset Management	Spain	3	3	1.00
Strategic Value Partners	US	3	3	1.00
Kartesia	Luxembourg	3	2	1.33
Bridgepoint	UK	4	2	1.50
Indigo Capital	France	4	2	1.50

Source: Preqin Pro

A manager's average quartile ranking is the average of all of the funds' quartile scores, with a minimum of three funds required in order to appear in the table. The average quartile rankings can vary from 1.00 for a fund manager with only top-quartile funds, to 4.00 for a fund manager with only bottom-quartile funds.

<sup>\*</sup>The most consistent top performing fund manager table is based on the average quartile ranking of a manager's funds. The entire pool of private debt funds is ranked within each vintage year according to its net IRR. The funds are given a score based on their quartile: 1 for top-quartile funds, 2 for second-quartile funds, and so on. This is the fund's 'quartile ranking.'

# 3 Real Estate



2,620

Number of active Europebased investors in real estate 1,641

Number of active Europebased real estate fund managers €25bn

Aggregate value of PERE deals in Europe in H1 2021, vs. **€45bn** in 2020

## Geographical Redistribution and ESG Are Key in Real Estate

Amundi, Europe's office real estate leader, has refuted some of the concerns raised about this segment amid the crisis. The development of office stock will revolve around new ways of working as well as ESG

#### What has this crisis revealed about the office?

Before the COVID crisis, the office segment was focused on resolving a contradiction between investors' quest for cash flow and long-term commitments and corporate demand for flexibility and agility. A number of solutions had already taken shape around new service offerings, increased use of technology, and a reorientation of the office toward collaborative and co-working environments.

The crisis has pushed this model even more to the fore, highlighting a demand for 'custom' workspaces that make it possible to conduct business from various locations. The precise form of this nomadic arrangement remains to be determined. Discussions among the various stakeholders are currently underway and the result will naturally differ from one company to another.

#### What do these changes mean for office real estate?

As is often the case, the crisis has accelerated changes already underway rather than brought them about *ex nihilo*. The adjustment cycle will be a long one, but we expect to see an increase in collaborative installations and services, as well as greater geographical polarization. Employees will come to the office less often but accept a longer commute. Demand for office space is therefore likely to be concentrated on modern buildings in major cities and inter-city centers that are close to both regional transport links and mainline hubs. These elements will need to be integrated into management, however; our investment strategy is already consistent with market trends, as it involves



Marc Bertrand

Amundi Immobilier

a preference for new and recent buildings in major urban centers.

## How do you address increasing expectations in terms of ESG?

As property managers, we seek to improve the trajectory of our current assets to combine progress with financial performance. We apply ESG criteria to our new acquisitions; our efforts must obviously focus on improving our current holdings.

We are developing methods for auditing holdings based on extra-financial criteria and establishing mechanisms for improvement. Our first priority is to eliminate waste, by educating all parties along the chain. Next, we intend to take advantage of maintenance and refurbishment cycles to upgrade our properties, anticipating the cost of this transformation. You might say the obsession of the last 10 years was technological transformation; that of the decade ahead will be ESG, specifically the energy transition and social inclusivity.

Marc Bertrand is CEO of Amundi Immobilier (Amundi Real Estate). Amundi is Europe's largest asset manager by AUM and ranks in the top 10 globally, managing more than €1.8tn of assets. Amundi Real Assets (ARA) brings together capabilities in real estate, private debt, private equity, and infrastructure. It has 220 specialists managing more than €60bn of AUM.

Disclaimer: This information constitutes a summary of prevailing economic conditions and, as a result of being simplified, is partial or incomplete. Please see the full disclaimer on page 71.

## Adding Value Will Be Key to Return Generation

## Wholesale repricing may not have happened during the pandemic, so managers are likely to get creative to drive returns

In Europe's major real estate markets, 2020 proved to be a relatively resilient year. While deal count and aggregate deal value declined compared with 2019¹, valuations in many sectors, including offices and industrial and logistics, held steady or increased². This solid performance has boosted AUM by 9.1% between the end of December 2019 and the end of December 2020 (from €162bn to €177bn, Fig. 3.1).

Solid fundraising also aided AUM growth. While the number of Europe-focused funds closed in 2020 was slightly lower than in 2019 (90 vs. 95), the amount of capital secured by these funds was not far behind ( $\[ \le \]$ 40bn vs.  $\[ \le \]$ 41bn, Fig. 3.2). So far in 2021, the fundraising market has been relatively weak, with 30 funds closing on a combined  $\[ \le \]$ 6.7bn in H1.

None of the 10 largest fund closures since January 2020 took place in 2021 (Fig. 3.8). And of the five largest, four are targeting value-added strategies. Managers including NREP, BentallGreenOak, Angelo Gordon and Co, and BlackRock raised a combined €6.2bn for value-added investments during 2020.

### Value-Added Strategies Look Favorable

In the 2021 Preqin Global Real Estate Report<sup>3</sup>, we explained how office refurbishment could overtake new developments in the priority stack. While office values have held up well over the past year or so, this is primarily concentrated at the prime end of the market. New, post-pandemic ways of working could mean that older or poorly located offices

in particular may face obsolescence sooner than previously expected. Many offices in Europe could need significant refurbishment to remain competitive and attract tenants.

Value-added real estate funds could be well placed to capitalize on this trend, as they're likely to focus on this type of repositioning strategy to deliver returns. In recent months, office refurbishment schemes have accelerated in number, and now outweigh new developments in London, according to the Deloitte London Crane Survey of Summer 2021. Investors surveyed by Preqin have said they're concerned about valuations, which could explain why, after committing to funds targeted at active asset management strategies in 2020, they're reluctant to chase additional investment.

Investors' reticence to allocate additional capital to real estate in 2021 also points toward a key difference between the post-GFC and -pandemic periods: a lack of repricing across all real estate sectors. Amid late-cycle valuations during 2019, aggregate deal value began to fall, even though deal numbers were almost unchanged compared with 2018. A lack of repricing during and after the pandemic may have been enough to focus investor attention on specific niches within the asset class to drive returns.

## Industrial and Office Take Center Stage

While offices remained the dominant real estate sector in Europe in 2020, as measured by aggregate

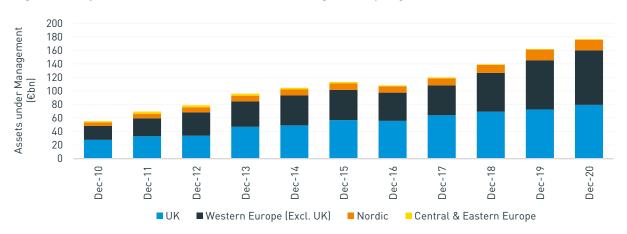
<sup>&</sup>lt;sup>1</sup> https://pro.preqin.com/analysis/deals/realEstate

 $<sup>^2\</sup> https://www.jll.co.uk/en/research/european-office-market-research-trends$ 

<sup>&</sup>lt;sup>3</sup> https://www.preqin.com/insights/global-reports/2021-preqin-global-real-estate-report

<sup>&</sup>lt;sup>4</sup> https://www2.deloitte.com/uk/en/pages/real-estate/articles/crane-survey.html/#

Fig. 3.1: Europe-Based Real Estate Assets under Management by Region, 2010 - 2020

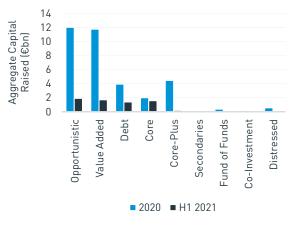


Source: Pregin Pro

Fig. 3.2: Europe-Focused Real Estate Fundraising, 2010 - H1 2021

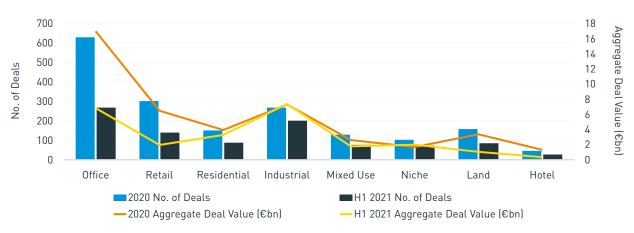


Fig. 3.3: Aggregate Capital Raised by Europe-Focused Real Estate Funds Closed by Strategy, 2020 vs. H1 2021



Source: Pregin Pro

Fig. 3.4: PERE Deals in Europe by Property Type, 2020 vs. H1 2021



Source: Preqin Pro

deal value, industrial private equity real estate (PERE) deals outpaced those within the retail sector. Industrial deals are generally lower in value than offices and shopping centers, for example, but it's certainly a 'hot' sector thanks to capital value growth and the e-commerce story.<sup>5</sup>

In fact, the aggregate value of industrial deals in Europe in H1 2021 outpaced all other sectors, including offices, and has already surpassed 2020 levels (Fig. 3.4). Build to Suit schemes have become a favored route to either a solid development profit for opportunistic funds, or an attractive yield on development cost for core funds. Portfolio deals are also increasingly of interest to investors who may be late in gaining exposure to the sector, and who want to build a meaningful position at speed.

Among real estate funds, opportunistic and value added hold the largest proportions of dry powder, at \$30bn and \$17bn respectively as of July 2020. These are generally the highest-risk real estate strategies, meaning managers are well placed to capitalize on future repricing.

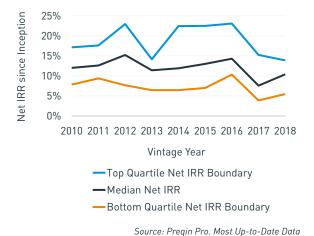
The largest Europe-focused fund closed during 2020 was an opportunistic fund. Blackstone Real

Estate Partners Europe VI raised €9bn from largely US-based public and private sector pension funds. <sup>6</sup> The fund has already executed a single €4.2bn deal, taking the Western Europe-focused (Canadalisted) Dream Global REIT private. The office- and industrial-focused REIT boasts more than 200 properties across a range of sectors, and illustrates the asset management undertaking managers are increasingly prepared to make to deliver returns to investors.

With many investment routes available, the outlook appears bright for European real estate, regardless of the fact there may not have been significant repricing during or after the pandemic. Returns are unlikely to be easy to deliver, however – managers are likely to get increasingly creative in their strategies to drive returns.

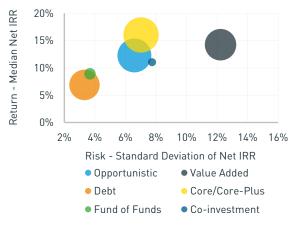
Managers may also begin to move up the risk curve as they become more confident in the outlook for European real estate. Retail and hotel assets could be back on the radar as we progress through 2021 and into 2022.

Fig. 3.5: Europe-Focused Real Estate: Median Net IRRs and Quartile Boundaries by Vintage Year



<sup>\*</sup>The size of each bubble represents AUM.

Fig. 3.6: Europe-Focused Real Estate: Risk/ Return by Fund Type (Vintages 2009-2018)\*



Source: Preqin Pro. Most Up-to-Date Data

 $<sup>^{5}\</sup> https://www.cbre.com/research-and-reports/EMEA-Industrial--Logistics-Capital-Markets-Snapshot-Q1-2021$ 

<sup>&</sup>lt;sup>6</sup> https://pro.preqin.com/funds/98395/investors

## League Tables

Fig. 3.7: Largest Europe-Based Fund Managers by Real Estate Assets under Management

Firm	Headquarters	AUM (€bn)	AUM Date
AXA IM Alts	Paris, France	102	30 September 2020
AEW	Paris, France	72.8	12 July 2021
DWS Group	Frankfurt am Main, Germany	67.4	31 March 2021
PATRIZIA	Augsburg, Germany	47.0	30 June 2021
Amundi Real Assets	Paris, France	40.5	30 June 2021
Syntrus Achmea Real Estate & Finance	Amsterdam, Netherlands	37.5	31 March 2021
Union Investment Real Estate	Hamburg, Germany	37.1	17 May 2021
Aviva Investors	London, UK	34.8	31 March 2021
CBRE Global Investment Partners	London, UK	33.5	31 March 2021
M&G Investments	London, UK	32.7	31 December 2020

Source: Preqin Pro

Fig. 3.8: Largest Europe-Focused Real Estate Funds Closed in 2020-H1 2021

Fund	Firm	Headquarters	Fund Size (mn)	Fund Type
Blackstone Partners Europe VI	Blackstone Group	New York	10,639 USD	Opportunistic
KKR Real Estate Partners Europe II	KKR	New York	1,863 EUR	Opportunistic
NREP Nordic Strategies Fund IV	NREP	Copenhagen	1,900 EUR	Value Added
GreenOak Europe Fund III	BentallGreenOak	New York	1,468 EUR	Value Added
AG Europe Realty Fund III	Angelo, Gordon & Co	New York	1,500 USD	Value Added
BlackRock Europe Property Fund V	BlackRock	New York	1,287 EUR	Value Added
Brookfield European Real Estate	Brookfield AUM	Toronto	1,140 EUR	Core-Plus
M&G Real Estate Debt Fund IV	M&G Investments	London	971 GBP	Debt
EQT Real Estate II	EQT	Stockholm	1,000 EUR	Opportunistic
Exeter Europe Industrial Core Fund	Exeter Property Group	Conshohocken	980 EUR	Core-Plus

Source: Pregin Pro

Fig. 3.9: Largest Europe-Focused Real Estate Funds in Market

		Target Size		Geographic
Fund	Firm	(mn)	Strategy	Focus
Generali Europe Income Holding	Generali Real Estate	4,000 EUR	Core	Europe
Brunswick Real Estate Capital III	Brunswick Real Estate	20,000 SEK	Debt	Europe
Kildare European Partners III	Kildare Partners	2,000 USD	Debt	UK
Generali Shopping Center Fund	Generali Real Estate	1,500 EUR	Core	Europe
GLP Europe Income Partners II	GLP	1,600 EUR	Core-Plus	Europe
AXA Logistics Europe Fund	AXA IM Alts	1,400 EUR	Core	Europe
Hines European Value Fund 2	Hines	1,250 EUR	Value Added	Europe
CIM EU Fund	Civitas IM Ltd	1,000 GBP	Core	Europe
Exeter Europe Logistics Value IV	Exeter Property Group	1,250 EUR	Value Added	Europe
Henley Secure Income Property Unit Trust	Henley IM	1,000 GBP	Core	UK

Source: Preqin Pro. Data as of July 2021

Fig. 3.10: Largest Europe-Based Investors in Real Estate by Type

Investor	Allocation to Real Estate (€bn)	Investor Type	Location
ABP	46.2	Public Pension Fund	Netherlands
Pensioenfonds Zorg en Welzijn	30.3	Public Pension Fund	Netherlands
Government Pension Fund Global	25.9	Sovereign Wealth Fund	Norway
Assicurazioni Generali	25.6	Insurance Company	Italy
Bayerische Versorgungskammer	24.8	Public Pension Fund	Germany
PKE Pensionskasse Energie	20.7	Private Sector Pension Fund	Switzerland
Pension Fund for Bituminous and Plastic Roofing Companies	15.5	Private Sector Pension Fund	Netherlands
Aviva Life and Pensions	15.4	Insurance Company	UK
AMF Pensionsförsäkring	14.8	Private Sector Pension Fund	Sweden
ACCESS	13.8	Public Pension Fund	UK

Source: Pregin Pro

Fig. 3.11: Top Performing Europe-Focused Real Estate Funds (Vintages 2009-2018)

Rank	Fund	Vintage	Fund Size (mn)	Туре	Net IRR (%)
1	M7 Real Estate Investment Partners III	2015	7 GBP	Value Added	103.2
2	M7 Real Estate Investment Partners II	2014	16 GBP	Value Added	70.2
3	NREP Retail 1	2009	12 EUR	Value Added	67.1
4	ANL Kiinteistöt I Ky (Catella)	2009	25 EUR	Core-Plus	64.8
5	Nordika I	2011	45 EUR	Value Added	62.0
6	M7 Real Estate Investment Partners I	2014	12 GBP	Value Added	61.6
7	M7 Real Estate Investment Partners VI	2016	15 GBP	Value Added	40.1
8	Castleforge Initial Platform	2010	37 GBP	Value Added	37.0
9	NREP Copenhagen Residential Fund 1	2014	22 EUR	Opportunistic	34.0
10	Sirius Fund II	2016	135 EUR	Value Added	33.5

Source: Preqin Pro

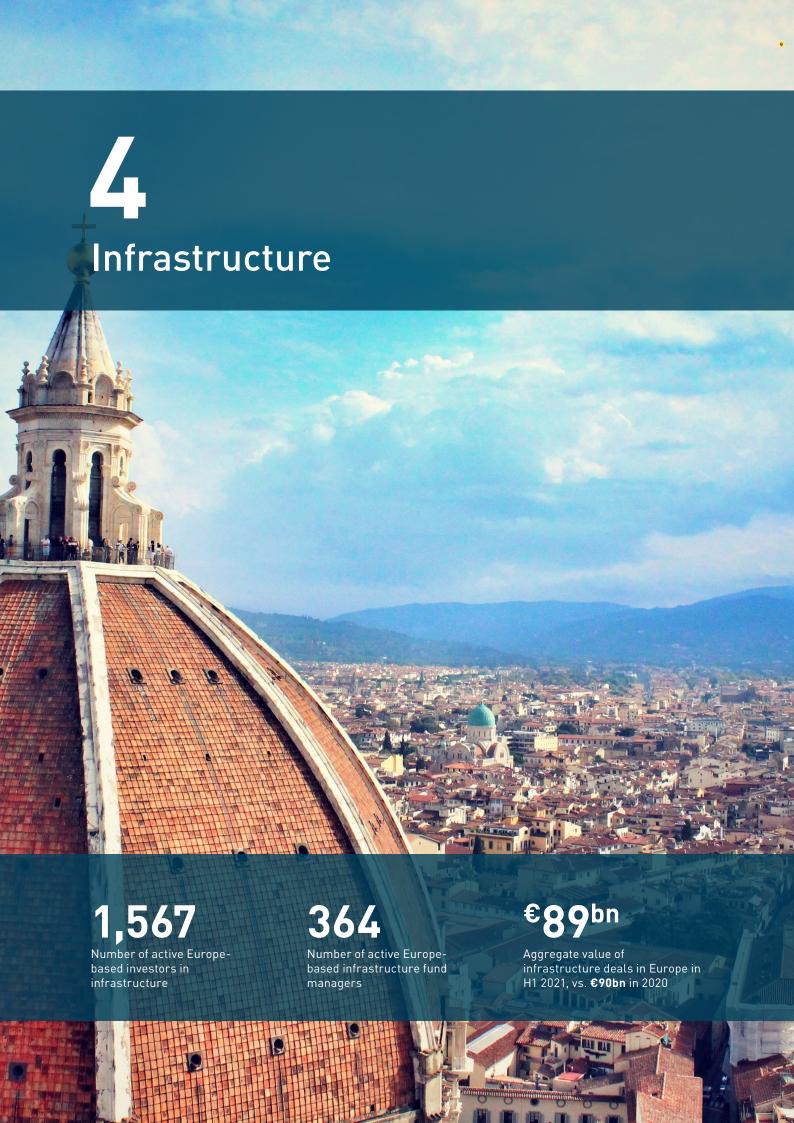
Fig. 3.12: Most Consistent Top Performing Europe-Focused Real Estate Fund Managers (All Vintages)\*

Firm	Headquarters	No. of Funds Ranked	No. of Funds in Top Quartile	Average Quartile Rank
Mengus	Sweden	3	3	1.00
Terra Firma Capital Partners	UK	3	3	1.00
NREP	Denmark	8	6	1.25
NRP Asset Management	Norway	7	5	1.29
Nordika	Sweden	3	2	1.33

Source: Pregin Pro

A manager's average quartile ranking is the average of all of the funds' quartile scores, with a minimum of three funds required in order to appear in the table. The average quartile rankings can vary from 1.00 for a fund manager with only top-quartile funds, to 4.00 for a fund manager with only bottom-quartile funds.

<sup>\*</sup>The most consistent top performing fund manager table is based on the average quartile ranking of a manager's funds. The entire pool of private real estate funds is ranked within each vintage year according to its net IRR. The funds are given a score based on their quartile: 1 for top-quartile funds, 2 for second-quartile funds, and so on. This is the fund's 'quartile ranking.'



Sponsored 4. Infrastructure

# Why Renewables and Hydrogen Are a Perfect Match

### The rapid growth and success of renewables is creating new challenges – green hydrogen may solve one of the biggest

After a strong year of growth, renewables outpaced fossil fuels in EU electricity generation for the first time ever last year, with wind and solar alone accounting for 20% of the electricity mix. As the levelized cost of electricity (LCOE) of renewables becomes more and more competitive, this positive trend is set to continue.

Additionally, climate protection is not only about decarbonizing the electricity sector. Green electricity is also the basis for reducing greenhouse gas (GHG) emissions in all other areas of the economy, which represent around 60% of CO<sub>2</sub> emissions in the EU.

Take e-mobility. There are currently four million electric vehicles (EVs) on Europe's roads; by 2030, it is anticipated there will be around 34 million. These EVs are only climate friendly if they are powered by green electricity. In the coming years, gigantic demand for renewable energies will emerge from e-mobility. And that is just one sector. Thus, the pace of expansion of renewable generation needs to accelerate further, otherwise the EU will not be able to meet its recently tightened climate target of reducing GHG emissions by 55% by 2030.

Dynamic growth usually comes with frictions, in this case so-called intermittency in the power sector. Sometimes renewables do not generate at all; sometimes they produce more electricity than can be dispatched. Imbalances between supply and demand are growing as the capacity of renewables increases. One of the consequences of imbalances is that the larger the number of wind farms and solar parks, the more frequently their simultaneous operation puts pressure on spot market prices.



**Michael Ebner**Managing Director & Head of Infrastructure

**KGAL** 

### The Transformational Properties of Hydrogen

Green hydrogen produced by electrolysis from renewable energy and water has the potential to mitigate these negative effects. Hydrogen can store large amounts of electricity over long periods of time, a benefit that battery-based storage is unable to provide. Electrolysis can be used to take advantage of periods of high supply/low demand and thus compensate for fluctuations in electricity generation from renewable energies.

The benefits go far beyond the power market, however. Green hydrogen can transform power into other energy vectors including heat, synthetic gas, or ammonia – completely emission free. Only this transformation – known as Power-to-X – enables the decarbonization of sectors such as steel, chemicals, agriculture, heavy transportation, and many more.

It's a win-win situation. Renewable energy generators can offset price volatility and capacity constraints and benefit from increasing demand, while green electricity will enable electrolysers to drive the GHG emission reduction across the economy in order to achieve global climate goals.

**Michael Ebner** is a founding member of **KGAL**'s Infrastructure department, which has been investing in renewable energy projects across Europe since 2003 and has a team of more than 50 professionals. KGAL holds renewable energy assets in 10 European countries with a value of more than €3.2bn on behalf of private and institutional clients.

# Abundant Dry Powder in Europe Will Drive Investment

### European infrastructure has found its stride, but the region's high share of global dry powder suggests the market will continue to heat up

Europe-based infrastructure AUM has grown remarkably over the past five years, reaching almost €250bn as of December 2020 – a CAGR of 22% since 2015 (Fig. 4.1). While the UK remains by far the largest single private capital infrastructure market in Europe, largely because of the country's pioneering approach to public-private partnership (PPP) models, the share of AUM under UK-based managers has been in long-term decline: from a high of 79% in 2006 in the asset class's early days, to 59% in 2012 and only 42% in December 2020.

AUM at managers based in Western Europe (excluding Nordics) overtook that of UK-based managers in 2020 for the first time ever. Nordicmanaged AUM is also expanding, making up 14% of European AUM, with the growth achieved by pursuing foreign deals.

### A Retreat to Core

Europe-focused unlisted infrastructure fundraising took a hit in 2020. Aggregate capital raised fell by 16% on 2019, although the number of fund closings increased slightly, from 48 to 52 (Fig. 4.2). This could be as much to do with current dry powder levels as COVID-19 disruptions – analysis reveals that Europefocused infrastructure dry powder makes up 41% of global dry powder, a higher share than the region's portion of global AUM (37% as of December 2020).

European managers still face regional competition for deals in infrastructure, although to a small extent. GPs in the UK and France hold 27% and 22% of Europe-focused dry powder as of May 2021, with those in the US and Australia sharing a mere 5% between them.

Fundraising in 2021 so far reveals a boost for core infrastructure, with a substantial 33% more capital raised for the strategy in the first six months of 2021 than in the whole of 2020. With its mature regulatory regimes and a diverse and active PPP secondary equity market offering stable, operationally contracted asset plays, Europe is an obvious home for deploying to core infrastructure.

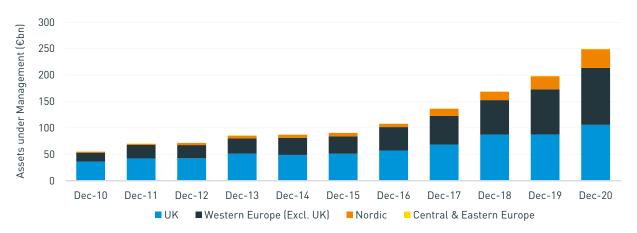
While the move to lower-risk strategies is understandable, given the write-downs some funds will have had to make on assets exposed to the effects of the pandemic, what are the implications for deployment of the dry powder that has built up? The evolution and maturity of the market means there are opportunities to deploy substantial capital in projects that are established, operational, and without construction or development risk. That said, hot sectors such as renewables have historically had smaller transaction sizes than infrastructure as a whole, and many projects are still at relatively early – and risky – stages.

### **Bigger Assets Turning Heads**

In April, Norway's sovereign wealth fund, NBIM, made its first investment in renewable energy. The fund will pay €1.4bn for a 50% stake in Ørsted's 752 MW Borssele 1 & 2 Offshore Wind Farm.¹ The deal could prove a template for other well-capitalized investors with a long-term horizon. On the one hand, this would make it harder for infrastructure fund

 $<sup>^{1}\</sup> https://pro.preqin.com/investor/3576/infrastructure \#Indirect\%20Deals\%20Breakdown$ 

Fig. 4.1: Europe-Based Infrastructure Assets under Management, 2010 - 2020



Source: Pregin Pro

Fig. 4.2: Europe-Focused Unlisted Infrastructure Fundraising, 2010 - H1 2021

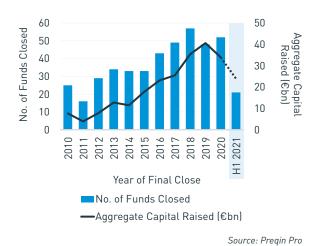
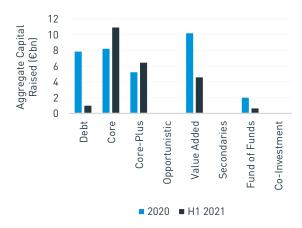


Fig. 4.3: Aggregate Capital Raised by Europe-Focused Unlisted Infrastructure Funds Closed by Strategy, 2020 vs. H1 2021



Source: Pregin Pro

Fig. 4.4: Infrastructure Deals in Europe by Industry, 2020 vs. H1 2021



Source: Preqin Pro

managers to acquire large, established assets, but on the other hand will provide another exit route for projects moving out of the development stage.

Looking at the deals data, renewables have dominated pipelines by number but are much smaller in value than other sectors (Fig. 4.4). The telecoms industry is in the spotlight, given the growth in homeworking during the pandemic, attracting 35% of the €91bn invested in infrastructure in 2020 and 29% in H1 2021. Its rise began pre-COVID, taking an average of 29% of periodic deal values since 2018.

Social deals have dropped off in tandem with the supply of primary opportunities in the space. Indeed, as a model to bring private capital into education and healthcare facilities, PPPs have fallen out of favor in some markets. Particularly so in the UK, where concerns about the long-term cost of private finance initiative (PFI) projects, and the burden on taxpayers when operators hit difficulties, culminated in the retraction of the policy in 2018. There have been particular issues in the railways, where franchises have been nationalized, resold, and bailed out repeatedly.

The outlook for transport deals remains uncertain. Roll the clock back to 2018 and the sector saw a spike in deal values, in part driven by the €17bn purchase of Madrid-based conglomerate Abertis², a global specialist toll road operator. Hochtief Concessions acquired a 79% stake in Abertis in May 2018, before completing a take-private deal for the operator in October 2018. COVID-19 exposed transport infrastructure to a drop in demand, a scenario few in the industry had contemplated; until post-COVID usage patterns on business and leisure travel become clearer, a cloud of uncertainty will continue to hang over the sector.

Given the increasing environmental focus in the infrastructure industry, waste management is a sector with improving prospects. Veolia's staged takeover of Suez³ – two French globally diversified water and waste facility operators in direct competition – is a notable example here. Having successfully acquired a 30% share for €3.4bn in October 2020, Veolia went on to acquire the rest of the business for €16bn in April 2021. This followed a failed €11bn bid from an Ardian/Global Infrastructure Partners partnership in January 2021.

The maturing energy-from-waste sector<sup>4</sup>, in which both Veolia and Suez are active beyond their domestic markets, is particularly exciting as governments set out ambitious carbon neutrality targets. The UK and Germany are already key markets for this technology, with interest growing across Europe.

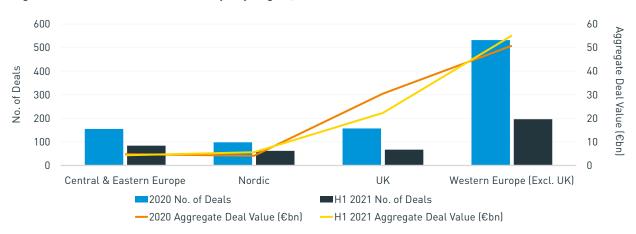


Fig. 4.5: Infrastructure Deals in Europe by Region, 2020 vs. H1 2021

Source: Pregin Pro

<sup>&</sup>lt;sup>2</sup> https://pro.pregin.com/asset/288016

<sup>&</sup>lt;sup>3</sup> https://pro.preqin.com/asset/389206

<sup>&</sup>lt;sup>4</sup> https://www.preqin.com/insights/research/blogs/energy-from-waste-old-problems-new-solutions

#### The Game Is Global

European infrastructure is attracting more investors over time. The number of active investors tracked on Preqin Pro with a preference for Europe has almost doubled since 2015, hitting 2,183 as of July 2021 (Fig. 4.6).

But, if we look closer at the targets of these investors, we can see an underlying move toward geographic agnosticism – investors are increasingly open to their capital being deployed across a range of regions. This is a sensible approach if you want to avoid heated markets and related yield compression, as well as maximize the opportunity set to get value from your active asset managers.

The share of both North American and Asian investors with a preference for Europe has crept up 3.1 and 2.7 percentage points since 2015, respectively, at the expense of Europe-based investors, which dropped 4.9 percentage points. While not dramatic moves, these results align with responses to Preqin's 2020 Investor Survey, where the proportion of investors with a preference for all specific regional markets had declined from the previous year – only global strategies were more attractive.<sup>5</sup>

#### **Pressure on Performance**

The pandemic had an impact on many types of infrastructure. Traffic volumes at airports, roads, and railways plummeted, while energy consumption dropped to the point where renewables were able to provide the majority of Europe's baseload electricity, if only temporarily.

The impact on short-term returns was swift and substantial, with the one-year horizon IRRs from infrastructure funds globally for the year to December 2020 slipping into negative territory, at -0.1%. However, unlisted infrastructure is a long-term asset class; horizon IRRs are 6.8% over the three years to December 2020, 10.0% over five years, and 9.2% over 10 years.

Opportunities abound for investors and fund managers in European infrastructure. The decarbonization agenda will drive projects, while the increasing maturity of assets is giving investors more flexibility to pick projects that match their return targets and risk tolerances. While the public sector has access to plentiful and cheap capital, COVID-related expenditure increases have worsened governments' financial positions right across the continent. This may lead to a resurgence in using private models for a range of public investments.

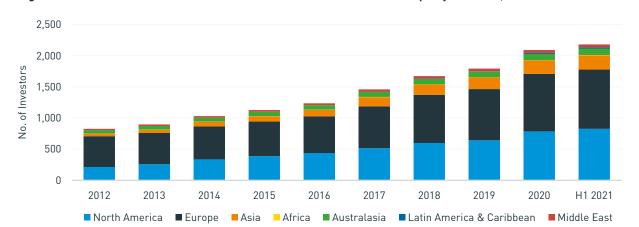


Fig. 4.6: Number of Infrastructure Investors with a Preference for Europe by Location, 2012 - H1 2021

Source: Pregin Pro

<sup>&</sup>lt;sup>5</sup> Preqin Investor Outlook: Alternative Assets, H1 2021

# League Tables

Fig. 4.7: Largest Europe-Based Fund Managers by Infrastructure Assets under Management

Firm	Headquarters		AUM Date
M&G Investments	London, UK	39.5	31 December 2020
Allianz Global Investors	Frankfurt, Germany	38.4	20 April 2021
EQT*	Stockholm, Sweden	25.8	30 June 2021
DWS Group	Frankfurt am Main, Germany	22.6	31 March 2021
Antin Infrastructure Partners	Paris, France	16.0	4 May 2021
Ardian	Paris, France	14.2	25 June 2021
Partners Group	Zug, Switzerland	13.4	30 June 2021
Copenhagen Infrastructure Partners	Copenhagen, Denmark	13.0	30 July 2021
Aviva Investors	London, UK	13.0	31 March 2021
DIF Capital Partners	Schiphol, Netherlands	9.0	10 August 2021

Source: Preqin Pro

Fig. 4.8: Largest Europe-Focused Infrastructure Funds Closed in 2020 - H1 2021

Fund	Firm	Headquarters	Fund Size (mn)	Strategy
Copenhagen Infrastructure Partners	Copenhagen IP	Denmark	7,000 EUR	Core
Antin Infrastructure Partners IV	Antin IP	France	6,500 EUR	Value Added
DIF Infrastructure VI	DIF Capital Partners	Netherlands	3,030 EUR	Core
Pan-European Infrastructure III	DWS Group	Germany	3,025 EUR	Core-Plus
Core Infrastructure Fund III	Vauban IP	France	2,500 EUR	Core
Basalt Infrastructure Partners III	Basalt IP	UK	2,750 USD	Core-Plus
Antin Infrastructure Mid Cap I	Antin IP	France	2,200 EUR	Value Added
Blue Ocean Fund	EnTrust Global	US	2,100 USD	Debt
iCON Infrastructure Partners V	iCON Infrastructure	UK	1,901 USD	Core
Macquarie GIG Global Renewables II	Green Investment Group	UK	1,940 USD	Value Added

Source: Pregin Pro

Fig. 4.9: Largest Europe-Focused Infrastructure Funds in Market

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
EQT Infrastructure V	EQT	12,500 EUR	Value Added	Europe, North America
Direct Infrastructure 2020	Partners Group	5,000 USD	Core-Plus	Global
European Diversified III	First Sentier Investors	3,500 EUR	Core	Europe
CI Energy Transition Fund I	Copenhagen IP	2,250 EUR	Core	Europe, Asia, OECD
Circuitus Real Assets I	Circuitus Capital	2,000 EUR	Opportunistic	South America, Europe
Greencoat Solar II	Greencoat Capital	1,500 GBP	Value Added	Europe
Global Infrastructure Opportunities	Swiss Life FM (LUX)	1,600 EUR	Core	North America, Europe
Cube Infrastructure Fund III	Cube Infrastructure	1,500 EUR	Core	Europe
European Infrastructure Income 4	InfraRed Capital	1,500 EUR	Core	Europe
Meridiam Infrastructure Europe IV	Meridiam	1,500 EUR	Core-Plus	Europe

Source: Preqin Pro. Data as of July 2021

<sup>\*</sup>Infrastructure AUM has been calculated based on the deduction of Real Estate AUM from stated Real Assets AUM present in the EQT 2021 Half-Year Report: https://cdn.sanity.io/files/30p7so6x/eqt-web-prod/f5ce19d8995c2475f137ed224fdb9c2be92ce557.pdf

Fig. 4.10: Largest Europe-Based Investors in Infrastructure by Type

Investor	Allocation to Infrastructure (€bn)	Investor Type	Location
National Wealth Fund	29.3	Sovereign Wealth Fund	Russia
Turkey Wealth Fund	26.9	Sovereign Wealth Fund	Turkey
ABP	16.9	Public Pension Fund	Netherlands
Pensioenfonds Zorg en Welzijn	10.3	Public Pension Fund	Netherlands
Universities Superannuation Scheme	6.2	Private Sector Pension Fund	UK
ATP	6.0	Public Pension Fund	Denmark
Aviva Life and Pensions	5.7	Insurance Company	UK
Bayerische Versorgungskammer	3.9	Public Pension Fund	Germany
PensionDanmark	3.5	Public Pension Fund	Denmark
BNP Paribas Cardif	3.1	Insurance Company	France

Source: Pregin Pro

Fig. 4.11: Top Performing Europe-Focused Unlisted Infrastructure Funds (Vintages 2009-2018)

Rank	Fund	Vintage	Fund Size (mn)	Strategy	Net IRR (%)
1	Aravis Energy I	2009	47 EUR	Core-Plus	48.0
2	European Opportunities (BTG Pactual)	2012	68 EUR	Opportunistic	41.4
3	iCON Infrastructure Partners	2010	231 EUR	Core	35.0
4	Kobus Renewable Energy II	2018	65 EUR	Core-Plus	22.7
5	Asterion Industrial Infra Fund I	2018	1,100 EUR	Core-Plus	22.7
6	InfraVia III	2015	1,000 EUR	Core-Plus	19.2
7	EQT Infrastructure III	2016	4,000 EUR	Value Added	19.0
8	EQT Infrastructure II	2013	1,925 EUR	Value Added	17.6
9	InfraVia II	2013	530 EUR	Core-Plus	15.8
10	Ancala UK Infrastructure I	2016	50 GBP	Core	15.1

Source: Pregin Pro

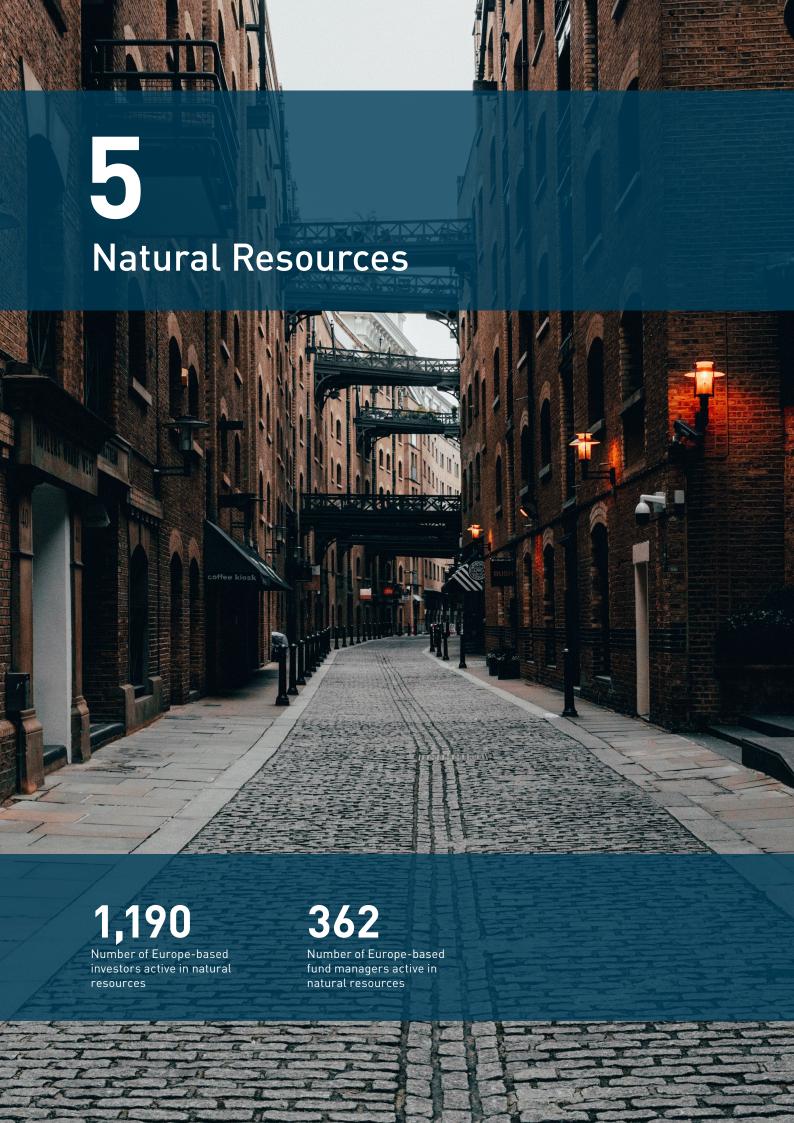
Fig. 4.12: Most Consistent Top Performing Europe-Focused Infrastructure Fund Managers (All Vintages)\*

Firm	Headquarters	No. of Funds Ranked	No. of Funds in Top Quartile	Average Quartile Rank
Antin Infrastructure Partners	France	3	3	1.00
Ancala Partners	UK	3	2	1.33
Macquarie Infrastructure and Real Assets	UK	3	2	1.33
iCON Infrastructure	UK	4	3	1.50
InfraVia Capital Partners	France	4	2	1.50

Source: Pregin Pro

A manager's average quartile ranking is the average of all of the funds' quartile scores, with a minimum of three funds required in order to appear in the table. The average quartile rankings can vary from 1.00 for a fund manager with only top-quartile funds, to 4.00 for a fund manager with only bottom-quartile funds.

<sup>\*</sup>The most consistent top performing fund manager table is based on the average quartile ranking of a manager's funds. The entire pool of private infrastructure funds is ranked within each vintage year according to its net IRR. The funds are given a score based on their quartile: 1 for top-quartile funds, 2 for second-quartile funds, and so on. This is the fund's 'quartile ranking.'



# Capital Concentration Deepens as UK Loses Hold

### COVID-19 hampered 2020 activity in European natural resources, but H1 2021 recorded a wealth of large fund closings in energy strategies

As Europe reeled from the economic effects of the pandemic, fundraising for unlisted natural resources slowed significantly last year. Back in 2019, a bumper year for capital raised, the number of funds closed fell by seven to 45 (Fig. 5.2) – an early indication that a slowdown, at least in natural resources, was manifesting. That said, aggregate capital raised in the first half of 2021 is almost level with that of the prior 12 months, even though far fewer funds closed. Aggregate capital raised in H1 2021 is 7% behind 2020's annual figure, sitting at just under €22bn.

Indeed, capital concentration is deepening in private capital markets the world over. The average size of Europe-focused natural resources funds closed so far this year tops €1.1bn, up from €685mn in 2020. Large funds focusing their investment in Europe are seeing increased appetite as investors select tried-and-tested managers. A case in point, Copenhagen Infrastructure Partners IV¹ is the largest Europe-focused fundraise this year, securing €7bn after just 12 months of fundraising, which is below the average of 22 months in market for funds closed thus far in 2021. The fund will invest in greenfield projects in renewable energy.

### The UK Loosens its Grip

If we compare the relative proportion of natural resources AUM for each sub-region over the past decade (Fig. 5.1), we can see that the UK's has

progressively lost its foothold in Europe. The UK held 63% of total assets as of December 2010, but this has since slipped to 40% as of December 2020. Western Europe (43%) and to some extent the Nordic region (16%) are making up ground, illustrating the globalization of natural resources in the past decade.

Some of the shift could be attributed to the UK's departure from the EU, which has already caused firms such as Deutsche Bank² to relocate staff or move headquarters. However, others would argue Brexit is an opportunity to strengthen London's position as the financial capital of the world, given it still holds many advantages: the predominance of the English language globally, the convenient time zone, and accommodative financial regulation.

There is still interest in UK investment. Since the government decided to lift the block on financial support for onshore wind projects at the start of 2020, the UK has climbed the rankings in EY's Renewable Energy Country Attractiveness Index<sup>3</sup> to fourth place, ahead of France (fifth), Germany (seventh), and the Netherlands (ninth).

This focus has helped double the UK's AUM from 2015 to 2020, and points to a still bright landscape for natural resources investment. Greencoat Capital is raising two of the largest UK-focused funds on the road: Greencoat Solar II<sup>4</sup> and Greencoat Renewable

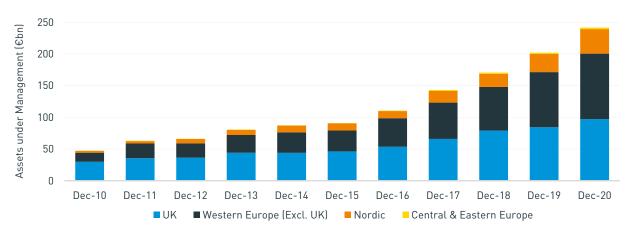
<sup>&</sup>lt;sup>1</sup> https://pro.preqin.com/funds/114186

<sup>&</sup>lt;sup>2</sup> https://www.ft.com/content/891b2482-e15e-4c2f-8e51-9a4271599dc0

<sup>&</sup>lt;sup>3</sup> https://www.ey.com/en\_gl/recai

<sup>&</sup>lt;sup>4</sup> https://pro.preqin.com/funds/75565

Fig. 5.1: Europe-Based Natural Resources Assets under Management, 2010 - 2020

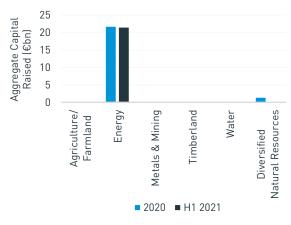


Source: Pregin Pro

Fig. 5.2: Europe-Focused Unlisted Natural Resources Fundraising, 2010 - H1 2021

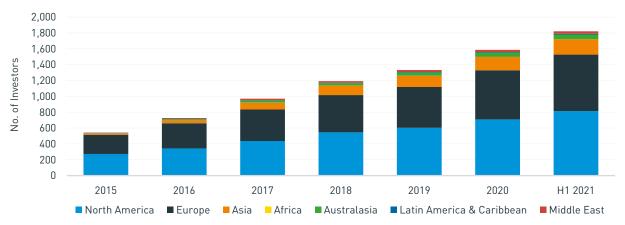


Fig. 5.3: Aggregate Capital Raised by Europe-Focused Unlisted Natural Resources Funds Closed by Strategy, 2020 vs. H1 2021



Source: Preqin Pro Source: Preqin Pro

Fig. 5.4: Number of Natural Resources Investors with a Preference for Europe by Location, 2015 - H1 2021



Source: Pregin Pro

Income Fund<sup>5</sup>. Both vehicles focus on the renewable energy sector and underscore the attractiveness of the UK market, particularly in renewables.

Looking at absolute AUM for European natural resources as a whole (Fig. 5.1), we can see a clear deceleration in growth rates over time. Since 2010, AUM has grown at an average annual rate of 21%, but figures as of December 2020 are under trend at 20%, with growth rates slowing in recent years.

Lower levels of aggregate capital raised (Fig. 5.2) will have had an impact on the dry powder available in the asset class. If dry powder falls, fund managers will have less firepower to snap up attractive assets, particularly smaller funds which have suffered in the face of capital concentration.

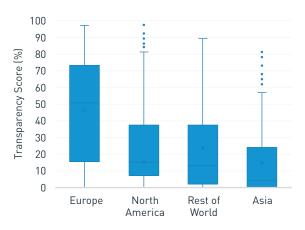
### **Europe Goes Green**

Energy, specifically renewable energy, is the principal strategy being considered by Europe-focused funds, which is unsurprising given its prominence in natural resources investment globally. Historically, North America has dominated the energy space in terms of fundraising, but more recently we have observed a noticeable shift over to Europe.

In Preqin's Q1 2021 Natural Resources Update<sup>6</sup>, we noted that Europe was the main hub of investment activity, comfortably raising more capital (\$9.6bn) through more funds (9) than any other region. In Preqin's latest Q2 report, the data shows that, despite raising fewer funds, Europe attracted an impressive €14bn in aggregate capital in Q2 2021 – almost double North America's figure.

Funds in market are pursuing some, although limited, investments in other niches strategies, which include farmland/agriculture (7 funds) and timberland (5). One such vehicle is ECBF's €250mn European Circular Bioeconomy Fund.<sup>7</sup> The late-stage venture capital fund invests in enabling technologies,

Fig. 5.5: Natural Resources Fund Managers: ESG Transparency Score by Region



Source: Preain Pro

circular business models, and sustainable, bio-based products across Europe, with opportunities for co-investment.

ECBF's fund underscores Europe's leading example in ESG and transparency (Fig. 5.5), and the innovative green investment opportunities available in Europe outside of energy.

ESG has long been a key part of the European infrastructure market; as such, there are regional and country-specific regulations that require specific disclosures and additional reporting requirements that don't exist in other regions, such as the Non-Financial Reporting Directive (NFRD) and Sustainable Finance Disclosure Regulation (SFDR). Attitudes of long-term stewardship toward legislating sustainability, improving transparency, and building trust in the sustainable finance market have been key in Europe's success with ESG to date.

<sup>&</sup>lt;sup>5</sup> https://pro.preqin.com/funds/100443

 $<sup>^6\</sup> https://www.preqin.com/insights/research/quarterly-updates/preqin-quarterly-update-natural-resources-q1-2021$ 

<sup>&</sup>lt;sup>7</sup> https://pro.preqin.com/funds/118441

# **League Tables**

Fig. 5.6: Largest Europe-Focused Unlisted Natural Resources Funds Closed in 2020-H1 2021

Fund	Firm	Headquarters	Fund Size (mn)	Strategy
Copenhagen Infrastructure Partners IV	Copenhagen Infrastructure Partners	Denmark	7,000 EUR	Energy
Antin Infrastructure Partners IV	Antin Infrastructure Partners	France	6,500 EUR	Energy
DIF Infrastructure VI	DIF Capital Partners	Netherlands	3,030 EUR	Energy
Pan-European Infrastructure Fund III	DWS Group	Germany	3,025 EUR	Energy
Basalt Infrastructure Partners III	Basalt Infrastructure Partners	UK	2,750 USD	Energy
iCON Infrastructure Partners V	iCON Infrastructure	UK	1,901 USD	Energy
Macquarie GIG Global Renewables Fund II	Green Investment Group	UK	1,940 USD	Energy
Infranode II	INFRANODE	Sweden	1,200 EUR	Energy
Asterion Industrial Infra Fund I	Asterion Industrial Partners	Spain	1,100 EUR	Energy
T2 Energy Transition Fund	Tikehau Capital	France	1,087 EUR	Energy

Source: Pregin Pro

Fig. 5.7: Largest Europe-Focused Unlisted Natural Resources Funds in Market

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
Partners Group Direct Infrastructure 2020	Partners Group	5,000 USD	Energy	Asia, Europe, Global, North America
European Diversified Infrastructure Fund III	First Sentier Investors	3,500 EUR	Energy	Europe
Carlyle International Energy Partners II	Carlyle Group	4,000 USD	Energy	Africa, Asia, Central America, Europe, South America
CI Energy Transition Fund I	Copenhagen Infrastructure Partners	2,250 EUR	Energy	Australia, Europe, North America, Asia, OECD
Circuitus Real Assets I	Circuitus Capital	2,000 EUR	Energy	South America, Europe
Greencoat Solar II	Greencoat Capital	1,500 GBP	Energy	Europe
Cube Infrastructure Fund III	Cube Infrastructure Managers	1,500 EUR	Energy	Europe
Meridiam Infrastructure Europe IV	Meridiam	1,500 EUR	Energy	Europe
Infracapital Greenfield Infrastructure Fund II	Infracapital	1,250 GBP	Energy	Europe
Asterion Industrial Infra Fund II	Asterion Industrial Partners	1,350 EUR	Energy	Europe

Source: Preqin Pro. Data as of July 2021

Fig. 5.8: Largest Europe-Based Investors in Natural Resources by Type

Investor	Allocation to Natural Resources (€bn)	Investor Type	Location
ABP	27.3	Public Pension Fund	Netherlands
Folksam	2.5	Insurance Company	Sweden
AP-Fonden 2	1.4	Public Pension Fund	Sweden
PME	1.4	Private Sector Pension Fund	Netherlands
VidaCaixa	1.4	Insurance Company	Spain
Sampension	1.3	Public Pension Fund	Denmark
Gothaer Insurance Group	1.1	Insurance Company	Germany
Roche Retirement Plans	1.0	Private Sector Pension Fund	Switzerland
AXA Winterthur	0.9	Insurance Company	Switzerland
compenswiss (AHV/IV/E0 Equalisation Funds)	0.9	Public Pension Fund	Switzerland

Source: Preqin Pro

Fig. 5.9: Top Performing Europe-Focused Unlisted Natural Resources Funds (Vintages 2009-2018)

Rank	Fund	Vintage	Fund Size (mn)	Strategy	Net IRR (%)
1	Aravis Energy I	2009	47 EUR	Energy	448.0
2	Kobus Renewable Energy I	2016	6 EUR	Energy	63.1
3	Mantra Secondary Opportunities II	2018	120 EUR	Metals & Mining	45.4
4	Ibaera Capital Fund I	2017	44 USD	Metals & Mining	37.5
5	iCON Infrastructure Partners	2010	231 EUR	Energy	35.0
6	Ambienta II	2014	324 EUR	Diversified Natural Resources	23.3
7	Kobus Renewable Energy II	2018	65 EUR	Energy	22.7
8	Asterion Industrial Infra Fund I	2018	1,100 EUR	Energy	22.7
9	GEC I/II	2010	123 USD	Energy	19.3
10	InfraVia III	2015	1,000 EUR	Energy	19.2

Source: Pregin Pro

Fig. 5.10: Most Consistent Top Performing Europe-Focused Natural Resources Fund Managers (All Vintages)\*

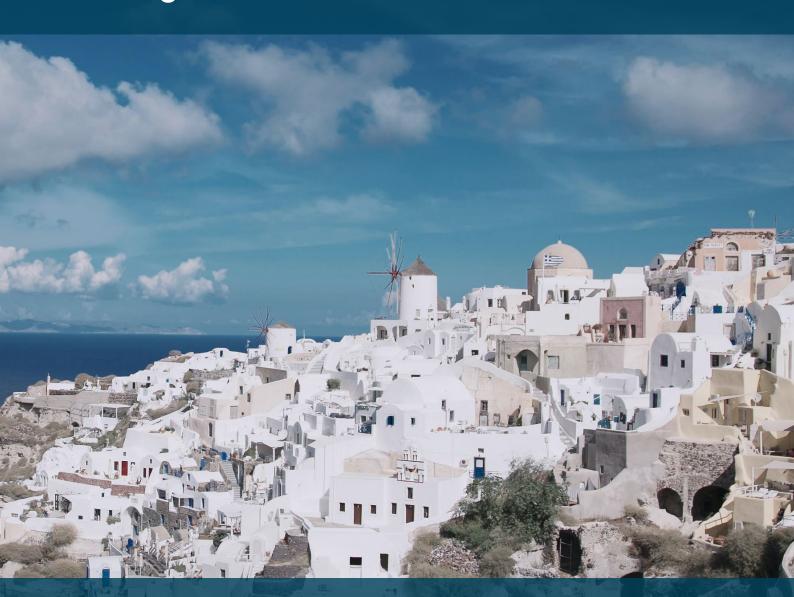
Firm	Headquarters	No. of Funds Ranked	No. of Funds in Top Quartile	Average Quartile Rank
Antin Infrastructure Partners	France	3	3	1.00
Ancala Partners	UK	3	2	1.33
Macquarie Infrastructure and Real Assets (MIRA)	UK	3	2	1.33
iCON Infrastructure	UK	4	3	1.50
InfraVia Capital Partners	France	4	2	1.50

Source: Pregin Pro

A manager's average quartile ranking is the average of all of the funds' quartile scores, with a minimum of three funds required in order to appear in the table. The average quartile rankings can vary from 1.00 for a fund manager with only top-quartile funds, to 4.00 for a fund manager with only bottom-quartile funds.

<sup>\*</sup>The most consistent top performing fund manager table is based on the average quartile ranking of a manager's funds. The entire pool of private natural resources funds is ranked within each vintage year according to its net IRR. The funds are given a score based on their quartile: 1 for top-quartile funds, 2 for second-quartile funds, and so on. This is the fund's 'quartile ranking.'

# 6 Hedge Funds



1,294

Number of active Europebased hedge fund managers 1,367

Number of active Europebased hedge fund investors +7.04%

Net return of Europe-based hedge funds in 2020, vs. +6.80% in H1 2021 Sponsored 6. Hedge Funds

# Hedge Funds Are Dead! Long Live Hedge Funds!

Steadily rising equity markets have not benefited hedge funds, but the shocks of COVID and the prospect of increased volatility could attract more interest

From 2016 to Q2 2020, nearly \$260bn was withdrawn from global hedge funds. This may have been a reaction to the underperformance of hedge funds relative to the S&P 500 from 2010 to 2019, even though equities are not an appropriate benchmark for hedge fund performance. Hedge funds also performed similarly to investment-grade bonds, which were aided by a decline in interest rates that would be nearly impossible to repeat from these levels.

Investors may believe that the post-GFC equity bull market may continue, as long as global monetary and fiscal policy stimulus remains strong, and that hedge funds are not an exciting part of their portfolios.

Over the 17 months to May 2021, hedge fund returns rebounded and outflows turned into inflows. Examining VIX (the level of equity market volatility) is interesting, as hedge fund returns have been strong relative to equities during periods of high market volatility. During both the 2008-2009 and 2020-2021 periods, which were marked by substantial drawdowns in global equities followed by strong recoveries, hedge fund returns were strong relative to equities, but experienced substantial volatility, in excess of 12% relative to less than 5% during the intervening decade.

During that less volatile decade for stocks and hedge funds, there may have been less profit opportunity for hedge funds, due to both lower market volatility and the lower dispersion of returns across stocks. Notice also that factor returns were near zero from 2010 to 2019, giving hedge funds little spread to work with between growth and value stocks, as well as small and large stocks.



Keith Black, PhD, CFA, CAIA, FDP
Managing Director,

Content Strategy

**CAIA** Association

Over the past 17 months, growth stocks and small caps have had strong returns, rewarding hedge funds that invest using quantitative strategies or factor tilts. Of concern, however, is that as the hedge fund industry hits record levels of AUM, the correlation between hedge fund returns (ex-equity hedge funds) and the S&P 500 has risen from 0.54 in 2008-2009 to 0.77 in 2020-2021, both time periods including market crises.

Perhaps once market participants realize that stocks don't always go up, and that a market with dispersion in stock returns is constructive for hedge fund performance, the outflows will reverse, and investors will be more comfortable with their hedge fund allocations. While CTAs and managed futures were out of favor in both returns and asset flows over the past decade, investors should note their relatively strong performance during the two crisis periods. If and when traditional stock and bond markets reverse their strong performance and volatility returns to the market, investors may be glad to have some hedging strategies in their portfolios.

**Keith Black** has over 30 years of financial market experience, serving as an academic, trader, and consultant to institutional investors. He is Managing Director, Content Strategy, at **CAIA Association**, a global professional credentialing body dedicated to creating greater alignment, transparency, and knowledge for all investors, with a specific emphasis on alternative investments.

# European Funds to Benefit from Patchwork Recoveries

### As European economies begin to emerge from the COVID fallout, hedge funds could capitalize on significant market dislocations

In a challenging year for markets globally, European hedge funds finished the year positive in 2020. Europe-focused hedge funds were up 7.04% in 2020, and this momentum has continued into 2021. Hedge funds in Western Europe (excluding the UK) returned +9.25% during the first half of this year, while those in the UK, Nordics, and Central & Eastern Europe went up 7.74%, 5.00%, and 5.22% respectively.

As with other regions, hedge fund AUM declined in the first quarter of 2020, but the industry recovered during the remainder of the year (Fig. 6.1). Europebased hedge funds experienced positive inflows in the second half of 2020 (€32.2bn, Fig. 6.4); by comparison, North American hedge funds recorded significant outflows (€44.8bn).

The inflow trend ground to a halt in Q1 2021 amid net negative outflows for European funds (€4.2bn). This is partially attributed to the outperformance of hedge funds in North America, and the slow economic recovery in Europe in Q1 2021. Europe rebounded in Q2 and European funds experienced positive inflows (€5.3bn). Total AUM stands at €581bn as of June 2021, an increase of 2% since December 2020.

#### **Specialist Strategies Drive Growth**

Preqin Pro currently tracks 1,367 active hedge fund managers in Europe, and 1,294 active investors. Competition for market share has certainly increased in the region. Pre-2018, the number of European hedge fund launches always exceeded liquidations, but that trend reversed in 2019 to become net negative (Fig. 6.2). The following year, COVID-19 created additional challenges for hedge funds and the number of liquidations exceeded launches (7) once again. But the slow economic recovery led to a lack of immediate attractive opportunities, meaning

the negative trend returned in H1 2021, with 66 launches and 77 liquidations.

Launches by top-level strategy reveal where managers see potential for growth. Equity strategies accounted for 36% of launches in H1 2021 (Fig. 6.3); their share of the total has increased over the past three years, as has niche strategies' share. Recent positive moves have ignited interest in cryptocurrencies: niche funds grew to 13% of launches in H1 2021, up from 6% in 2020 and 2019.

Negative interest rates in Europe have boosted appetite for active credit products. The liquidity crunch in Q1 2020 resulted in major dislocations in the credit market, which in turn spurred an increase in credit hedge fund launches (22% of total) in 2020 to capitalize on the demand. The trend has reversed so far in 2021: the abundance of liquidity pumped into the markets by central banks has made it difficult for credit managers to actively manage capital.

### A Promising Future for European Funds

Looking at the past three years, Europe-focused hedge funds (+5.61%) have underperformed the EUROSTOXX 50 (+6.18%, Fig. 6.5). It's important to note that hedge fund returns had a much lower standard deviation (8.04%), reflecting their ability to control risk. EUROSTOXX 50 and FTSE 100 had 20.22% and 15.81% standard deviation, respectively; the two indices also finished 2020 negative.

Despite the impressive performance, European hedge funds underperformed relative to North American funds. Past performance isn't indicative of future results, however. As Europe emerges from its prolonged recession, hedge funds are best positioned to benefit from massive dislocations in the market.

Fig. 6.1: Europe-Based Hedge Fund Assets under Management, Q1 2015 - Q2 2021



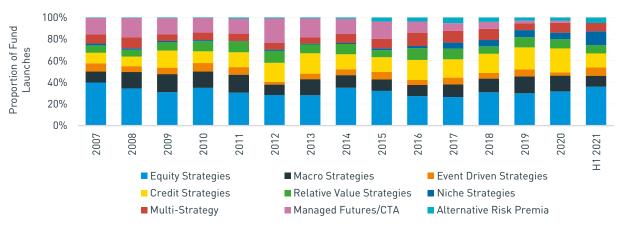
Source: Preqin Pro

Fig. 6.2: Europe-Based Hedge Fund Launches and Liquidations, 2010 - H1 2021



Source: Preqin Pro

Fig. 6.3: Europe-Based Hedge Fund Launches by Top-Level Strategy, 2007 - H1 2021



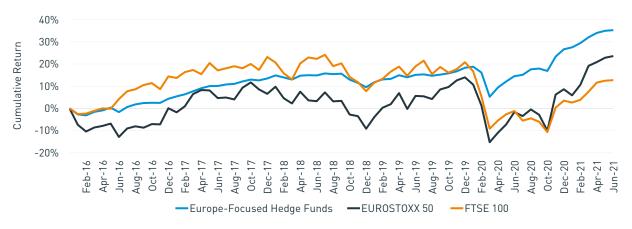
Source: Preqin Pro

Fig. 6.4: Quarterly Europe-Based Hedge Fund Asset Flows, Q1 2015 - Q2 2021



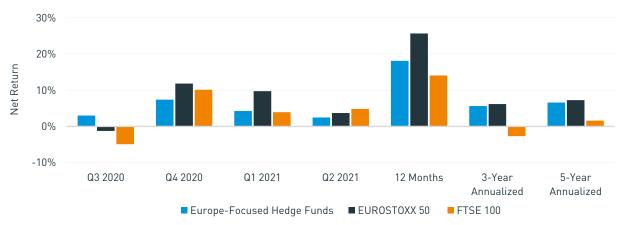
Source: Pregin Pro

Fig. 6.5: Cumulative Performance of Europe-Based Hedge Funds vs. EUROSTOXX 50 and FTSE 100, 2010 - 2021



Source: Preqin Pro

Fig. 6.6: Performance of Europe-Based Hedge Funds vs. EUROSTOXX 50 and FTSE 100



Source: Pregin Pro

# League Tables

Fig. 6.7: Largest Europe-Based Hedge Funds by Assets under Management

Fund	Firm	Headquarters	Core Strategy	AUM (€bn)
The Children's Investment Master Fund	The Children's Investment Fund Management	UK	Alternative Long Only	29.2
Marshall Wace Investment Strategies - Eureka Fund	Marshall Wace	UK	Long/Short Equity	17.8
Cevian Capital II Master Fund	Cevian Capital	Sweden	Event Driven	12.0
Pictet Multi Asset Global Opportunities	Pictet Asset Management	Switzerland	Multi-Strategy	8.1
Polar Capital Funds - Global Technology Fund	Polar Capital Partners	UK	Alternative Long Only	7.9
Vontobel Fund - TwentyFour Strategic Income Fund	TwentyFour Asset Management	UK	Fixed Income	5.9
Schroder ISF Asian Total Return Fund	Schroders	UK	Long/Short Equity	5.4
Stratus Master	Capital Fund Management	France	Managed Futures/CTA	5.3
Aviva Investors OEIC - Multi- Strategy Target Return Fund	Aviva Investors	UK	Multi-Strategy	4.6
Pharo Gaia Fund	Pharo Management	UK	Macro	4.5

Source: Preqin Pro. Data as of December 2020

Fig. 6.8: Largest Europe-Based Funds of Hedge Funds by Assets under Management

Fund	Firm	Headquarters	Core Strategy	AUM (€bn)
Mosaic	Pictet Alternative Advisors	Switzerland	Multi-Strategy	1.9
HSBC GH Fund	HSBC Alternative Investments	UK	Multi-Strategy	1.7
ACL Alternative Fund SAC	Abbey Capital	Ireland	Fund of CTAs	1.3
Haussmann	Notz Stucki Group	Luxembourg	Multi-Strategy	1.2
Abbey Capital Futures Strategy Fund	Abbey Capital	Ireland	Fund of CTAs	1.0
Aurum Isis Fund	Aurum Fund Management Ltd	UK	Multi-Strategy	0.9
Prima Capital Fund	Fundana	Switzerland	Equity Strategies	0.8
PCAM Blue Chip	Prime AIFM Lux S.A.	Luxembourg	Multi-Strategy	0.6
Prima Hedge Platinum Growth	Investcorp-Tages	UK	Equity Strategies	0.5
Global Managers Selection Fund	Global Selection	Italy	Equity Strategies	0.4

Source: Preqin Pro. Data as of December 2020

Fig. 6.9: Largest Europe-Based Hedge Fund Managers by Assets under Management

Firm	Headquarters	AUM (€bn)	AUM Date
Man Group	UK	78.9	30 June 2021
Marshall Wace	UK	45.8	1 April 2021
The Children's Investment Fund Management	UK	39.7	31 December 2020
RWC Partners	UK	20.7	30 April 2021
AKO Capital	UK	20.9	30 June 2021
H20 Asset Management	UK	18.4	31 December 2020
Rokos Capital Management	UK	13.3	28 February 2021
Brummer & Partners	Sweden	12.5	30 June 2021
Pictet Asset Management	Switzerland	12.0	30 June 2021
TT International	UK	11.3	30 June 2021

Source: Pregin Pro

Fig. 6.10: Largest Europe-Based Funds of Hedge Funds Managers by Assets under Management

Firm	Headquarters	AUM (€bn)	AUM Date
UBP Alternative Investments	Switzerland	12.8	31 March 2021
Aberdeen Standard Investments	UK	11.7	30 June 2020
Man FRM	UK	11.5	30 June 2021
Pictet Alternative Advisors	Switzerland	8.3	31 December 2020
LGT Capital Partners	Switzerland	7.7	30 June 2021
Investcorp-Tages	UK	6.4	30 June 2021
Abbey Capital	Ireland	3.6	30 June 2021
International Asset Management (IAM)	UK	3.4	31 May 2021
Aurum Fund Management Ltd	UK	3.1	30 June 2021
NewAlpha Asset Management	France	2.1	31 December 2020

Source: Preqin Pro

Fig. 6.11: Largest Europe-Based Investors in Hedge Funds by Type

Investor	Allocation to Hedge Funds (€bn)	Investor Type	Location
ABP	16.9	Public Pension Fund	Netherlands
Varma Mutual Pension Insurance Company	8.9	Insurance Company	Finland
Bayerische Versorgungskammer	6.5	Public Pension Fund	Germany
Swiss National Accident Insurance Institution (SUVA)	5.2	Insurance Company	Switzerland
AA Pension Scheme	5.0	Private Pension Fund	UK
Wellcome Trust	4.2	Foundation	UK
Keva	4.0	Public Pension Fund	Finland
AXA Winterthur	3.8	Insurance Company	Switzerland
Ireland Strategic Investment Fund	3.1	Sovereign Wealth Fund	Ireland
Fund for Bituminous and Plastic Roofing Companies	3.0	Private Pension Fund	Netherlands

Source: Preqin Pro





# UK Looks to Maintain Lead as Growth Slows

928

Number of UK-based investors active in alternative assets

2,417

Number of UK-based fund managers active in alternative assets €1\_17tn

Alternative assets under management at UK-based fund managers (as of December 2020)

### How the UK adjusts to life outside of the EU may have implications beyond the island's shores for alternatives

The UK has long been the largest European center for the management of alternative investments. However, as asset classes have expanded and globalized, the share of AUM managed by UK-based GPs has reduced. Between 2010 and 2020, private capital assets managed out of Europe increased by 209%, slightly less than the global increase of 213%. In that time, the UK's share of European private capital AUM fell from 59% to 52%.

#### **PEVC Is the Dominant Asset Class**

2018 was a particularly strong year for UK-based private capital managers, who raised an impressive €165bn – up 80% on the previous year – largely driven by a 137% increase in PEVC fundraising (Fig. 7.2). 2019 and 2020 fundraising returned to more normal levels, although UK firms still raised 71% more capital than their peers in France in 2020, the closest European competitor (€90bn vs. €53bn).

AUM growth at UK-based PEVC managers has averaged 13% over the past three years. This is significantly slower than the 23% notched up by managers in France, but the UK's PEVC AUM is still 4.6x greater than that of France (€473bn vs. €102bn). The growth rate indicates that even the most mature

asset class (PEVC) in the most mature European market (the UK) is capable of delivering double-digit growth, a sign of how much room there is for further growth across the continent.

#### A Less Uncertain Future

While foreign trading and future relationships with the EU cast a shadow of uncertainty over the UK as an investment destination, the completion of the initial phases of Brexit has at least brought some clarity. The UK Government is enthusiastically seeking global partnerships beyond Europe and has entered into accession talks with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

What's more, the ongoing success of the vaccine rollout will feed through to a more favorable economic recovery than for countries that are further behind in their progress. This may not be a long-term consideration for investment decisions, but could affect the near-term exit environment if the UK pulls ahead, even temporarily. Activity certainly picked up in H1 2021, with buyout transaction values of €37bn already eclipsing 2020's full-year total of €25bn; venture capital values also passed 2020's total (Fig. 7.3). Deal values in real estate and infrastructure are on track to beat last year's totals, with only private debt lagging.

As ever, the UK's success in growing its alternatives sector relies on what it can do at the margin to attract global capital away from competitors.

Hard-earned freedoms to offer bespoke regulatory frameworks will be key in the long term if the UK is to retain and grow its leading role in European alternatives.

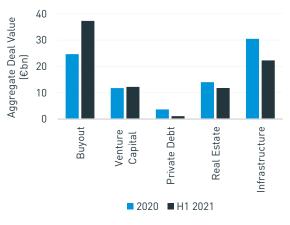
Fig. 7.1: UK-Based Alternative Assets under Management (€bn) by Asset Class



Fig. 7.2: Aggregate Private Capital Raised by UK-Based Funds by Asset Class, 2017 - H1 2021



Fig. 7.3: Aggregate Value of Private Capital Deals in the UK by Asset Class, 2020 vs. H1 2021



Source: Pregin Pro

For the full story, read our companion report,

Preqin Markets in Focus: Alternative Assets in the UK

<sup>\*</sup>Natural Resources includes Natural Resources and Timber fund types only to avoid double counting.

### **FRANCE**

# 2020 a Record Year for Fundraising

227

Number of France-based investors active in alternative assets

619

Number of France-based fund managers active in alternative assets

€248bn

Alternative assets under management at Francebased fund managers (as of December 2020)

# Infrastructure and technology are booming as France prepares to host the Olympic Games

France's national response to COVID-19 was swift and serious in both social and economic terms. A €300bn liquidity support program was established in March 2020¹, with a further €3bn to support mediumsized and large companies announced in June 2020.² The OECD has forecast a swift economic recovery, with a 5.9% year-on-year increase in GDP in 2021³, slightly ahead of global GDP growth of 5.6% and ahead of Europe's other largest economies, including the UK (5.1%) and Germany (3.0%).

### **Fundraising Beats 2016 Record**

Aggregate private capital raised by France-based funds surpassed the €50bn mark last year, while alternatives AUM rose to almost €250bn during 2020, making it Europe's second-largest alternatives center. Private equity enjoyed a 56% increase in fundraising between 2019 and 2020, from €20bn to €31bn (Fig. 7.5). Real estate fundraising declined to €1.7bn after a record €5.3bn in capital was secured in 2019, while infrastructure fundraising was relatively buoyant, rising 11% in 2020 to €11bn.

French infrastructure deal value in H1 2021 is already nearly double the full 2020 total. The €18bn merger of waste and water groups Veolia and Suez has pushed average infrastructure deal value this year to €804mn, up from €103mn in 2020. Last year, the asset class recorded a higher total deal value than any other private capital asset class, and in 2021 infrastructure deal values are higher than all four other asset classes combined. Olympics-related spending, especially in transport, is one driver, while investment will be stimulated by a 17% increase in the transport infrastructure and services budget to €3.7bn.

#### A French Word for Entrepreneur

Venture capital deal count and aggregate deal values have been rising steadily over the years. In 2020, France-based GPs provided €4.4bn in venture funding over 457 deals, a record high in deal activity, and several large deals have already been completed in 2021. Fundraising too has been buoyant, with key players closing substantial funds. <sup>4</sup> These include

<sup>&</sup>lt;sup>1</sup> https://ec.europa.eu/commission/presscorner/detail/en/ip\_20\_503

 $<sup>^2\</sup> https://www.economie.gouv.fr/direct-video-presentation-dispositif-accompagnement-entreprises-sortie-crise\# for the property of the prope$ 

<sup>&</sup>lt;sup>3</sup> OECD Economic Outlook, Interim Report March 2021, p. 4

<sup>&</sup>lt;sup>4</sup> https://www.preqin.com/insights/research/blogs/venture-capital-in-france-allez-les-bleus

Sofinnova (€445mn)<sup>5</sup>, Serena Capital (€300mn)<sup>6</sup>, and Quadrille Capital (€511mn).<sup>7</sup>

President Emmanuel Macron is throwing his weight behind plans to turn France into a tech powerhouse. The allocation of €1.5bn of government funding to artificial intelligence (AI) research is indicative of the scale of ambition in France, which is now home to Al research centers for Deep Mind, Google, Facebook, Samsung, and IBM. France's sovereign wealth fund, BPI France<sup>8</sup>, is another driver, with dedicated venture capital funds in biotech, medtech, cleantech, smart city, and impact funds, as well as a French Tech Acceleration fund.

Fig. 7.4: France-Based Alternative Assets under Management (€bn) by Asset Class

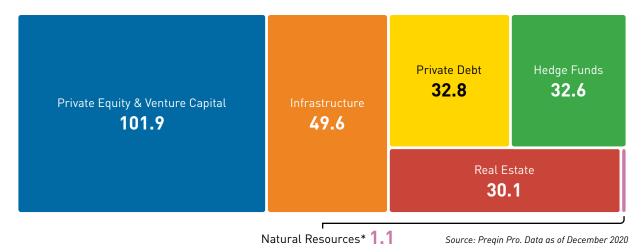


Fig. 7.5: Aggregate Capital Raised by France-Based Private Capital Funds by Asset Class, 2017 - H1 2021

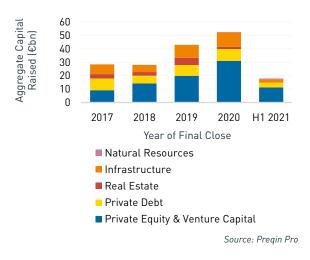
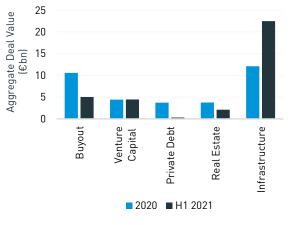


Fig. 7.6: Aggregate Value of Private Capital Deals in France by Asset Class, 2020 vs. H1 2021



Source: Preqin Pro

For the full story, read our companion report,

Preqin Markets in Focus: Alternative Assets in France

<sup>&</sup>lt;sup>5</sup> https://pro.preqin.com/fundmanager/680/fundsPerformance

 $<sup>^6</sup>$  https://pro.preqin.com/fundmanager/33340/fundsPerformance

<sup>&</sup>lt;sup>7</sup> https://pro.preqin.com/fundmanager/109111/fundsPerformance

<sup>&</sup>lt;sup>8</sup> https://pro.preqin.com/investor/22261

<sup>\*</sup>Natural Resources includes Natural Resources and Timber fund types only to avoid double counting.

### **SWITZERLAND**

# Venture Capital Stands out in Quiet Market

**520** 

Number of Switzerlandbased investors active in alternative assets 462

Number of Switzerlandbased fund managers active in alternative assets €72bn

Alternative assets under management at Switzerlandbased fund managers (as of December 2020)

### The Swiss economy is performing well, but this isn't translating into all alternative investment markets in 2021

The Swiss economy has been relatively resilient. A pandemic-induced 3% contraction was considerably less than the European average of 6.7%, while forecast 3.9% growth in 2021 is only marginally lower than the 4.2% across the eurozone. COVID infection rates in the country are declining and vaccine rollouts accelerating, which will allow for a more broadbased opening of key parts of the economy as the year progresses.

Switzerland-based alternatives AUM was flat from 2019 to 2020, at €72bn. PEVC is the largest single asset class in the market at €26bn, followed by hedge funds (€20bn, Fig. 7.7). PEVC AUM increased by a healthy 12% in 2020, but the star performer in growth terms was infrastructure, with AUM up 30% over 2020.

Private debt AUM in Switzerland increased only marginally (4%), compared with an 18% increase in private debt assets across Europe. Perhaps of greater significance was the 4% increase in Switzerland-based real estate AUM, which trailed the

Europe-wide growth of 9%. Preqin tracks 367 real estate investors in Switzerland – more than any other asset class, including PEVC (328). Swiss real estate investors are international in their outlook, possibly a function of the relatively small 'home' market.

Transaction activity during H1 2021 was more tempered compared with 2020 (Fig. 7.9). Venture capital deal numbers were down 73% in H1 2021 compared with the whole of 2020; however, the smaller drop in aggregate deal value of 43% suggests average deal size has increased. This is consistent with global trends, where there has been a shift toward larger, later-stage investments and an increase in valuations.

### **Fundraising Peaks and Troughs**

Despite the challenges of the pandemic, private capital fundraising by Switzerland-based managers increased to €10bn in 2020, up from €6.8bn in 2019 (Fig. 7.8), reversing a decline since the peak of €21bn in 2017. In recent years, capital raising has been relatively lumpy, with large variations across

<sup>&</sup>lt;sup>1</sup> Oxford Economics forecasts as of June 2021.

PEVC and infrastructure asset classes in particular. So far in 2021, fundraising for Switzerland-based managers is tracking at 90% of 2020's total, providing a chance for a record year if H2 gathers pace. PEVC funds dominated in H1 2021, securing €8.5bn, a 29% increase on the full-year total for 2020.

The effects of the pandemic are still being experienced in operational assets across asset classes in Switzerland, particularly private debt and real estate. There are some bright spots, venture capital in particular, where rising average deal values could drive growth in the wider European technology sector.

Fig. 7.7: Switzerland-Based Alternative Assets under Management (€bn) by Asset Class

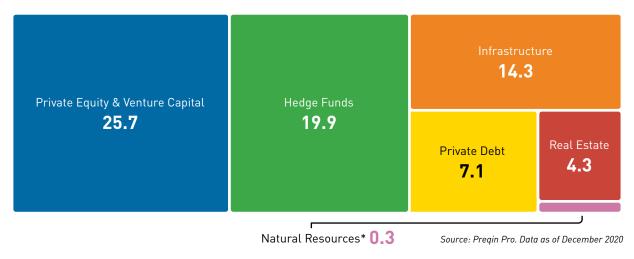
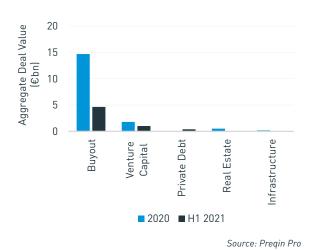


Fig. 7.8: Aggregate Capital Raised by Switzerland-Based Private Capital Funds by Asset Class, 2017 - H1 2021



Fig. 7.9: Number of Private Capital Deals in Switzerland by Asset Class, 2020 vs. H1 2021



<sup>\*</sup>Natural Resources includes Natural Resources and Timber fund types only to avoid double counting.

### GERMANY

# Decarbonization Agenda Opens Opportunities for Private Capital

550

Number of Germany-based investors active in alternative assets

996

Number of active alternative asset fund managers based in Germany

€95bn

Alternative assets under management at Germanybased fund managers (as of December 2020)

# Along with PEVC strategies, the maturing infrastructure market could play a key role in helping Germany to meet its carbon reduction goals

Germany's new Chancellor will inherit a recovering economy, but one that needs substantial investment. Plans to revive and boost the economy are at the forefront of politicians' campaigns. Although options to stimulate investment, such as by abolishing the debt ceiling or working around it, have been voiced, mobilizing private capital is another way to fill the gaps. Armin Laschet, the new leader of Angela Merkel's party, the CDU, has even proposed a *Deutschlandfonds* in which public and private capital could both participate.

The reliability of its infrastructure is one of Germany's key draws as an investment location, but it lags in digital infrastructure and the OECD recently branded its physical infrastructure as "lacking." But Germany has big plans and its *Energiewende* carbon neutrality program is a genuine roadmap that other countries would do well to emulate.<sup>1</sup>

Private capital fundraising for German infrastructure has grown massively in recent years, with €4.8bn

raised in 2020 and €4.2bn in H1 2021, the most of any private capital strategy (Fig. 7.11). Investment too has been increasing, with €13bn of deals in 2020 and €6.5bn in H1 2021.

The Fukushima disaster in Japan in 2011 had a profound impact on Germany's attitude to nuclear energy. The accelerated phase-out of nuclear power and the transition to renewables are widely supported by the German public<sup>2</sup> and will create opportunities for infrastructure investors. Renewable energy sources are gaining traction, with 56% of Germany's energy orginating from renewable sources in H1 2020.<sup>3</sup>

After a record-breaking deal at the beginning of last year in Germany, 2021 could be excused for a slowdown in buyouts. Advent International and Cinven's €17.2bn acquisition of thyssenkrupp AG's Elevator<sup>4</sup> business was the largest-ever buyout deal in Europe, accounting for 70% of Germany's deal value in 2020. However, the country has recorded

<sup>&</sup>lt;sup>1</sup> https://ec.europa.eu/germany/news/20200611-digitalisierung de

<sup>&</sup>lt;sup>2</sup> The Private and External Costs of Germany's Nuclear Phase-Out. https://www.nber.org/papers/w26598

 $<sup>^3\</sup> https://www.ise.fraunhofer.de/en/press-media/press-releases/2020/net-energy-production-first-half-of-2020.html$ 

<sup>&</sup>lt;sup>4</sup> https://pro.preqin.com/asset/338135

165 buyouts with a combined value of €6.1bn in H1 2021, which is closing in on the €7.5bn of buyouts (excluding thyssenkrupp) completed in 2020.

German private equity managers have dry powder of €6.2bn as of July 2021, up €1.6bn on the end of 2020 and a record high. Dry powder was boosted by the record €7.4bn raised in 2020 by Germany-based PEVC managers, including Deutsche Private Equity Fund IV (€1.0bn), EMH Growth Fund II (€650mn), and

Holtzbrinck Ventures Fund VIII (€535mn). The private equity market in Europe's largest economy is smaller than in France and the UK, indicating there's plenty of scope for further growth.

In economic terms, Germany has fared better than most countries during the pandemic, and its private equity and infrastructure industries have emerged in robust health. Both are well placed to support the country as it transitions to a low-carbon future.

Fig. 7.10: Germany-Based Assets under Management (€bn) by Asset Class

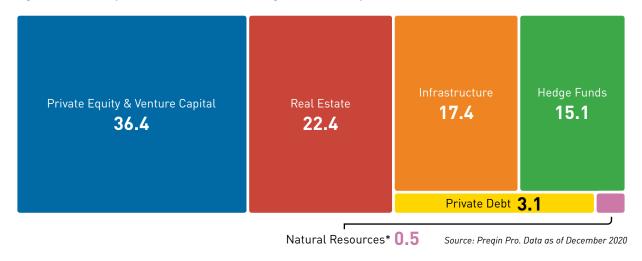
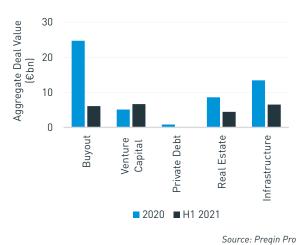


Fig. 7.11: Aggregate Capital Raised by Germany-Based Private Capital Funds by Asset Class, 2017 - H1 2021



Fig. 7.12: Number of Private Capital Deals in Germany by Asset Class, 2020 vs. H1 2021



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For the full story, read our companion report,

Preqin Markets in Focus: Alternative Assets in Germany

<sup>\*</sup>Natural Resources includes Natural Resources and Timber fund types only to avoid double counting.

### I ITALY

# How the Pandemic-Ravaged Economy Could Make Reparations

227

Number of Italy-based investors active in alternative assets

241

Number of Italy-based fund managers active in alternative assets

€44bn

Alternative assets under management at Italy-based fund managers (as of December 2020)

# Supported by government aid, investment in infrastructure and digital connectivity could bolster Italy's recovery

Italy is an attractive destination for private capital investors and fund managers. Aggregate capital raised by Italy-based funds increased 17% on the year before in 2020, and reached €720mn in H1 2021 (Fig. 7.14). PEVC is at the heart of Italy's alternatives industry, accounting for 35% of alternatives AUM as of the end of 2020 (€15bn, Fig. 7.13).

Infrastructure and private debt represent a not insignificant 17% and 11%, respectively. Private capital deployment in Italian infrastructure has been buoyed by some large deals in recent months, including the €2.7bn acquisition of telecoms company Open Fiber¹ from Enel in May by CDP Equity and Macquarie Infrastructure and Real Assets.²

### The Cost of COVID-19

Italy was the early epicenter of COVID-19 in Europe. Many countries took example from Italy's rapid response to the virus and subsequent lockdown of its borders and economy, although this came at a heavy cost. Private consumption in Italy between 2019

and 2020 fell around 9%, which has since recovered by 4% in 2021, helped by the gradual easing of restrictions in April. The Purchasing Managers Index (PMI) in manufacturing moved to a fresh high of 62.3 in May 2021, up from 60.7 in April, suggesting further impetus in the recovery.<sup>3</sup>

Italian SMEs account for the greatest part of national industrial production, contributing 67% of overall value added in the non-financial business economy, exceeding the EU average of 56%. The government's policy response was shaped by Italy's reliance on SMEs, and included measures such as the Central Guarantee Fund for SMEs, which provided statbacked loans up to €5mn free of charge for a single enterprise.⁴ Government debt and expenditure rose to 178% and 57% of GDP respectively (as of Q4 2020) to combat rising unemployment, boost healthcare capacity, and stimulate the economy.

### **Pushing the Economy into Recovery**

In February 2021, former ECB President Draghi was

<sup>&</sup>lt;sup>1</sup> https://pro.preqin.com/asset/225750

<sup>&</sup>lt;sup>2</sup> https://pro.preqin.com/asset/225750

<sup>&</sup>lt;sup>3</sup> https://tradingeconomics.com/italy/manufacturing-pmi

<sup>&</sup>lt;sup>4</sup> https://www.mef.gov.it/inevidenza/Gualtieri-Un-bazooka-di-liquidita/

appointed Prime Minister, and swiftly announced a €242bn Resilience and Recovery Plan, which pairs funds from the EU with national commitments. The Draghi Government forecasts the investments and reform will add three percentage points to GDP between 2024 and 2026. Approximately 40% of Italy's public funding will be directed to green programs and 25% to digital projects, with infrastructure and high-speed trains among the priorities.

Italy is in need of a boost. GDP has yet to recover to pre-GFC levels and there have been nearly one million pandemic-related job losses. Draghi has made a clear statement that he believes stimulus will turn the economy around.

Fig: 7.13: Italy-Based Alternative Assets under Management (€bn) by Asset Class



Natural Resources\* 0.2 Source: Pregin Pro. Data as of December 2020

Fig. 7.14: Aggregate Capital Raised by Italy-Based Private Capital Funds by Asset Class, 2017 - H1 2021

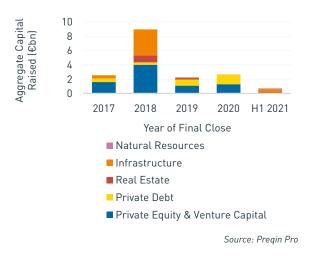
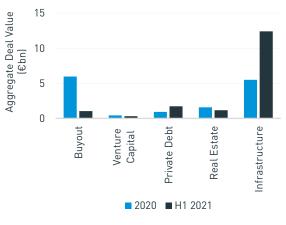


Fig. 7.15: Aggregate Value of Private Capital Deals in Italy by Asset Class, 2020 vs. H1 2021



Source: Preqin Pro

For the full story, read our companion report,

Preqin Markets in Focus: Alternative Assets in Italy

<sup>&</sup>lt;sup>5</sup> https://www.ft.com/content/60dea5b2-74cb-47ea-b0d6-8e020eaba3d3

<sup>\*</sup>Natural Resources includes Natural Resources and Timber fund types only to avoid double counting.



# Winning the Battle for the Brexit Spoils

**71** 

Number of Luxembourgbased investors active in alternative assets 239

Number of Luxembourgbased fund managers active in alternative assets €44bn

Alternative assets under management at Luxembourg-based fund managers (as of December 2020)

### First-mover advantage is helping Luxembourg gain ground in the race to become the preferred domicile for LP capital

Luxembourg is gaining ground in Europe. The territory has doubled its alternatives AUM since the end of 2016, with hedge fund AUM having increased by 180% to €16bn between 2016 and 2020 (Fig. 7.16). In total, there are 331 such funds domiciled in Luxembourg, with a total AUM of at least €173bn, significantly higher than the €44bn managed by funds based within the locality. A fund's domicile, however, doesn't necessarily reflect where the fund and its management team is based or where the fund's strategy is focused.

Luxembourg has long been one of the more popular locations to domicile European private equity firms, after the UK, Guernsey, and Jersey. Despite Ireland providing worthy competition for Luxembourg in pursuing fund structures to tempt managers away from the UK, it has yet to realize any noticeable pickup in new fund registrations.

### An Attractive Environment

Passporting rights under the Alternative Investment Fund Managers Directive (AIFMD) allow for funds to be managed and distributed across the EU, but are under threat for UK-domiciled funds. Competing Luxembourg vehicles are also tax efficient, with a wide range of global double-tax treaty agreements in place. In a vote of confidence from the authorities, Luxembourg is also the domicile of choice for the European Investment Bank (EIB) and the European Investment Fund (EIF).

Luxembourg fund structures have also been supported by a stable economic backdrop, which has allowed the territory to maintain an AAA sovereign rating. Oxford Economics expects 4.1% GDP growth in 2021 following a comparatively mild 1.3% contraction in 2020.

### **Punching Above its Weight in Alternatives**

The vast majority of Luxembourg-domiciled funds are managed elsewhere; in the case of funds that opted to switch from a UK to a Luxembourg domicile, management is typically still conducted in London. However, Luxembourg-based alternatives AUM continues to grow, reaching a record high of €44bn as of December 2020. Combined AUM in 2019 was 64% of the nation's GDP.

At the higher end of the risk spectrum, PEVC assets saw a modest 4% growth in the 12 months to Q4 2020, demonstrating their resilience in the pandemic. Private debt, on the other hand, witnessed 21% growth in AUM, despite no additional funds closing in 2020. Indeed, private debt has been attractive so far in 2021, with Luxembourg-based managers raising

€2.7bn (Fig. 7.17), representing 68% of total capital raised in the first half of the year by alternative asset funds in the national market. Hedge funds remain the largest asset class in the Luxembourg alternatives industry, comprising 37% of total AUM as of the end of 2020.

Fig. 7.16: Luxembourg-Based Alternative Assets under Management (€bn) by Asset Class

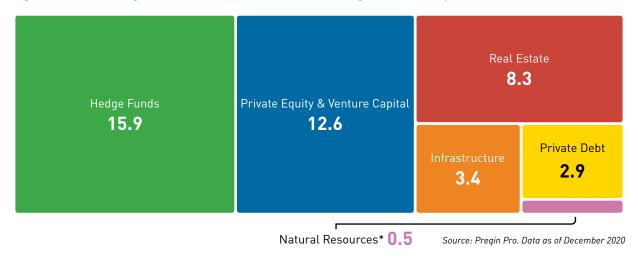


Fig. 7.17: Aggregate Capital Raised by Luxembourg-Based Private Capital Funds by Asset Class, 2017 - H1 2021

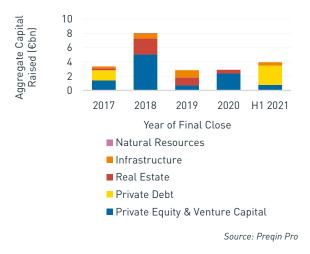
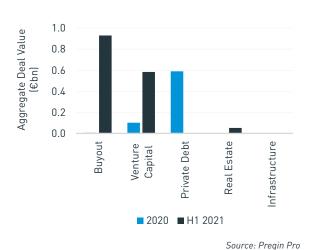


Fig. 7.18: Private Capital Deals in Luxembourg by Asset Class, 2020 vs. H1 2021



\*Natural Resources includes Natural Resources and Timber fund types only to avoid double counting.

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- 1,700 assets in 16 countries(3)
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