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s:fi KNOWLEDGE

Swiss Finance Institute Roundups

Private Markets—the New Financial Frontier?

Editorial

Private markets—once dismissed as niche investments—have become a major asset class over the last few years. This evolution has transformed the investment space and opened up new fund-raising opportunities for privately held firms. In this SFI Roundup, we bring together academics and practitioners to discuss these key trends: How do private markets stand out in terms of their liquidity, their transparency, and the risk-return tradeoff they offer to investors? Are public markets headed for a secular decline, or are they merely hampered by current regulations? What factors should firms consider when raising funds? And how will the COVID-19 crisis affect private markets?

We wish you an enjoyable read.

Prof. François Degeorge
Managing Director

Contributors

Markus Benzler
Markus Benzler is Head Multi-Manager Private Equity at UBS Asset Management. Previously, Markus Benzler worked as a senior consultant at Bain & Company. He holds an MBA from Murray State University and a Diplom-Kaufmann from University of Regensburg.

Prof. François Degeorge
François Degeorge is the SFI Managing Director, an SFI Senior Chair, and Professor of Finance at the Università della Svizzera italiana (USI). François Degeorge is a former Dean of the Faculty of Economics at USI and a former president of the European Finance Association. He has taught at HEC Paris, where he also served as Associate Dean for Research. He has been a visiting professor at the Tuck School of Business, at Université Paris-Dauphine, and at the Saïd Business School. He holds a PhD in Political Economy and Government from Harvard University.

Prof. Rüdiger Fahlenbrach
Rüdiger Fahlenbrach is an SFI Senior Chair and Professor of Finance at the Ecole Polytechnique Fédérale de Lausanne. Previously, Rüdiger Fahlenbrach taught at the Ohio State University. His research has been published in the top finance journals worldwide and has featured in the international press. He is currently serving a three-year term as Director of the European Finance Association. He holds a PhD in Finance from the University of Pennsylvania.

Prof. Laurent Frésard
Laurent Frésard is an SFI Senior Chair and Professor of Finance at the Università della Svizzera italiana. Previously, Laurent Frésard was a member of the faculty at HEC Paris and the University of Maryland. His papers have been published in leading academic journals, and he has received a number of grants and awards. He holds a PhD in Finance from the University of Neuchâtel.

William Nicoll
William Nicoll is Chief Investment Officer, Private and Alternative Assets at M&G. Previously, William Nicoll was Head of European Credit at Henderson Global Investors and also worked at Cazenove & Co in corporate bond research and fund management. He holds an MA in Natural Sciences from Cambridge University and is a CFA charterholder.

June 2020 (Information as of May 2020)
Different data sources may provide slightly different numbers, therefore comparing figures may lead to slightly different conclusions.

Facts, Figures, and Trends in Private Markets

There are various definitions of private markets. Which one do you prefer?

R. Fahlenbrach: Private market investments are investments that are not traded on a public exchange. They include investments in private equity, real estate, private debt, infrastructure, and natural resources, as well as closed end and open end funds that invest in private markets. More exotic assets such as royalty funds, art, cars, and wine are sometimes also included in a definition of private markets.

F. Degeorge: One way to define private markets is to contrast them with public markets. The key characteristic of public markets is that the price of assets is common knowledge. Such is not the case in private markets. In this sense, private markets are the rule and public markets are the exception. The partial availability of price information in private markets drives many of their features, such as regulation and liquidity.

How do you define private equity?

M. Benzler: The private equity class is large and diverse. The vast majority of the money in private markets ends up being locked into pure private-equity products, while the balance is made up of debt or mixed products, such as mezzanine or distressed debt.

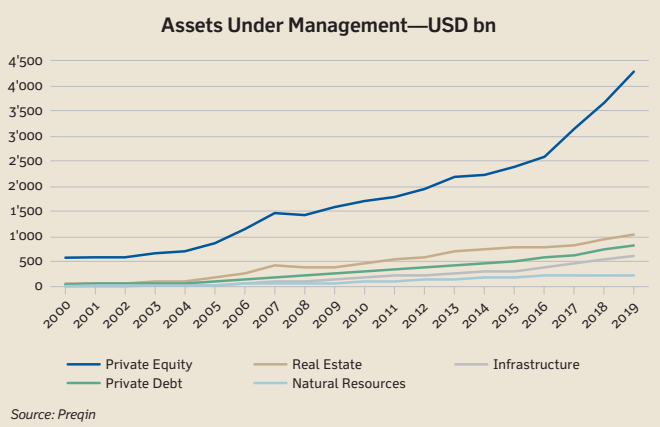
And private debt?

R. Fahlenbrach: The private debt market should include not only the large market of direct lending by non-financial institutions to unlisted companies, but also such lending to listed companies.

W. Nicoll: The private debt market is indeed very broad. It's interesting to note that the bond market was already very popular in the late 19th century, to finance infrastructure projects such as railroads. Over the past decade, private debt markets have regained considerable popularity in Europe.

Private markets have changed substantially over the years. Who are today's key players, and where does most of the activity take place?

L. Frésard: The private equity market has grown a great deal since the last financial crisis, but it was already growing at a steady rate prior to 2007. The players in this market are essentially firms—start-ups in particular—seeking capital to grow further. In the past, such firms would get a loan from a bank and, if they couldn't acquire enough bank financing, they would solicit funds from family, friends, angel investors, or venture capitalists. In such an environment, you could only get so far; to go the extra mile, your firm generally had to go public and do an IPO. This situation has changed in recent years, as investors perceive public equity to be too risky, based on the low returns it typically has provided. Nowadays, private equity firms are able to easily collect a large amount of capital and to support private firms in an extensive manner. Nowadays, it is possible for a firm to stay private forever.



Source: Preqin

Institutional investors, such as sovereign funds, pension funds, and insurers, have become increasingly active in private markets. How has this large influx of new money influenced the market?

R. Fahlenbrach: For a couple of years now, everyone has been searching for yield, and investors have turned to private markets in hope of higher returns. However, this quest for higher yield comes with higher risk: One of the most fundamental relationships in finance—the risk-return tradeoff—is sometimes forgotten. A recent McKinsey report shows that 2018 and 2019 were record years in terms of fund raising, particularly in North America and Europe. My concern is that a lot of dry powder—capital that was committed by investors to a private equity fund but not yet called and invested by the fund—has built up these past few years and that investment discipline may not have been stringent enough.

M. Benzler: Many investors are relatively new and are still learning how to behave in private markets. Private markets can indeed offer higher returns, but they also require more knowledge and infrastructure than public markets do. Many players lack the willingness either to put together a global team for such investments or to partner with seasoned professionals. In this respect, I must say that the Swiss pension funds have been remarkably smart, as they typically outsource private investment decisions to specialists and simply focus on monitoring the overall development and performance.

Markets are said to have become deeper and more dynamic. Where can we see these changes?

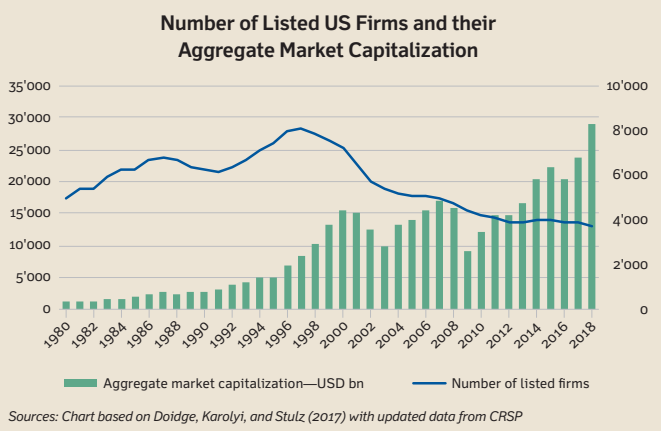
L. Frésard: Since firms can now get the funding to stay private longer, they are tending to do so, which means that the number of public firms has decreased as, over time, some have exited the market through mergers and acquisitions or bankruptcies. For example, there were close to 8'000 publicly listed firms 20 years ago; today there are less than 4'000. Investment firms, such as BlackRock, increasingly include private investments in their portfolios to maintain an attractive return to risk profile and for their portfolios to be as representative as possible of the underlying economy. International financial players, such as Goldman Sachs, are progressively focusing on private markets and financing SMEs. Swiss banks, including the large ones, stand out here as they have historically been providing services to the local industry and could benefit further from the expertise they already have.

M. Benzler: The private investment universe has exploded over the last 20 years. It used to be that investments were restricted to US venture and buyout markets, along with European buyout markets. Today, the spectrum of firms and strategies you can invest in is increasingly broad and includes, for example, small buyouts, medium buyouts, large buyouts, mega buyouts, seed stage, and early-stage venture or growth capital across the globe. Within this broad set of options, you can include at least three regional levels, two stage levels, and multiple sector levels. The investment selection process has therefore become highly complex, and one-on-one meetings with the fund you invest in are crucial. Secondary investments, for example, were a niche product some 15 years ago, but have since become mainstream. This ongoing trend of deeper and more dynamic markets will carry on into the future. In short, private investors need to have more skills to be able to capture returns.

What are the overall drivers of the above trends?

L. Frésard: One key driver is regulation. Going public is a pricey process and includes complying with many standards, which likely discourages some firms. Other drivers are also operating; for example, there is an abundance of private money in the marketplace due to the current low interest rate environment and the deregulations in the mid-1990s. An additional factor is the technological characteristic of firms. Research shows that firms are becoming less and less disruptive over time, which means that reaching a large scale is not as essential as it was in the past. If a firm wishes to grow, it can simply acquire a competitor, instead of growing organically. There may also be a cultural aspect: 20 years ago, going public was the thing to do. Such is not the case anymore. The fad today is to be a unicorn—a privately owned start-up valued at over USD 1 billion—which can achieve multiple rounds of extremely heavy financing. Finally, being private allows you to remain in charge of your firm and not have to listen to or collaborate with outside investors. It may be that today's generation prefers control over money.

Key Differences between Private Markets and Public Markets



Sources: Chart based on Doidge, Karolyi, and Stulz (2017) with updated data from CRSP

How do investors and firms see the two markets?

L. Frésard: From an investor's perspective, the main difference is clearly liquidity. From a firm's perspective, the difference is likely to lie in the extra regulations related to being public, such as ongoing monitoring and having to cooperate with activist investors. Overall, the trade-off boils down to liquidity versus control. Another difference worth mentioning takes place at the market mechanism level. In public markets different views can be expressed via price signaling. Such signaling is not possible in private markets. As a private market investor, you cannot short the market, even if you believe it is overpriced.

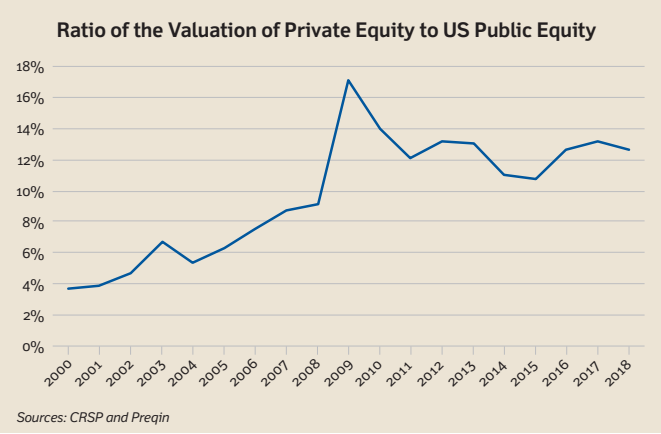
M. Benzler: A frequent misconception regarding private markets is their falsely presumed lack of transparency. Transparency is actually greater in private markets, as private firms can answer their investors' inquiries more freely than can the highly regulated public firms. Also, market frictions make private markets prime investment territory for professional investors, who can turn such imperfections to their advantage.

R. Fahlenbrach: Historically, equity investments in private markets went through a specialist, such as a private equity fund, because private markets are highly illiquid: They typically have longer investment durations, with hefty management fees and carry. Over the past few years the gap between private and public markets has narrowed a bit, in the sense that the largest investors have become increasingly sophisticated; many now rely on their in-house expertise to cut out the intermediaries and make their investments directly, reducing the fees. In addition, the liquidity of some segments of the private market universe, in particular buyouts, has improved a bit through the development of an active secondary market.

W. Nicoll: The two markets are radically different from both the investors' and the firms' standpoint. In private markets, investors need to do more homework and to act with more confidence, while firms get to focus more on generating value, instead of being faced with the compliance and legal duties that come with being in the public market.

F. Degeorge: Regulation tends to be much more stringent for public than for private markets. In particular, regulators generally discourage retail investors' access to private markets, with the intent of reducing the potential losses of small, inexperienced investors. By restricting access to this increasingly large and diversified asset class, however, the regulations effectively herd retail investors into the dwindling asset class of public equity. For many small investors, the only exposure they have to private assets is through home ownership. Investor protection thus comes at the cost of poor diversification.

The Choice between Private and Public from a Firm's Perspective



Fewer and fewer firms are going public, why is that the case?

R. Fahlenbrach: Firms can now obtain much more money in private markets. In the past few years, we have witnessed private financing rounds of several billion dollars—something that was not deemed possible 20 years ago. Hence, there is less of a need for a firm to quickly go public. In addition, remaining private can represent an advantage for some firms, as they can stay out of the public eye, have fewer interactions with regulators and fewer disclosure requirements, and solely interact with sophisticated investors.

Why do some firms still decide to go public?

F. Degeorge: A key benefit of going public for a firm is the establishment of a market price for its equity. Having an objective price for its stock helps a company engage in M&A transactions, either as the buyer or the seller. It also helps the firm set up incentive pay mechanisms for its employees. Some companies also value the visibility associated with a public listing. And research suggests that going public reduces the cost of bank loans, perhaps by giving the firm a better bargaining position relative to its banks.

M. Benzler: In my view, firms tend to go public when they believe that the public investor has understood their business model and brand, and that they have the opportunity to lock in a financial premium.

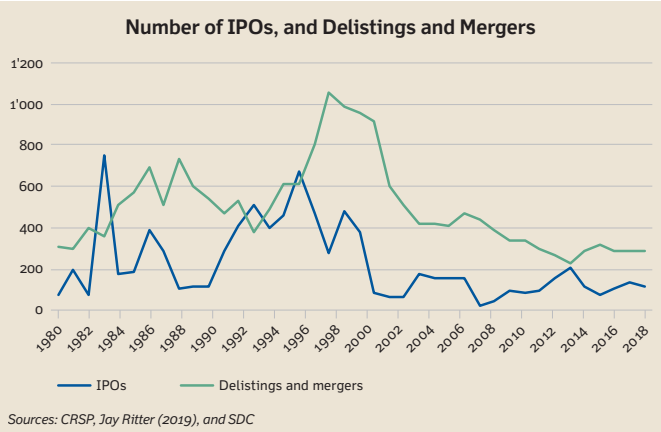
R. Fahlenbrach: An extreme view could be that firms nowadays go public to provide an exit opportunity to their initial private investors and corporate insiders. Companies used to become publicly listed to seek additional capital; now they become publicly listed when they want to return capital to their shareholders.
An example here would be Spotify, which opted for a direct listing: Rather than issuing new shares, the company started trading by letting its existing shareholders sell their shares directly on the public market.

2019 was a hard year for IPOs and tentative IPOs. What have we learned and what will investors now ask for?

L. Frésard: I don't have the data to back up my intuition, but I'm tempted to say that many firms have been valued too high. In the past, large players such as pension funds and institutional investors took positions at the moment a firm went public. This practice has changed, as most of the profit is now generated and shared before the firm goes public. Lawmakers in the US are currently addressing this issue, as retail investors are losing more and more opportunities in the upstream segment of the market. This situation confirms what was said before about the market becoming deeper and more complex.

What can we expect from 2020 in terms of IPOs?

F. Degeorge: Even in normal times, the price discovery process for newly listed firms is not easy. Currently, the high level of market volatility makes it almost impossible for a firm to go public. Many companies are postponing their long-planned IPOs.



Strangely, many firms which go public are not profitable. Why is this?

L. Frésard: Not only are they not profitable at first, but, I firmly believe that most of them never will be profitable. My intuition is that venture capitalists feel a need to prove to their investors that they have made an adequate investment decision, and they do so by pushing the firm to go for a further round of financing with further inflated prices.

F. Degeorge: Investing in a loss-making company may make sense if you expect the company to generate cash eventually. Even if a small fraction of IPOs ends up succeeding, IPOs may be good investments if those that do succeed turn out to be blockbusters. In fact, the distribution returns on IPO investments is highly skewed, with many losses and a small number of huge successes. You can think of IPO investments as lottery tickets, with somewhat better odds than actual lotteries.

Why and when is it valuable to obtain financing from a private equity fund?

M. Benzler: Private equity funds do not solely provide funding; they also provide sharp expertise and added value to help support the firm as it grows or, in some cases, as it is restructured.

L. Frésard: From a historical perspective, firms used to turn to private equity funds when they could not obtain debt financing from banks, usually because they had too little tangible collateral. This situation is changing, however. Banks have recently begun to loan money against patents, and patents are being further bundled into portfolios. Whether or not this is a wise move remains an open question, but it does show that banks are becoming more and more involved in financing private firms.

Does banking competition and increased regulatory surveillance push firms to obtain private funding?

M. Benzler: Regulatory scrutiny clearly encourages private market activity. From a historical perspective, it is interesting to note that late stage venture and growth capital funds gained in importance after the increase in regulatory measures that followed the implosion of the dotcom bubble.

F. Degeorge: In the US, a 1996 regulatory change made it easier to set up large private equity funds, thereby increasing the supply of private capital. This regulatory change coincides with the peak in the number of US publicly listed firms. Research suggests that the deregulation of private markets pushed firms to delay their access to public markets.

Are distressed firms better able to renegotiate their debt in a private or a public environment?

W. Nicoll: The fact that the number of participants in the private debt market is considerably lower than that in the public debt market means that their concerns and interests are better aligned. This alignment of interests ultimately allows debt renegotiations to be more efficient in private markets than in public ones.

We've seen a rise in B2B, B2C, C2B, and C2C lending and funding. What recent technological changes have made it easier to obtain funding for private and public firms alike? Is this a game changer, and what is the risk involved?

L. Frésard: There hasn't really been a major change for public firms, except perhaps for higher execution speeds when operating on public exchanges. For private firms, crowdfunding solutions for both the debt and equity sides of the business are clearly alive and are helping to pool resources. A word of caution here: In regards to initial coin offerings (ICOs), it seems players pursue a more speculative goal than a long-term financial one.

W. Nicoll: Private funding has become increasingly trendy, due to technological improvements in the last few years. The upside is that a more decentralized system is more robust and offers greater possibilities for portfolio diversification. The downside is that you need to do your homework if you want to secure a good deal—something many retail investors and small institutional investors are reluctant or unable to do.

In private markets, it seems easier for financially weak firms to obtain credit. Is that a myth?

W. Nicoll: Private markets are indeed well suited for weak, yet likely to be profitable companies, which is not the case for public markets. The rationale at work here is that specialist lenders will determine whether the firm is viable or not. If, in their view, it is, then financial support will be provided with a tailor-made list of covenants defining the terms of the agreement.

R. Fahlenbrach: The private debt market consists of two distinct parts. First, there is the more risky part of the business, in which private debt funds raise money and invest it in high-risk companies while seeking high returns. These private debt funds are organized much like private equity funds, and they are run by private equity experts who are willing to lend to companies that would be considered too risky by many traditional lenders. Second, there is the safer part of the private debt market, in which investments are made in companies that have collateral and are doing well. In this sector, the credit providers typically operate like banks, with in-house credit scoring processes. The question here is to know whether these non-banks got the pricing right—something we will learn within the next few months, now that we are unfortunately entering a recession.

Many well-known firms are planning to go public in the future, while others are thinking of going private again. What can explain these opposite moves?

L. Frésard: When a firm seeks to change its strategy, it is easier to do so in the private sector than in the public sector. Dell is a prime example here, as it went from private to public in 1988, to secure financial support for its growth ambitions, and went back to private in 2013, to allow itself to steer toward a smaller and leaner business.

F. Degeorge: It is much easier to transform a business in a private setting, where management does not have to justify its every move to a multitude of investors.

The Choice between Private and Public from an Investor's Perspective

The number of publicly listed firms has dropped over the past 20 years. What does this imply for investors, in terms of both portfolio returns and portfolio risk?

M. Benzler: The drop in the number of listed firms highlights the negative impact excessive regulation has had on public markets over the past 20 years, as well as the fact that investors are increasingly keen to only back large and stable firms. In addition, industries and business models have become increasingly complex, with many of them not well understood by the public markets.

A recent AQR report shows that Cambridge Private Equity provided a return of 9.9% and a volatility of 9.3% between 1986 and 2017, while the S&P 500 provided 7.5% and 15.8%, respectively. What can explain this considerable difference?

L. Frésard: We always need to be cautious when drawing quick conclusions. In this case, the gap between what is private and what can actually be invested in private markets can be considerable. Academic research typically shows that venture capitalists, on average, don't beat investments in public markets. My view is that beating the market is, in general, very difficult. Good private deals do, of course, exist, but such deals are usually rare and are restricted to a very tight group of investors.

The latest BlackRock report suggests that US private companies are trading six to seven times cheaper than their public counterparts, while recent research by AQR suggests that the net-of-fee returns of private and public equity are virtually identical. How can we combine these two results?

R. Fahlenbrach: Research, in particular that coming from financial firms, needs to be studied with a critical eye. Returns and volatility are only part of what investors in private markets need to consider—another part is illiquidity. Having a paper return, which you cannot convert into cash when you need to, has limited benefits.

M. Benzler: As we know, averages only tell part of the story. To invest in private markets, your target needs to be in the top quartile of the return distribution, as only then will your financial returns offset the cost of illiquidity. Those returns will typically outperform public markets.

Sources:
AQR. (2020). Demystifying Illiquid Assets: Expected Returns for Private Equity. *The Journal of Alternative Investments*.
BlackRock. (2020). Private Markets 2020—Applying an Outcome Lens to Today's Landscape [White paper].

The private financial industry has been highly criticized regarding how its fees are calculated. Are investors well aware of what they are getting into?

M. Benzler: When you invest in a private equity fund, the fund typically picks up about 20% of the profits; when you invest in a fund of funds, the proportion is even larger, as both the fund and the fund of funds will claim their profit and management fees. Despite these fees, investors still obtain a fair deal in today's low interest rate environment. An alternative is to do the work yourself and invest directly to minimize the intermediary layers. However, doing so requires profound investment skills, large amounts of financial capital, and a willingness to face diversification and liquidity constraints. Ultimately, it also means taking on much more risk.

F. Degeorge: In the past, the managers of some US public pension funds suffered embarrassment when they did not appear to know how much they had paid in fees to private equity firms. Today investors are increasingly aware of how private investments operate, as well as of how much they cost.

With negative interest rates becoming more and more present, what level of risk are investors willing to take for returns, and is accepting such risk reasonable?

L. Frésard: The longer we stay in negative territory, the more likely it is for bubbles to form and to grow in both public and private markets alike. Central banks are aware of this problem, but most likely they do not have any immediate alternatives.

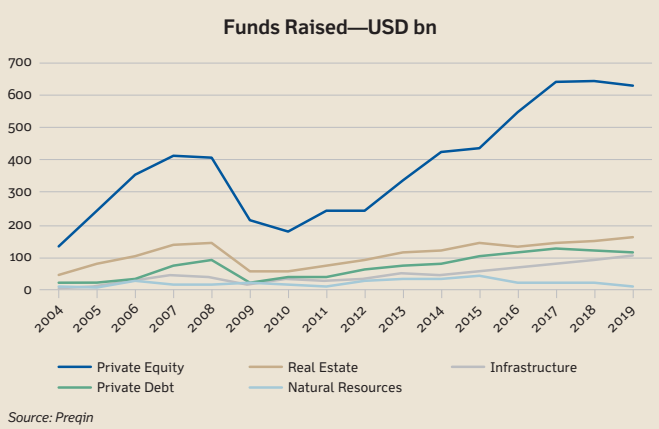
To what extent can price bubbles occur in private markets?

W. Nicoll: Bubbles tend to form around fads, irrespective of the market you analyze. Private markets, in general, tend to have lower price reactivity, due to their illiquidity and lower transparency features. In the case of private debt, investors tend to keep their positions until maturity, which helps to limit price swings both upward and downward.

M. Benzler: Some people argue that the absence of short selling and derivatives implies that private markets are more prone to bubbles than public markets are. I don't think that is true, but I must say that I would enjoy seeing some hedging possibilities in private markets. As things naturally move more slowly in private markets, due to transaction costs and information availability, the market's moves tend to be less eccentric. Also, the existence of secondary markets, and their increasing popularity over time, shows that market exuberance does face limitations.

R. Fahlenbrach: My intuition is that bubbles can easily occur in private markets, as the high opacity and absence of short selling means that price discovery is more limited. To give an example, in the past few years institutional investors who had invested in late-stage private funding rounds of startups have been obliged to significantly reduce their valuations of these investments.

F. Degeorge: Many privately owned start-ups are postponing their IPOs. It may be that they realize their private valuations are excessive, and they are therefore reluctant to take those valuations to market.



Source: Preqin

Does scale have an impact on private investments?

R. Fahlenbrach: Research has indeed highlighted significant decreases in the returns of mega private equity funds. Financial news outlets tend to focus too much on exciting deals—but the number of hidden gems in private markets is considerably lower than people think.

If, as an investor, I wanted to get exposure to private equity, how should I invest?

M. Benzler: If you are a retail investor who wishes to get exposure to private equity, I recommend you take the route of investing in a fund of funds, as doing so provides benefits of scale as well as diversification. If you are an institutional investor, I suggest you either outsource the private investment decisions or jump into doing such an activity 100 percent.

R. Fahlenbrach: If, as an investor, you firmly believe in private markets and decide to invest in private equity, you need to commit to participating in years of all different vintages, as data show that it is only after several years that you can truly determine which were the good years and which the bad.

What are the essential characteristics a private market investor should have?

R. Fahlenbrach: Investors in private markets need to have long-term investment perspectives, considerable financial assets to invest, a strong capacity to bear risk, and access to attractive investment opportunities through the best funds.

W. Nicoll: It's extremely hard to predict the future, but increases in regulation are bound to keep private markets an attractive investment solution for years to come. I would recommend going where people are absent and being ready to do the hard work required to find and secure a good opportunity.

Can the retail investors of the world benefit from investing in private markets, or should they stick to ETFs?

L. Frésard: In today's regulatory environment, it is very difficult for retail investors to obtain adequate exposure to private markets. Although it is possible to invest in private equity firms, such firms typically offer characteristics similar to large banks. Having ETF-type funds that invest in private firms could be an interesting addition to the market, but the question of liquidity would still need to be addressed, as private investments are by definition long-term and illiquid.

W. Nicoll: Public markets are complex and generally require expert advice. This complexity, and thus the need for advice, is even more true of private equity markets. Private debt is considerably easier for a retail investor than is private equity, as long as you can hold on to your investment until maturity.

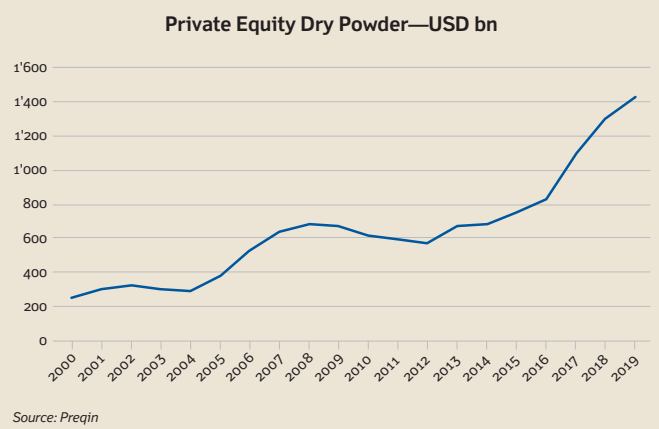
R. Fahlenbrach: Publicly listed firms have changed substantially over the past 20 years. These firms are older, larger, and less exciting, meaning that investing in growth has become increasingly difficult for a retail investor. The problem with private markets is information asymmetry—you really need to be an expert to identify the legitimate companies. Only large investors with a highly skilled workforce can overcome this information asymmetry.

F. Degeorge: In the US the SEC is trying both to increase the number of firms going public and to improve access to private markets for retail investors. It is too early to say whether these initiatives will prove to be successful.

Obviously, the data on public markets differs considerably from that on private markets. How can investors work around this discrepancy? Is it a problem or a benefit?

R. Fahlenbrach: Private market data exists, but it is largely non-standardized and proprietary, which means that risk assessment is more complicated. Lower transparency could be a benefit, however: Because it is more difficult to find good deals and to get information, there is less competition, and returns could be higher.

W. Nicoll: A nice aspect of private markets is that information may be more freely and rapidly available for investors than it is in public markets, as there can be a far closer relationship between the investor and the firm being financed. This closeness occurs, for example, when the investor has a director on the firm's board or is the sole investor. Another key aspect is that, due to regulatory requirements, all public market investors are offered the same, limited quantity of information and data. This standardization and limitation of information within public markets pushes investors to rely on third party verifications and ratings, while the diversity and richness of information within private markets calls for investor curiosity and research discipline.



Source: Preqin

As noted above, there is currently a large amount of dry powder—capital that was committed by investors to a private equity fund but not yet called and invested by the fund—available in the market. How do financial institutions manage this situation, particularly with respect to pressure from investors?

M. Benzler: There has indeed been a buildup of dry powder over the years for several reasons. First, given the fact that private markets are highly fragmented, excess investment capacity has built up in certain parts of the market. Second, lots of capital has been poured into a few funds, which have thus become mega funds. These mega funds are likely to face problems, based on their size and investment focus, due to the overall lack of investment opportunities. I personally believe that during the past ten years the overall deal flow was largely satisfactory, but that in the current economic situation dry powder will become a concern.

W. Nicoll: If you seek stable and liquid returns when investing in private markets, time frame discipline is essential. Markets don't remain stable forever, so you need to pace yourself when investing. It's worth noting that opportunities turn up in both upward and downward markets, but you need to be patient and stay aligned with your initial objectives to succeed. With respect to market participants who wish to invest in private markets, it pays to be honest and to let them know that it does happen, at times, that there is nothing good to buy.

R. Fahlenbrach: I am under the impression that many investors forget that markets are cyclical and that too much money is chasing too little returns. Private equity funds need to demonstrate investment discipline and stick to their investment theses, but it is hard to do so when markets are booming. Some investors push private equity funds to deploy more capital, even if the funds do not see excellent opportunities, because they have a fixed amount allocated to private market strategies.

The Impact of the COVID-19 Pandemic on Financial Markets

We are now halfway through 2020 and the economic and financial prospects for this year are now grim. Should we expect private markets to be affected in the same way as public markets?

M. Benzler: Private markets typically follow the public markets, with a three to six month time lag. Part of the impact is due to the mechanics of valuation, which is based on comparable public firms, while another part is related to the effect the COVID-19 crisis will have on firm-specific revenues and profits..

L. Frésard: To me the prospects for 2020 are still unclear, as they truly depend on the structure of the rescue packages governments around the world are putting together and on how private equity investors will use their large inventory of dry powder. Overall, I am not sure that there will be a big difference in the way private and public markets are impacted.

R. Fahlenbrach: I believe now is the moment of truth for private markets, and particularly for the private debt market. After a decade of growth and a healthy economy, we now see a deep recession ahead, and the non-financial lenders in private debt markets have a true test of their risk-assessment models. The question breaks down to knowing if they priced risk adequately.

F. Degeorge: Private markets are clearly being affected by what is happening in the real economy. Private equity has often acted as a liquidity provider in past periods of financial and economic turmoil, and there are valuable opportunities here for investors with deep pockets.

When and how do you believe the effects of the pandemic will end?

M. Benzler: We are currently working with three recovery scenarios: a V-shape scenario, with a sharp and quick recovery; a U-shape scenario, with a slower, but still relatively quick recovery taking place by the end of 2020; and an L-shape scenario with a slow path to recovery. My current best guess is that we are heading toward a U-shaped recovery, but I'm basing my opinion on a limited set of data points.

As liquidity dries up, do you see fire sales occurring in private markets?

F. Degeorge: Private markets tend to be illiquid. As a result, they are not a good setting for fire sales. Looking ahead, investors might see this illiquidity as an attractive feature. Investing in private markets can be a way of practicing self-control. It removes the future risk of making panicky decisions in the midst of market chaos, just as Ulysses removed the risk of yielding to the temptation of the Sirens by tying himself to the mast of his ship.

W. Nicoll: It is unusual to see fire sales, unless there is a large amount of leverage applied to an asset class. This concentration of leverage has not generally been the case for private assets.

M. Benzler: I don't see fire sales occurring yet, but I am sure that they will occur to some extent, depending on the shape of the recovery.

How will all the excess dry powder, built-up over the past decade, be used and will it help stabilize price drops?

M. Benzler: The current inventory of dry powder in private markets is very high. It will likely be used in a significant manner over the upcoming quarters to help struggling investments and to take advantage of struggling competitors.

L. Frésard: From what I see, based on recent 2020 figures, it seems that dry powder has not yet been deployed. But it is not clear to me that private equity funds can use much of their cash to help their portfolio companies, as doing so may dilute their equity investors.

Has there been an increase in requests for private funding since the fall of the stock market in late February 2020?

W. Nicoll: Private markets tend to slow down when volatility is unusually high in public markets.

M. Benzler: In fact quite the opposite has happened, as capital call and investment activity has significantly slowed down. At a later point in time, however, there may be such an increase. The need for private funding typically increases after a crisis.

F. Degeorge: Some reports from April 2020 show an increase in the activity for PIPEs—private investments in public equity—in the US, suggesting that listed companies are selling their stock to private equity groups at significant discounts. Data show that the last record year for PIPE activity was in 2008, in the midst of the last financial crisis.

Swiss Finance Institute

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Editors
Dr. Silvia Helbling
Head of Knowledge Exchange and Education

Dr. Cyril Pasche
Director Knowledge Exchange and Education

Contact
Dr. Cyril Pasche
+41 22 379 88 25
cyril.pasche@sfi.ch

swiss:finance:institute

Walchestr. 9, CH-8006 Zurich, T +41 44 254 30 80
c/o University of Geneva, 42, Bd du Pont d'Arve, CH-1211 Geneva 4, T +41 22 379 84 71
www.sfi.ch

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