KEYNOTE INTERVIEW

# How innovation is driving demand

*New products, structures and strategies are making private markets more accessible to private wealth investors than ever before, say Pantheon's Michael Hutten and Victor Mayer*

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**Q Why are more private wealth investors turning to private markets?**

**Michael Hutten:** At Pantheon, we typically approach the private wealth market through relationships with private wealth advisers. Over the last decade, we have seen a significant increase in appetite for private investment strategies both from individual investors and the advisers managing their investments.

There are many reasons why this is the case – not least private markets' ability to outperform. Just as institutional investors were initially drawn to the private markets because of their propensity to deliver superior performance in relation to public markets, private wealth investors too are looking to achieve higher returns and with lower levels of volatility. Furthermore, there is a growing understanding that traditional public equity and fixed income markets have become significantly more correlated over time. Private markets, therefore, offer a compelling way to diversify.

Meanwhile, the market conditions that we have experienced over the past five years or so have caused interest in private markets asset classes to intensify. There was a great deal of volatility during the pandemic, and then both public equities and fixed income were rocked by a downturn in 2022, meaning investors allocating a traditional 60/40 blend were hit from both ends. This only enhanced the need for diversification in portfolio construction, as investors in the private markets held up much better.

Finally, one of the fundamental drivers of increased appetite for private markets is the evolution in structure and strategy that we have seen, with more and more products being designed

*"Everything is coming together at the same time to turbocharge demand for private investments"*

**MICHAEL HUTTEN**

**Q What impact is the influx of capital likely to have on private equity and its existing investors?**

**Michael Hutten:** There is no doubt that the adoption of these structures will continue to grow as both investors and managers increasingly recognise their potential. Certainly, private wealth is going to become a significantly more important component of private markets, particularly as the incredible growth in institutional allocations starts to slow. The chance to access a vast and largely untapped investor base in order to address all the attractive deployment opportunities that remain in private markets is one that sponsors will not ignore – and it provides opportunities for managers to grow their capacity and capabilities, and to continue to innovate in their investment approach.

**Victor Mayer:** All the new players now entering the market are really helping the incumbents in their efforts to educate investors on the advantages of private markets, as well as on the specifics of evergreen and semi-liquid fund structures. Better education will lead to greater product fit and ultimately better adoption, because we will be launching products that are closer to what clients want and need. We at Pantheon are focused on tailoring our offering to local requirements, in terms of both structure and servicing model, by leveraging our network of offices.

specifically for the private wealth investor base. In short, everything is coming together at the same time to turbocharge demand for private investments from the private wealth community.

**Victor Mayer:** I would also point to the improved user experience available in private markets today. There has been a great deal of innovation taking place, and the evergreen funds that are coming to market now offer a solution to the historical challenges that committing to closed-end funds presented for private wealth investors. Specifically, there are lower minimum investment levels required, and there is effectively a limited J-curve, if any, as investors gain immediate exposure to a compounding portfolio.

This is particularly the case when investing with groups like Pantheon that have a strong secondaries focus. That secondaries angle also means assets can be bought at a discount and achieve immediate and high levels of backward-looking vintage diversification, which can drive earlier distributions.

Then, of course, there is the question of liquidity. Most private wealth investors who have been active in private markets in the past have accessed these asset classes through feeder funds with private banks, which often involve long lockups. Now, the growing range of evergreen fund options present another route in. If you go into a closed-end fund, you are wedded to that GP for the next 12-15 years. Going into that fund is expensive; getting out of the fund is more expensive still. With an evergreen, semi-liquid fund, you are keeping your options open.

While investors should still see these as long-term investments, the knowledge that the liquidity option is there is really widening the potential investor base.

**Q How should private wealth investors evaluate the product options available in the market?**

**VM:** Pantheon has unique insights when it comes to private wealth because we manage three flagship permanent capital vehicles, including two London Stock Exchange-listed investment trusts, one of which has been active for 37 years. Meanwhile, Pantheon launched its first evergreen, semi-liquid fund – the AMG Pantheon Fund – in the US almost a decade ago, giving us extensive experience and a strong track record in this space.

With that in mind, I would say private wealth investors face two fundamental options today. First, they could go with one of the large-cap direct private market groups that have recently formed a private wealth offering. Going down that route means investors will be putting their money to work with a brand name, but they won't be benefiting from the lessons learned as a result of having a long liquidity management track record. Furthermore, those vehicles will be predominantly deployed in the primary investment strategy of the GP, which has its own limitations.

The alternative is to invest with a group like Pantheon that has a long track record in evergreen funds and invests with multiple managers, enhancing the range of deployment options. This brings greater diversification and, effectively, can provide that broad private equity exposure that investors seek.

Having decided on an initial entry point, investors then need to consider the different legal structures that are being employed to facilitate private wealth access to private markets. Currently, the centre of global private wealth outside of the US is considered to be Luxembourg, where products such as UCI Part II funds and European Long-Term Investment Funds (ELTIF) are being widely used. As a development of the ELTIF, local versions of the product are being produced across Europe, such as the UK's Long-Term Asset Fund (LTAF). We are also likely to see more structures coming out of Asia.

The closed-end fund has dominated this industry for decades, but now evergreen structures are really starting to gain traction. They are changing the nature of the market and, in particular, the experience of private wealth investors within it.

> *"Evergreen funds that are coming to market now offer a solution to the historical challenges… presented for private wealth investors"*
>
> **VICTOR MAYER**

**MH:** And there are further differences depending on jurisdiction. In the US, we are seeing a combination of registered tender-based funds, interval funds, non-traded business development companies and real estate investment trusts. The commonality in all of these structures is that they have been purposefully designed to accommodate the needs of private wealth investors, including lower minimum investment thresholds and the need to be thoughtful about liquidity management, tax implications and local jurisdiction considerations.

These product offerings will continue to evolve over time. As innovation in structuring continues, it will be important to make sure this doesn't negatively impact the underlying strategy. The more these structures morph to look like traditional investment structures, the greater the chance for underperformance and liquidity mishaps. There is a balance that firms will need to strike.

**Q What is next for Pantheon and its private wealth strategy?**

**MH:** In the US, we are looking to launch a new private credit vehicle this year: the AMG Pantheon Credit Solutions Fund is a first-of-its-kind offering that will be specifically geared towards buying private credit in the secondaries market. We believe that a private credit secondaries strategy offers the opportunity to buy private credit in a smarter way, complementing some of the existing private credit allocations an investor may have in their portfolio.

I think this kind of specialisation is going to be a growing trend with regard to the access offered to private wealth clients. After all, although there is a lot of noise around the democratisation of private markets at the moment, the reality is that private wealth investors have been allocating to the space for several decades. What is changing is the level of optionality available to that investor base.

**VM:** Having been in the private wealth business for over 37 years, Pantheon continues to stay ahead of the game from a structuring and strategy perspective. We look forward to what is to come and getting Pantheon Global Private Equity, our latest evergreen fund, off the ground by providing access to investors in 20 countries outside of the US.

We are also looking at other areas for complementary offerings that would be additive for this market – including infrastructure secondaries and private credit secondaries – that could potentially offer an attractive mix of yield and total return. ■

Michael Hutten is a partner and head of US private wealth, and Victor Mayer is a managing director and head of international private wealth at Pantheon

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