private equity investment ▼



In it for the long haul

Amid continued economic and political uncertainty, Jack Gray assesses private equity trends following the highs of 2021 and what opportunities the asset class presents for pension schemes

ast year witnessed the total value of global private equity (PE) deals hit a record high, with US \$1.16 trillion worth of transactions completed. Although PE deal volumes have declined this year so far, they have fallen back to the more 'normal' levels of PE investment seen in 2019, following the surge in 2021.

While investment in PE is widely accepted in many countries, PwC noted

that pension schemes are more reluctant to consider the asset class due to a combination of regulatory pressure and risk-adverse behaviour. However, this trend looks likely to change, with the government exploring options to allow UK DC schemes to benefit from long-term investment opportunities.

The economic downturn could present good buying opportunities for PE managers due to the long-term nature

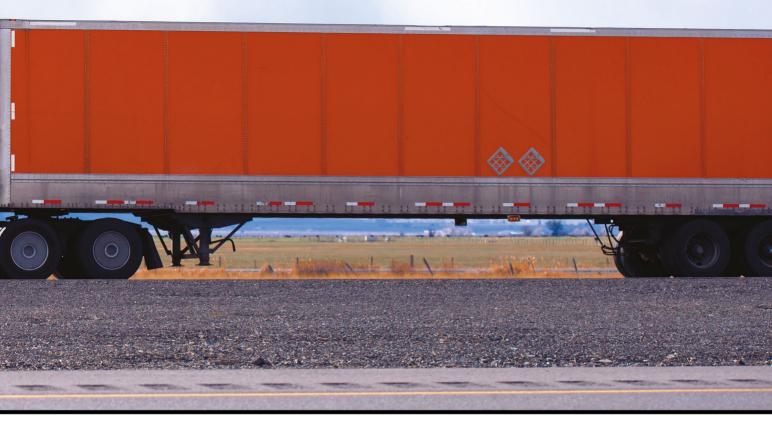
of the asset class, while the secondary market has been bolstered by pension funds selling PE funds at a record pace and at a discount in the first half of 2022. Furthermore, private markets could present opportunities due to the downturn in performance in public markets amid the ongoing economic uncertainty.

Returning to business as usual

"Outperformance of private markets compared to public markets is greatest when public markets are struggling," Russell Investments director of private markets, Michael Steingold, explains.

"Therefore, there is potential reward

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for the patient, discerning PE investor. We have an ongoing war in Ukraine, high inflation and central banks committed to raising interest rates, despite concerns about slowing economic growth.

"This created a testing market environment, where investment selection became more important in high-risk PE segments. We see more opportunities on the horizon in the venture and growth equity segments of the market as investor attention shifts toward the more preferred buyout segment."

BlackRock Alternatives Specialists global head, David Lomas, adds that, in the wake of the current market volatility, managers are taking steps to ensure strength of existing portfolio companies, reducing leverage levels and locking in rates where possible, and taking into account updated considerations during underwriting and due diligence processes.

"With respect to new opportunities, transaction volumes and exit activity have fallen materially from the highs of 2021," he continues. "However, following recent public market volatility, public-to-private and corporate carveout transactions are becoming more attractive given some significant falls in valuations.

"Although sellers are currently mindful of multiple compression found in public comps and are awaiting a rebound, buyers are looking to capitalise on lower prices. We expect volumes to step up over time as expectations reset."

Lomas notes that PE-backed companies tend to experience resilience in times of crisis, due to greater access to external funding, which makes PE an "inherently resilient" asset class.

Manulife Investment Management global head of PE and credit, Vipon Ghai, adds that PE is a long-term investment and quarter-to-quarter volatility creates opportunities given the amount of unfunded capital available to the asset class.

"While interest rates, inflation, and geopolitical uncertainty will continue to affect valuations, PE has always been opportunistic in nature given that most owners of portfolio companies are inclined to remain patient rather than sell into a weak market," he says.

WTW head of PE research, Andrew Brown, notes that, for the most part, PE has held well amid the macro and geopolitical headwinds experienced for most of 2022, although he warns that the quarter lag in reporting must be accounted for as the macro effects will not be seen immediately.

"One would expect fundamentals to soften going into Q4 as a tight labour market starts to bite and price increases become harder to pass through to underlying customers," he states.

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