Quarterly Analysis

Manager Intelligence and Market Trends

August 2019

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bfinance is an award-winning specialist consultant that provides investment implementation advice to pension funds and other institutional investors around the globe. Founded in 1999, the London-headquartered firm has conducted engagements for more than 340 clients in 35 countries and now has eight offices in seven countries. Services include manager search and selection, fee analysis, performance monitoring, risk analytics and other portfolio solutions. With customised processes tailored to each individual client, the firm seeks to empower investors with the resources and information to take key decisions. The team is drawn from portfolio management, research, consultancy and academia, combining deep sector-specific expertise with global perspective.

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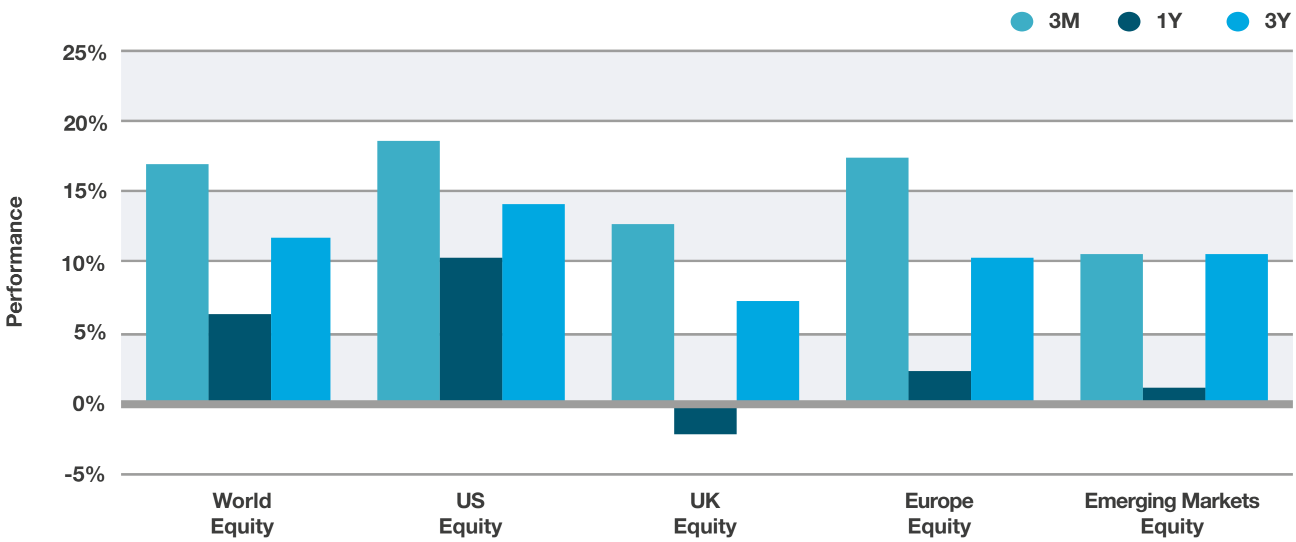
At a glance...

- New manager searches illustrate a strong focus on improving portfolio resilience. Within equities this manifests as appetite for low volatility and quality; in fixed income we see increased interest in investment grade bonds versus high yield and loans.
- The bfinance Risk Aversion index sits in neutral, with key market indicators showing both caution and optimism. Yet equity "FOMO" (fear of missing out) is evident among Multi Asset funds: average allocations to equities are now higher than they were during the risk-friendly 2013-14 window.
- Styles (or factors) were strongly predictive of Q2 active manager performance in developed market equities, where value managers (-5% vs. MSCI World) continued to struggle versus their growth-focused peers (+8.5%). The picture was very different in emerging market equities where style had little connection with performance.
- Demand for Alternative Risk Premia has risen again in 2019, despite the disappointing returns that some ARP managers delivered in calendar 2018.
- Conversely, we note a decline in appetite for corporate Private Debt although this sector still represents nearly 10% of all new manager searches conducted by bfinance and 25% of those in private markets.

PERFORMANCE OF PUBLIC MARKETS TO END OF JUNE 2019

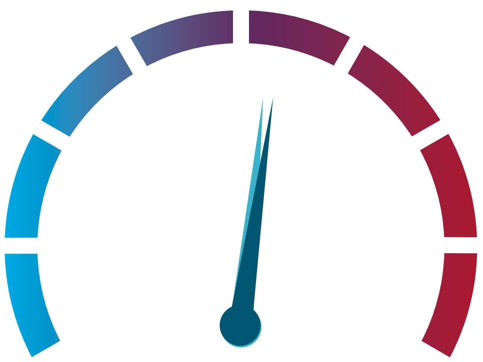


Source: bfinance/Bloomberg

Risk appetite

Market risk appetite sits in "neutral" while multi-asset funds maintain equity-heavy stance

Risk appetite barometer, Q2 vs Q1



Risk Averse (Scared) Risk Seeking

Manager positioning barometer, Q2 vs Q1

Bearish Bullish

Q2 Q1

Source: bfinance (see page 5)

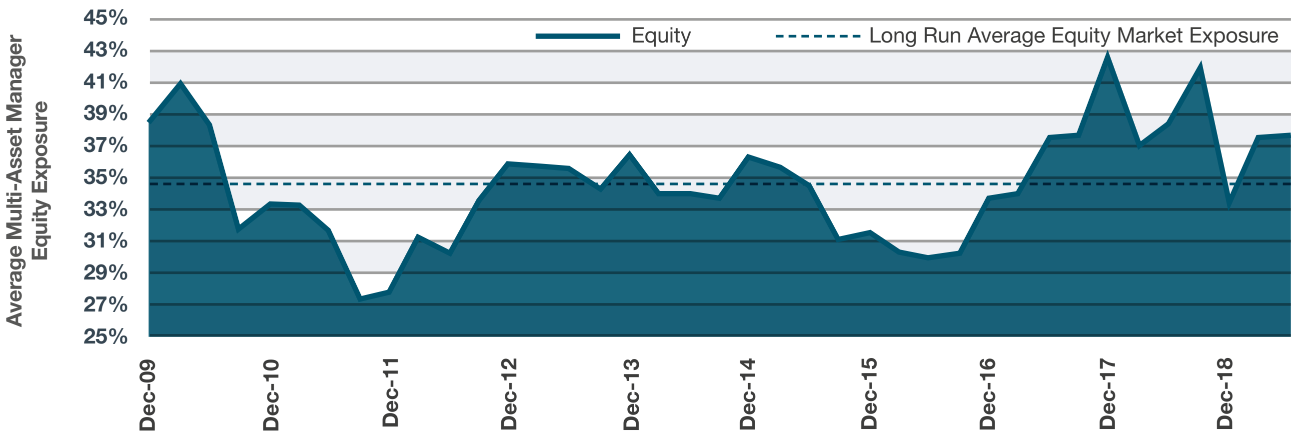
Risk appetite continued

The bfinance Risk Aversion Index has remained largely under its ten-year average through Q2, despite some evident spikes through May-June, indicating a "cautiously bullish" sentiment across a range of market indicators (implied volatilities, gold prices, CDX etc).

Multi-asset funds currently tracked by bfinance are more risk-on than the market at large: allocations to equities have increased by around three percentage points between December 2018 and end-June 2019, now sitting north of 37% versus a long-run average of around 34.5%.

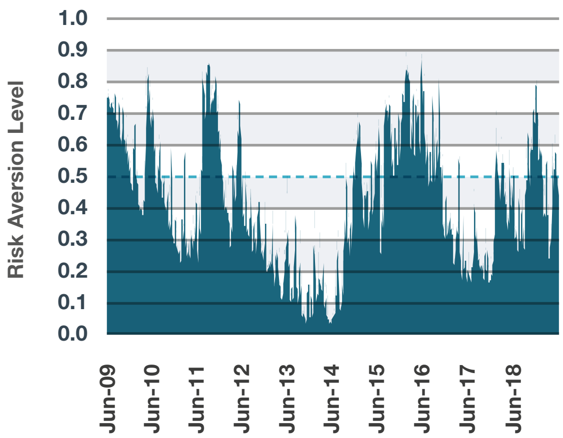
It's worth noting that such funds have adopted increasingly equity-heavy positions relative to market sentiment: during the risk-friendly 2013-14 window their average equity slice sat around 35%. A protracted bull market has perhaps produced a degree of equity "FOMO" (fear of missing out).

MARKET POSITIONING OF MULTI-ASSET FUNDS



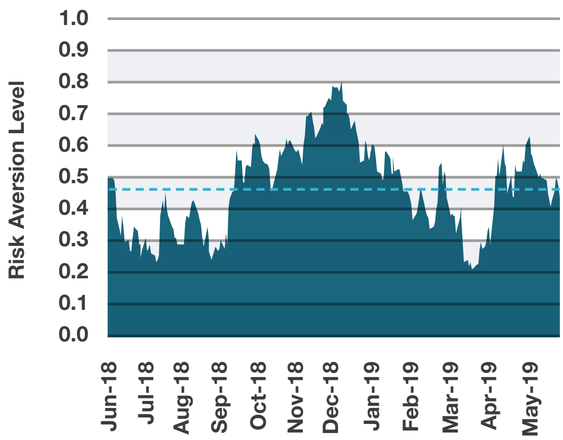
Source: bfinance. This graph shows the current and average exposure to equities held by a range of multi-asset managers. This is based on proprietary analysis performed by bfinance. The managers analysed vary in strategy from macro and GTAA through to bottom-up allocation strategies.

THE BFINANCE RISK AVERSION INDEX: 10-YEAR VIEW



Source: bfinance/Bloomberg

THE BFINANCE RISK AVERSION INDEX: 1 YEAR VIEW



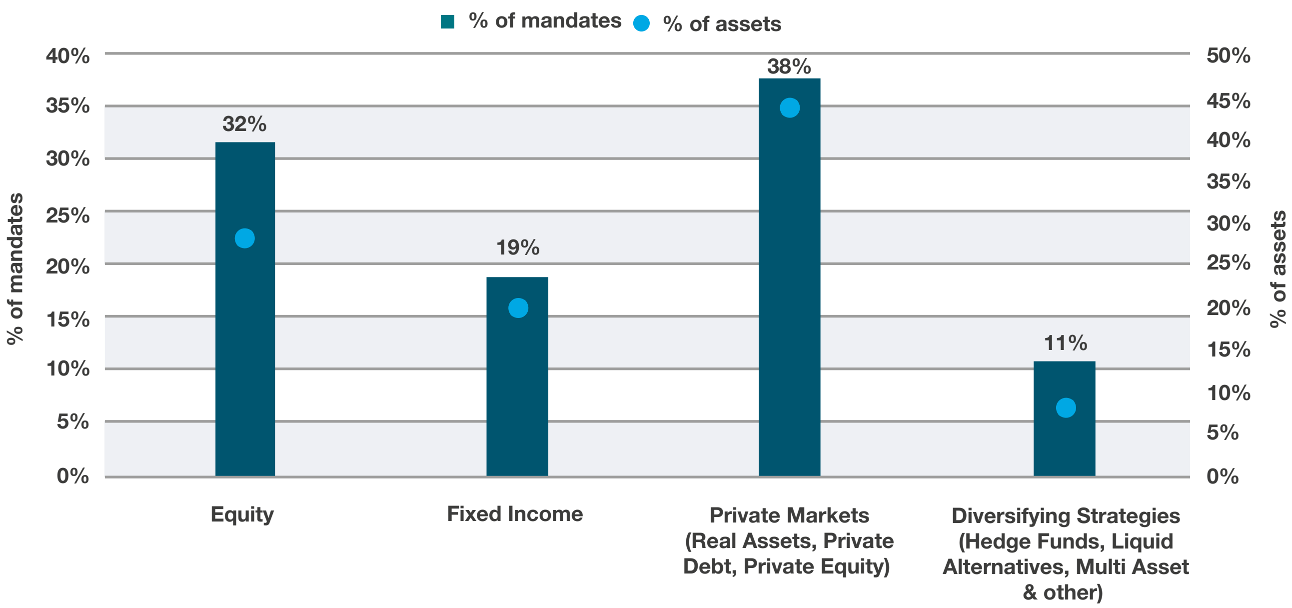
Source: bfinance/Bloomberg

The bfinance risk aversion index is a proprietary measure we use to calculate how risk seeking (nearer zero) or risk averse (nearer 1) the market consensus is. It ranges between 0 and 1. The internal algorithms used incorporate indicators of market expectations of future volatility (e.g. implied volatilities in equities and FX), the level of classic safe haven investments (gold) and market expectations of corporate default (e.g. CDX).

New manager searches

Investors seek diversification with Real Assets, Multi Asset and Investment Grade Bonds in focus

NEW MANAGER SEARCHES, 12M TO JUNE 30 2019 (BY ASSET CLASS)



Note: these figures only represent projects initiated **after** July 1st 2018 and do not include pre-existing client engagements that continued during the year.

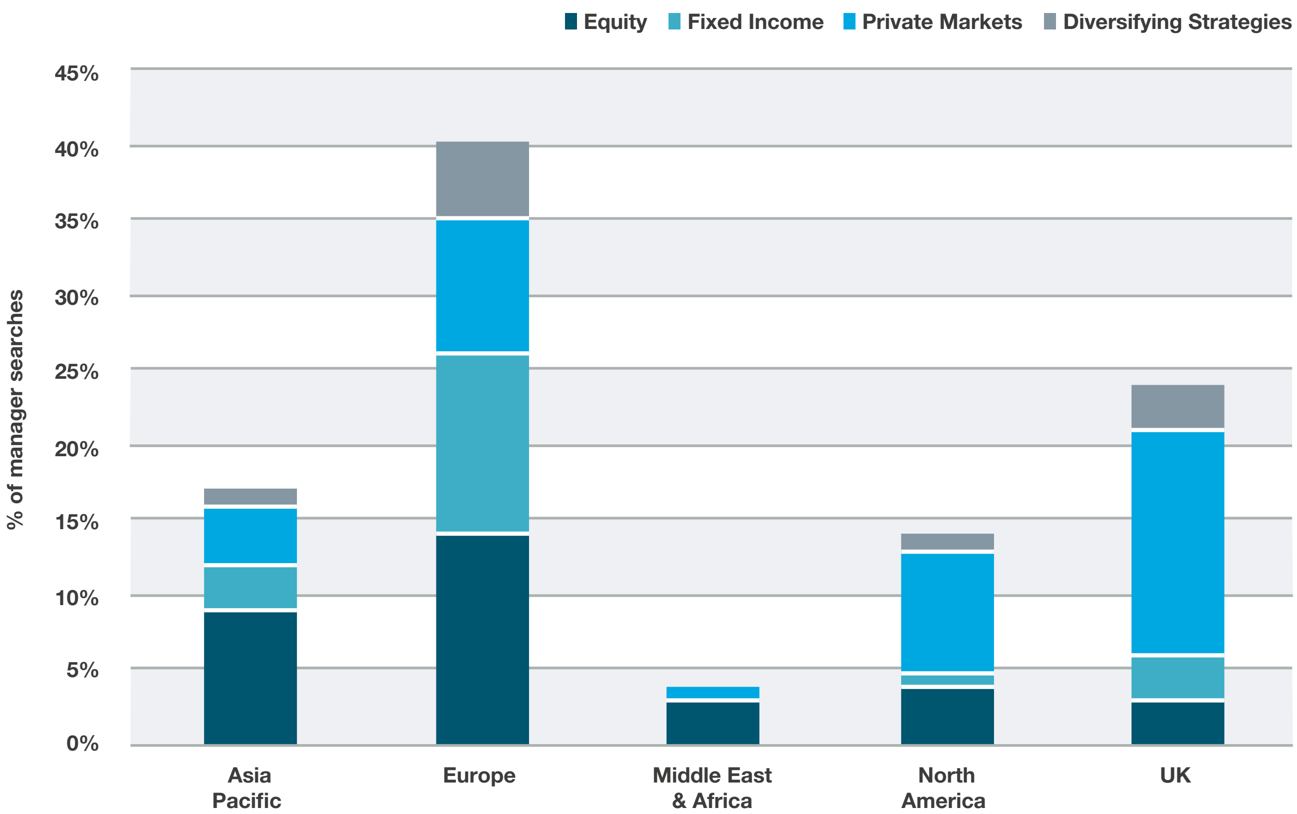
New manager searches continued

While bfinance supports clients on a range of investment activities including portfolio strategy, monitoring and risk analytics, the majority of clients use the firm for researching and selecting external asset managers. The volume of new manager selection engagements conducted in the twelve months to June 2018 (excluding Overlays) is up 10% versus the previous year.

In the first half of 2019 we note a slight softening of demand for new mandates in private markets, and particularly in corporate private debt. Although searches for illiquid investment managers still outstrip those for equities (the second largest category) over the last twelve months, the pendulum does appear to have swung somewhat towards public markets since the end of 2018.

Across all sectors we note a strong focus on improving portfolio resilience. Within equities this manifests as appetite for low volatility and quality; within fixed income we see greater interest in investment grade bonds versus high yield and loans; in "diversifying strategies" we still see an emphasis on more liquid, transparent strategies such as Alternative Risk Premia.

NEW MANAGER SEARCHES (BY INVESTOR LOCATION)

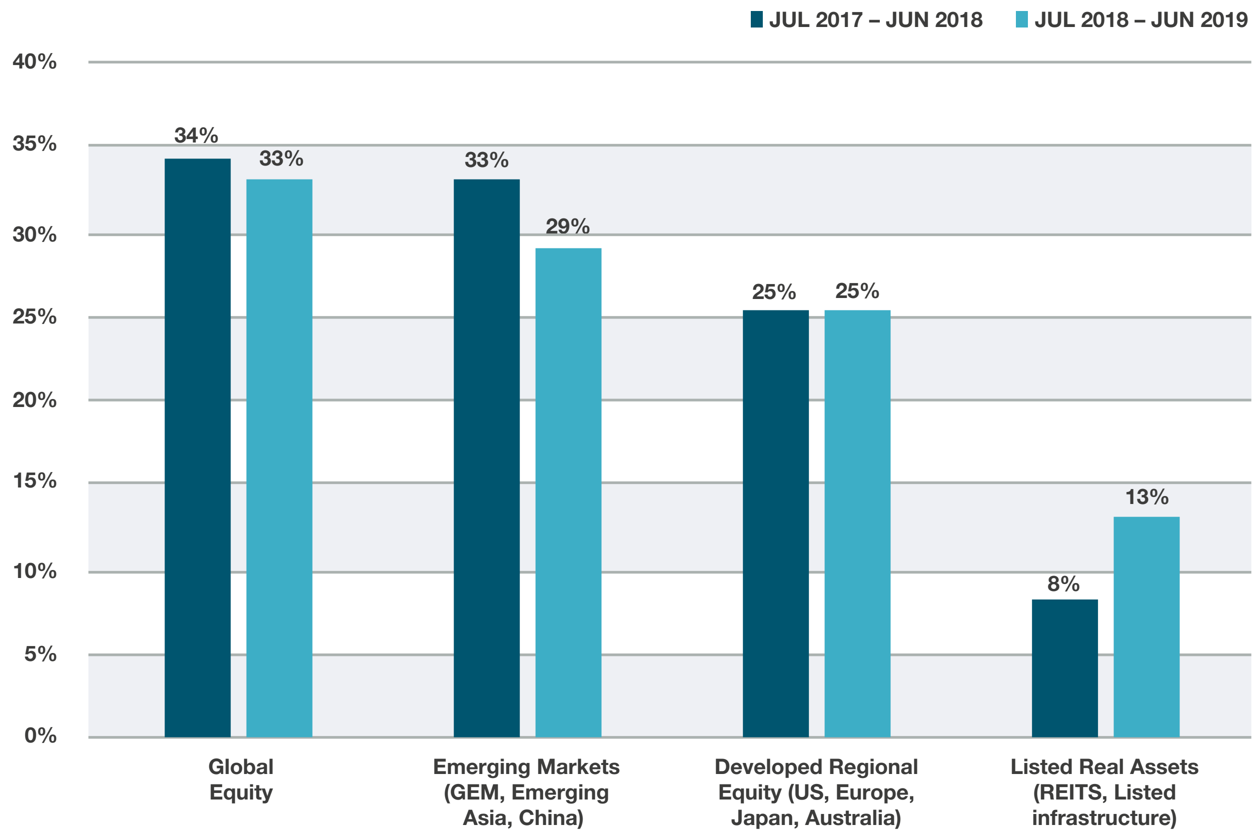


Note: these figures only represent projects initiated after July 1st 2018 and do not include pre-existing client engagements that continued during the year.

Equity

Investors show renewed appetite for emerging markets, China

NEW EQUITY MANAGER SEARCHES TO 30 JUNE 2019, YEAR-ON-YEAR



Note: these annual figures only represented projects that were initiated during that year, and do not include pre-existing arrangements that continued during the year.

Equity continued

Investor trends

Pension funds and others are broadly seeking to improve equity portfolio **resilience** through two routes: explicit, with allocations to less "risky" strategies such as **Low Vol** or **Quality**; and implicit, through broader exposure across geographies, size and other dimensions. At the level of the specific institution, investors are continuing their push to identify strategies that offer meaningful diversification when used in combination with their own incumbent managers.

Emerging Market Equity strategies have been one key beneficiary of the diversification priority. After slumping in the second half of 2018, investor demand for this sector has been strong in H1 2019 with particular appetite for Global Emerging Markets (GEM) and **China** Equity strategies.

Among (non-EM) regional equity strategies, overall demand has remained relatively consistent but the regional breakdown has changed significantly: we observe a decline in new searches for **Japan** Equity for the twelve months to June 2019, and a commensurate rise in US/Europe mandates.

Global Equity continues to be – by a hair's breadth – the dominant category for new equity manager searches, with Low Vol and Quality the most sought-after styles. After an extended losing streak for the **value** factor, we observe that investors are more likely to prefer value styles versus growth styles in their latest mandates. It's also worth noting that appetite for Smart Beta has remained relatively muted since the surge of first-time entrants to the space in 2013-16.

Equity continued

Market snapshot

Although **global** equity markets extended their strong Q1 gains through April, May saw sharp falls amid growing concerns for global economic growth and escalating trade war rhetoric between the US and China. However, an easing of tensions between the two nations supported recovery in June, culminating in a 4% gain for the MSCI World in Q2.

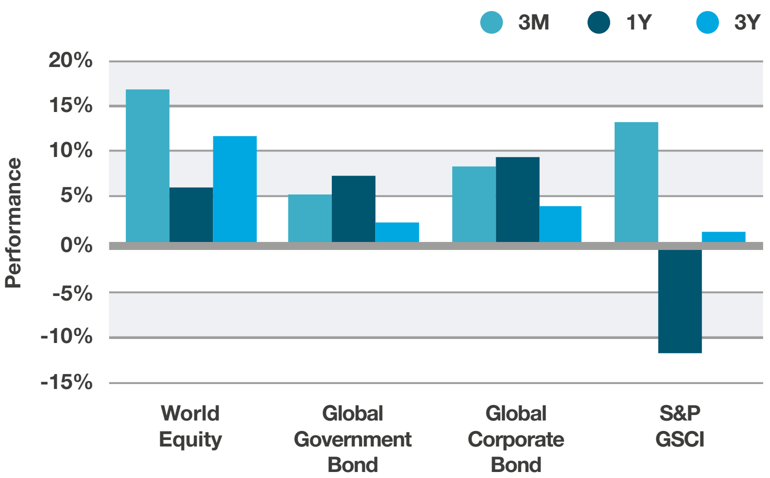
US markets touched a new all-time high, with the MSCI US Index rising by 4.1% in Q2 (18.4% year-to-date) despite rather mixed economic data. The rise was influenced by macro policy: while the Fed did not actually cut rates in June, reductions in the near future were strongly indicated.

European stocks followed a similar trend. The MSCI Europe index gained 3.0% (in EUR terms) despite May's market decline and continued political instability across the continent, leaving the index is up 16% year-to-date. Economically sensitive stocks outpaced defensive sectors, with Technology the strongest performer over the quarter.

Japan's equity market lagged most other developed markets, declining 1.7% over the quarter (in JPY terms). The yen strengthened against other major currencies, driven partly by its perceived defensiveness and partly by shifting interest rate expectations for the US.

Emerging Market equities suffered particularly heavy falls during May, at one stage almost giving up their 10% gain from Q1. However, a subsequent bounceback saw the MSCI EM index finish marginally positive for the quarter. Markets were impacted by uncertainty with several significant elections and the aforementioned trade war, which may have contributed to China's economic slowdown.

EQUITY MARKET PERFORMANCE (TO JUNE 2019)



	YTD USD	YTD LOCAL
World Equity	17.0%	16.7%
US Equity	18.5%	18.5%
UK Equity	12.7%	13.1%
Europe Equity	17.4%	18.3%
Emerging Markets Equity	10.6%	10.1%

Indices Used
World Equity: MSCI World Index in USD and in Local Currency
US Equity: S&P 500
UK Equity: FTSE 100
Europe Equity: Euro Stoxx 50
Emerging Markets Equity: MSCI Emerging Markets Index in USD and in Local Currency

Equity continued

MANAGER PERFORMANCE (TO JUNE 2019)

	3m	YTD	1Y	3Y (p.a)
Global Equity Composite*	**4.3%**	**18.7%**	**8.6%**	**15.7%**
MSCI World	4.0%	17.0%	6.3%	11.8%
MSCI ACWI	3.6%	16.2%	5.7%	11.6%
Outperformance VS MSCI World	**0.3%**	**1.7%**	**2.2%**	**3.9%**
Outperformance VS MSCI ACWI	**0.7%**	**2.4%**	**2.8%**	**4.0%**
Global EM Composite*	**1.8%**	**14.0%**	**1.2%**	**11.9%**
MSCI EM Index	0.6%	10.6%	1.2%	10.7%
Outperformance	**1.2%**	**3.4%**	**0.0%**	**1.3%**

Source: bfinance/Bloomberg

The Global Equity Manager and Global EM Manager composites show the performance of a sensible and representative sample of managers that invest in global equities and global emerging markets equities respectively. We use these composites as a proxy for how managers in the space are performing relative to their benchmarks. They **do not** represent manager recommendations.

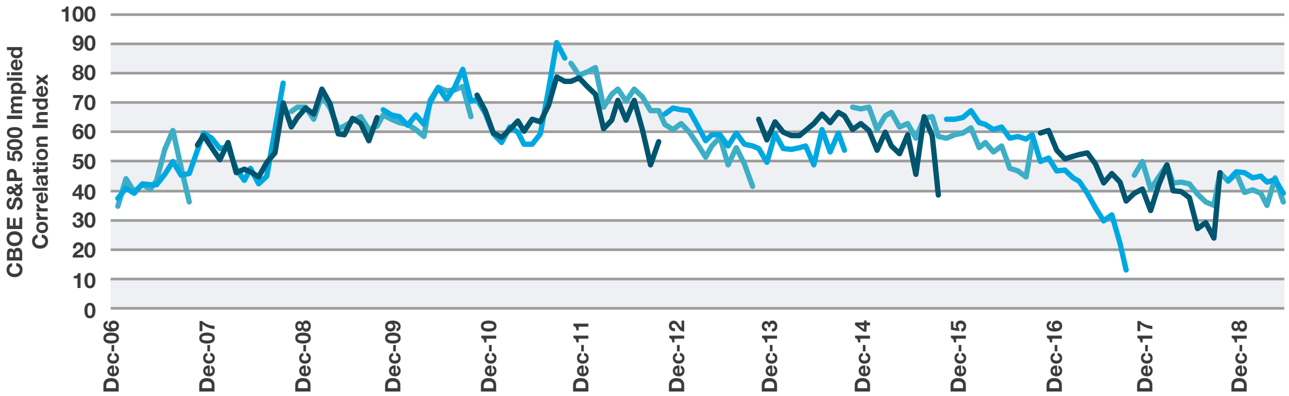
Despite the intra-quarter volatility, the factors driving performance in Q2 were similar to those supporting the strong market rally in Q1. Decomposition of returns in global developed markets shows that **value** was a headwind while **growth** and **quality** factors were rewarded. Those stocks with relatively high volatility generally struggled, while size was a positive contributor as larger caps outperformed their smaller cap counterparts.

These factor returns are evident in the performance of active global equity managers tracked by bfinance. In developed markets, those managers with a growth and/or quality bias outperformed the MSCI World's 4% gain by an average of 1-2%, with those focusing primarily on growth adding the most value. Managers with a value emphasis lagged the index considerably, with a composite of such strategies delivering less than half the index return. This commentary holds true for the year-to-date: relative to the MSCI World's 17% gain, high-growth managers were ahead by an average of 8.5% while those managers with a value bias were more than 5% behind.

Style was less dominant as a driver of performance in emerging markets in Q2. Remarkably, our manager composites covering the style spectrum (high-growth, quality growth, 'GARP', core and value) all outperformed the MSCI EM index in Q2. For the year-to-date, those managers with a growth and/or quality bias have demonstrated the strongest performance, outperforming their benchmark by an average of 5%; value managers have fared less well in aggregate, sitting marginally behind the index.

Equity continued

CORRELATIONS BETWEEN STOCKS



Source: CBOE/Bloomberg. CBOE Indicies measures the implied correlation between stocks that make up the S&P500. The series measures the expected average correlation of price returns of S&P 500 Index components, implied through SPX option prices and prices of single-stock options on the 50 largest components of the SPX for different maturities.

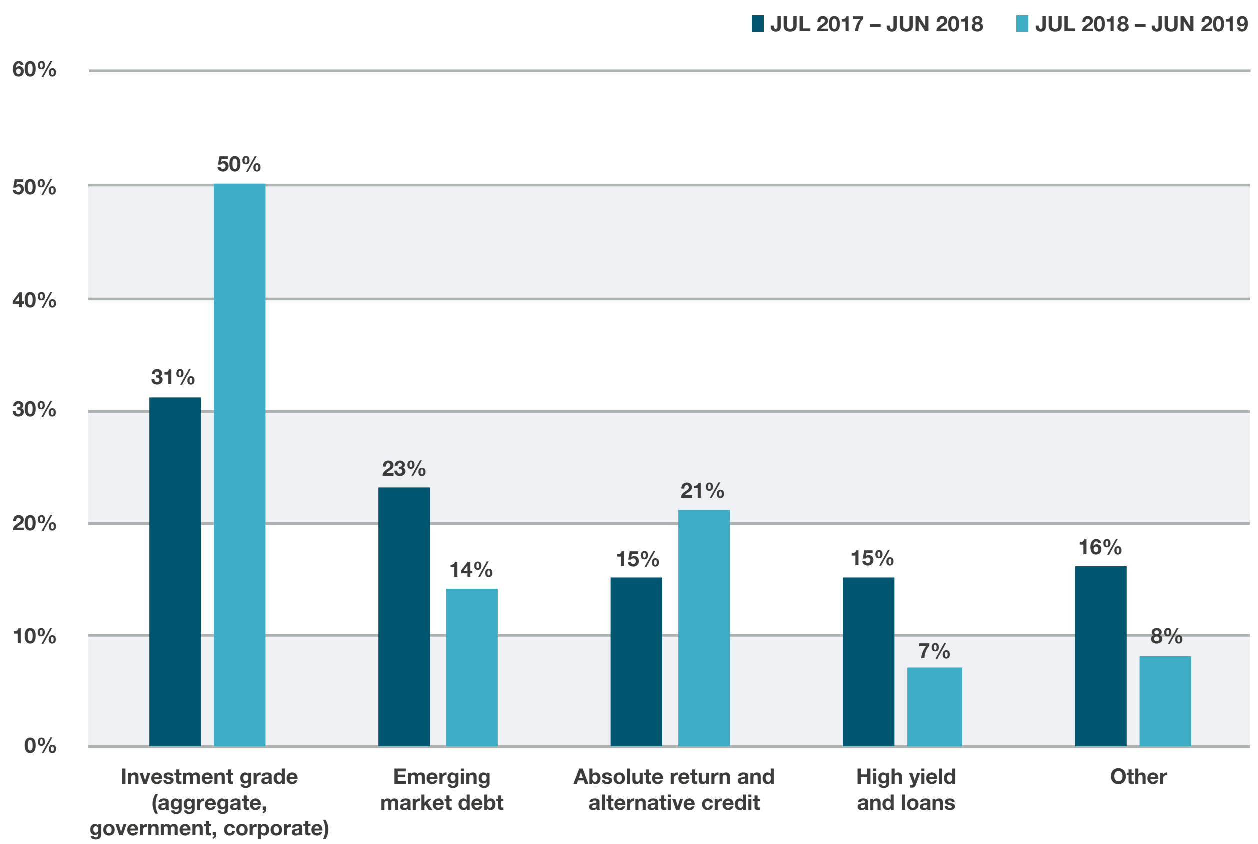
News from the equity manager world

- Simon Harris becomes Interim Global Head of Equity at **GMO**.
- **Janus Henderson**'s Head of Global Equities, Ian Warmerdam will leave the firm in December to pursue opportunities outside the industry.
- **Lazard Asset Management** expands its quantitative equity platform with the hire of a new US Systematic team based in San Francisco. The team joins from **Baylight Capital**, which they founded in 2013.
- **Metzler Asset Management** appoints Marco Scherer as a portfolio manager on its European Growth strategy. Scherer joins from **DWS**.
- Asian equity veteran Peter Sartori leaves **Nikko Asset Management**, where he was Head of Asia ex-Japan Equities.
- **Polar Capital** appoints Gerard Cawley as head of its Japan Investment team, replacing James Salter, who is taking a break from the industry.
- **Wells Fargo Asset Management** has appointed Nico Marais as CEO and head of its asset management unit, replacing Kristi Mitchem, who left to join BMO in January.
- Saku Saha leaves **Woodford Investment Management**, where he was a portfolio manager. The departure comes amid several redundancies following the recent suspension of the firm's UK Equity Income fund.

Fixed income

Investors lean towards safer strategies as investment grade searches dominate

NEW FIXED INCOME MANAGER SEARCHES TO 30 JUNE 2019, YEAR-ON-YEAR



Note: these annual figures only represented projects that were initiated during that year, and do not include pre-existing arrangements that continued during the year.

Fixed income continued

Investor trends

The stand-out theme of the last twelve months continued in Q2: strong appetite for relatively classic investment grade fixed income searches versus other segments. This trend in part reflects investors' efforts to ensure portfolio resilience in the event of an equity downturn. Demand for high yield has been subdued, while the less attractive fundamentals in the Loan sector have also resulted in a decline in searches for that sector. There is still strong appetite for Alternative Credit as a means of enhancing yield.

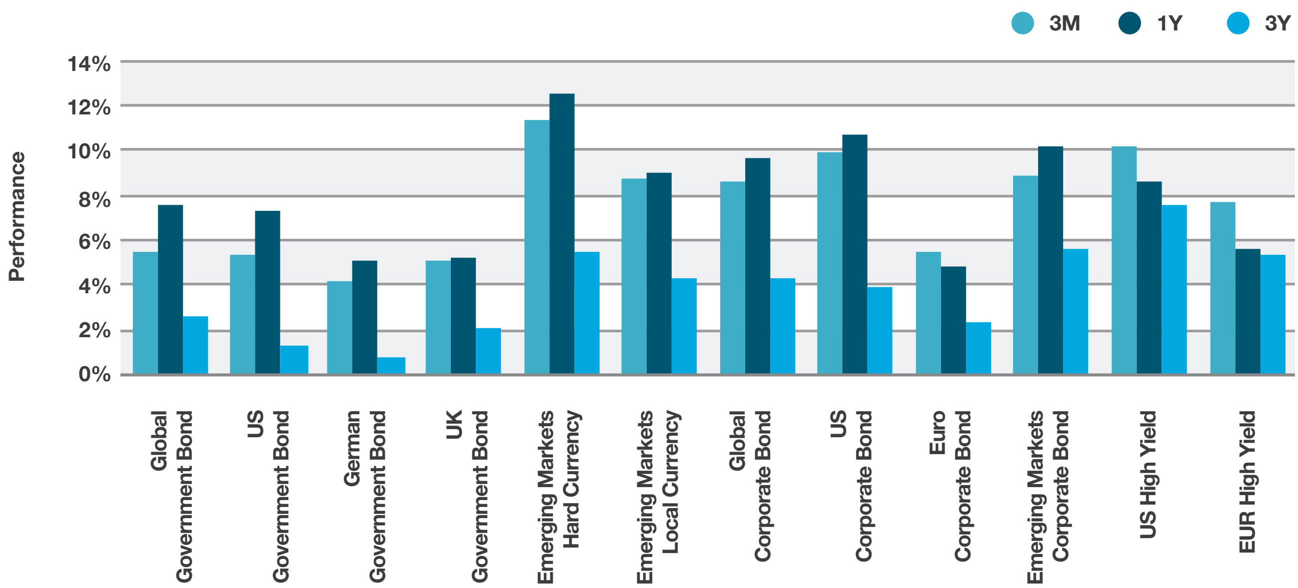
Emerging market debt search volumes, though slightly down year-on-year, remain been strong relative to prior years. Clients continue to increase allocations, attracted by higher yields for an investment-grade average rating.

Market snapshot

US investment grade credit delivered a comfortable 4.3% return in Q2. Although spreads ended the quarter just 5bps tighter, spread movements during the period were substantial. The market correction in May, catalysed by negative headlines on China trade talks and US/Iran tensions, was offset by positive returns in April and June as downward-trending US Treasury yields supported performance. **European investment grade credit experienced** similar momentum: spreads compressed by 14 bps for a return of 2.2%, supported by falling government bond yields across the euro area.

High yield underperformed investment grade in Q2, with **US high yield bonds** delivering 2.43% and **Euro high yield** adding 2%. In both regions, higher quality issues outperformed the CCC tier. In the US spreads widened slightly and all industry sectors were up apart from Energy, which delivered a -0.3% loss; Cable and Retail were the standout performers with returns above 4%. US leveraged loans underperformed high yield bonds, leaving spreads in the loan market above those in high yield (471bps vs 461bps). In Europe spreads tightened 15bps over Q2, despite widening by around 75bps in late-April.

PERFORMANCE OF BOND MARKETS TO END OF JUNE 2019



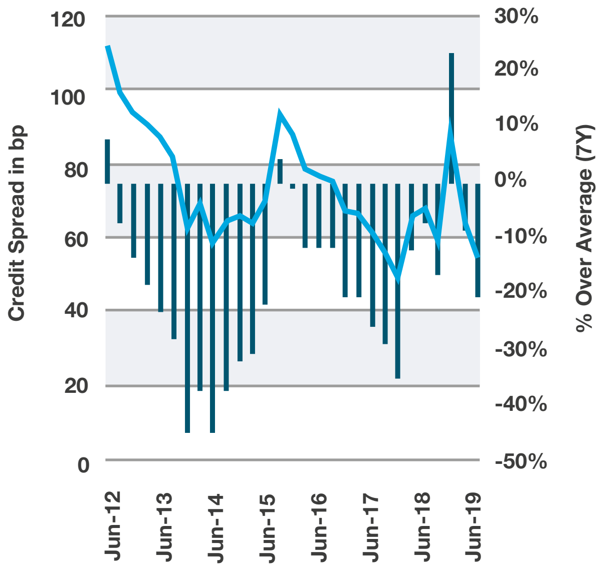
Source: Bloomberg, JP Morgan. All data in USD, hedged or unhedged. Contact bfinance for index queries

Fixed income continued

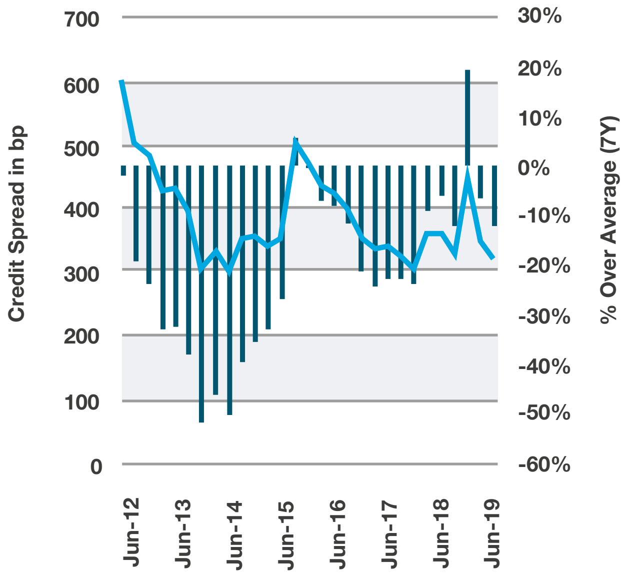
Market snapshot continued

Local currency **emerging market debt** outperformed hard currency debt in Q2, with index returns of 5.6% driven equally by FX and interest rates. Both Russian and Turkish bonds delivered returns above 10%,while Argentina was the biggest loser despite a strong rebound in June. Meanwhile, hard currency debt returned 4.08%, bringing the YTD figure to a whopping 11.3%. Performance was evenly spread across countries, with solid results from the two largest index constituents: Mexico (+2.7%) and Indonesia (5.1%). The only notable loser was, once again, Venezuela whose debt lost one third of its value over Q2. EM corporate bonds also delivered a solid performance (+3.5%), with all industry sectors delivering returns in the 3-5% range.

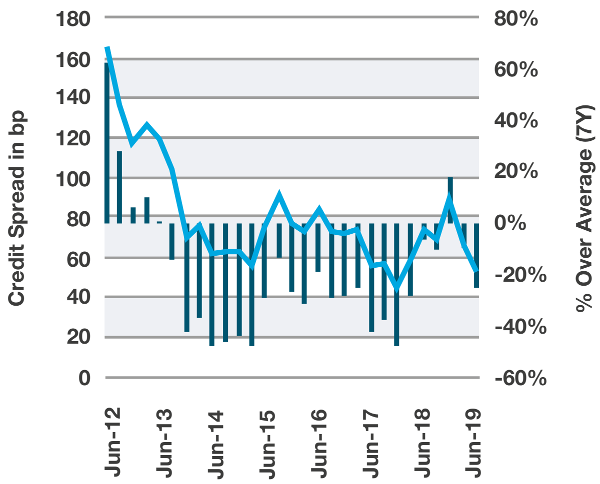
US IG CREDIT SPREAD CURRENT VS AVERAGE



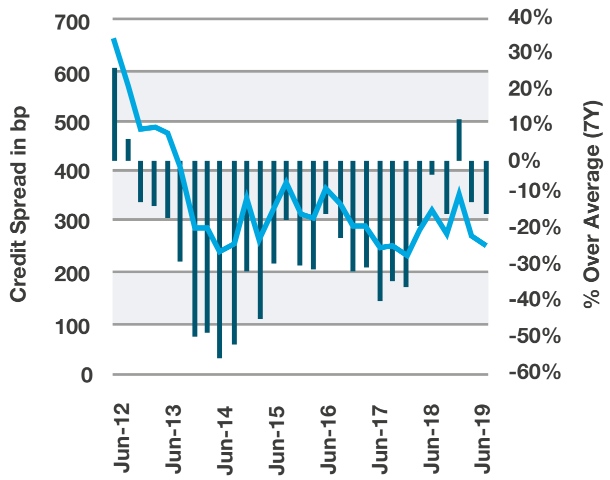
US HY CREDIT SPREAD CURRENT VS AVERAGE



EUROPEAN IG CREDIT SPREAD CURRENT VS AVERAGE



EUROPEAN HY CREDIT SPREAD CURRENT VS AVERAGE



Source: bfinance, Bloomberg.

Fixed income continued

MANAGER PERFORMANCE (TO END JUNE 2019)

	3m	YTD	1Y	3Y (p.a)
US Investment Grade*	**4.35%**	**9.93%**	**10.50%**	**4.56%**
Barclays US Corporate IG	4.48%	9.85%	10.72%	3.94%
Outperformance	-0.13%	0.08%	-0.22%	0.61%
Euro Investment Grade*	**2.36%**	**5.65%**	**5.17%**	**2.89%**
Barclays Euro Corporate	2.15%	5.42%	4.77%	2.37%
Outperformance	0.21%	0.23%	0.40%	0.53%
US High Yield*	**2.60%**	**9.81%**	**7.38%**	**7.41%**
BofA ML US High Yield Master II	2.56%	10.16%	7.58%	7.54%
Outperformance	0.03%	-0.34%	-0.20%	-0.12%
EUR High Yield*	**2.23%**	**5.58%**	**4.34%**	**4.02%**
ML European Curr HY Constr. EUR Hedged	2.33%	7.73%	5.61%	5.30%
Outperformance	-0.10%	-2.15%	-1.27%	-1.28%
EMD – Hard Currency*	**4.10%**	**11.27%**	**11.53%**	**6.04%**
JPM EMBI Global Diversified	4.08%	11.31%	12.45%	5.47%
Outperformance	0.03%	-0.05%	-0.92%	0.57%
EMD – Local Currency*	**5.67%**	**9.10%**	**8.86%**	**4.66%**
JPM GBI-EM Global Diversified	5.64%	8.72%	8.99%	4.24%
Outperformance	0.04%	0.38%	-0.13%	0.41%
EMD – Corporates*	**3.88%**	**9.68%**	**10.84%**	**6.75%**
JPM CEMBI Broad Diversified	3.50%	8.83%	10.21%	5.54%
Outperformance	0.38%	0.85%	0.64%	1.21%

Source: bfinance/eVestment

The Fixed Income Manager peer groups show the average performance of a sensible and representative sample of managers. We use these peer groups as a proxy for how managers in the space are performing relative to their benchmarks. They do not represent manager recommendations.

Only 48% of active US investment grade credit managers outperformed their benchmark in Q2, with spread volatility providing a challenging climate. Higher performers tended to have more duration and longer credit risk, with an overweight on BBB-rated bonds. Yet the Euro investment grade credit market was more favourable for active managers, 88% of whom outperformed their benchmark: the median relative return was +0.27% with the upper quartile at +0.47%.

The majority of active managers also outperformed benchmarks in US high yield (60%) and Europe (70%), with median performance of 0.11% and 0.12% respectively. A cautious risk positioning with a focus on maximising income was the key to stronger results.

Fixed income continued

In EM hard currency, where active managers tend to have a high-beta position, the median active manager slightly outperformed the market (+0.07%) with what seemed to be a more defensive stance and less emphasis on frontier markets. Local currency active managers had a stronger quarter: 71% of them outperformed, generating a median excess return of 0.17%. EM corporate debt managers gave the strongest excess returns in the EMD complex, with more than 84% of the group beating their benchmark (median +0.43%).

News from the fixed income manager world

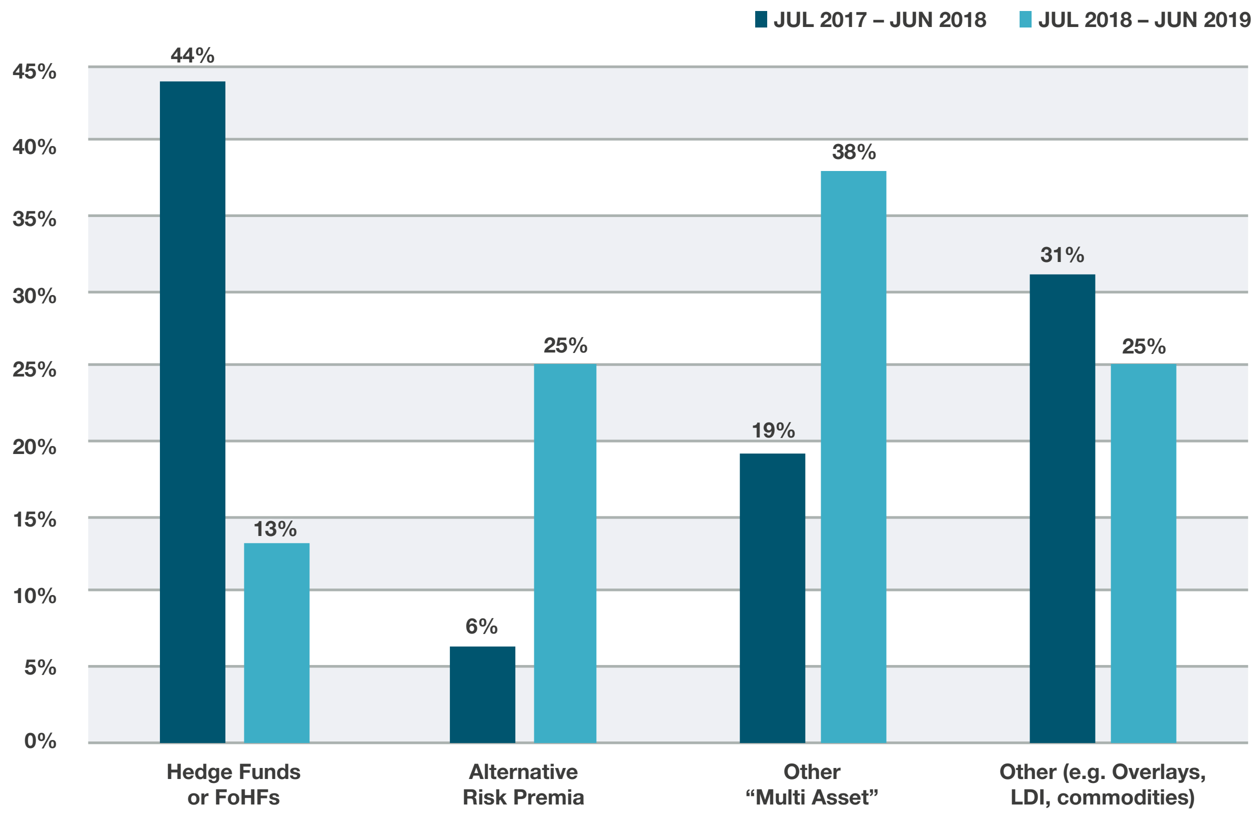
Investec makes two hires for their Emerging Market Corporate Debt team. Esther Chan joins from **Ashmore Asset Management** and Alan Siow from **Bluebay Asset Management**.

Columbia Threadneedle's head of European High Yield Barrie Whitman is to retire at the end of 2019. He will hand over his responsibilities to Roman Gaiser who rejoined Columbia Threadneedle in July 2018 from **Pictet Asset Management**, where he was head of high yield. He previously worked alongside Whitman for six years (2005-2011).

Amundi hires Ryan Myerberg to take charge of its absolute return bond funds. Myerberg joins from **Janus Henderson** where he was a senior portfolio manager in global macro and global credit. The appointment follows the exit of David Ric last year, who left the firm to launch **Resco Asset Management**.

Clients favour Multi Asset versus Hedge Funds

NEW ‘DIVERSIFYING STRATEGIES’ MANAGER SEARCHES TO 30 JUNE 2019, YEAR-ON-YEAR



Note: these annual figures only represented projects that were initiated during that year, and do not include pre-existing arrangements that continued during the year.

Diversifying strategies continued

Investor trends

Investors continue to focus on diversifying their traditional long-only exposures. Our clients opt to achieve this goal in a variety of ways, reflected in the sheer variety of strategies covered by this group: Hedge Funds, Multi-Asset, Alternative Risk Premia (ARP), Risk Overlays in equity, currency or other markets, and more. (Note: private markets strategies are handled by the Private Markets group and discussed in the following section).

Within alternative strategies in liquid markets, investors continue to focus on strategies that use multiple asset classes and a flexible approach rather than single-asset-class or single-strategy products.

As a result, Total or Absolute Return Multi-Asset strategies and Alternative Risk Premia seem to be at the forefront presently, whereas demand for single strategy hedge funds has been relatively muted. Indeed, we see Hedge Funds and FoHFs representing only 13% of new mandates for the twelve months to June 30th 2019, versus 44% the previous year. Multi Asset manager searches, on the other hand, have increased from 19% and 38% of the total. Demand for ARP has also risen again in 2019, despite the disappointing returns that some ARP managers delivered in calendar 2018.

MANAGER PERFORMANCE (TO END JUNE 2019)

	3m	YTD	1Y	3Y(p.a)
bfinance Equity Long/Short Composite	1.24%	3.57%	-2.03%	4.77%
bfinance Event Driven Composite	2.13%	6.58%	2.71%	8.17%
bfinance Credit Long/Short Composite	1.74%	3.91%	1.88%	3.83%
bfinance Macro & Trading Composite	2.65%	5.69%	1.34%	0.44%
bfinance Alternative Risk Premia Composite	-1.00%	1.28%	-0.48%	1.39%
bfinance Multi-Asset Composite	2.78%	8.74%	5.03%	4.93%

The Hedge Fund Manager composites show the performance of a sensible and representative sample of each of the main hedge fund strategies. This is restricted to managers that genuinely pursue the relevant strategy rather than generating the majority of their returns from exposure to market direction alone. We use these composites as a proxy for how managers in the space are performing. They do not represent manager recommendations.

Diversifying strategies continued

Five of our six composite indices posted positive returns in the second quarter, with **Alternative Risk Premia** the only composite producing a (slight) fall.

The **Equity Long/Short** composite rose by 1.2% in Q2, bringing its year-to-date performance to +3.6%, but it remains the only composite in negative territory for the past 12 months. More directional / net long strategies generally led the pack, although there was considerable dispersion of returns. The more market-neutral / low-net peer group delivered mixed results, with value-oriented strategies continuing to struggle.

The **Event-Driven** composite continued its strong run, rising by 2.1% in Q2. Multi-strategy event and more distressed-focused managers generally outperformed merger arbitrage strategies. Event-Driven has been the standout strategy over the past three years.

Credit Long/Short rose by 1.7% in Q2, bringing its YTD return up to +3.9%. Positive returns in the broad credit markets meant that net long strategies performed best.

The **Macro & Trading** composite again performed well, with its Q2 return of +2.7% bringing its YTD gain up to +5.7%. Trend-following CTAs were again the best performers, with their long positioning in bonds leading to further strong gains. Systematic and Discretionary Macro strategies also saw gains, but with wider dispersion than Trend managers.

The **Alternative Risk Premia** composite fell by 0.1%, but with wide dispersion between underlying managers. As such, the reported average masks some notable positive performances. Strategies focusing on single-name equity risk premia continued to struggle, especially the equity value factor. More macro-oriented premia, particularly trend-following, performed well, as did carry-based strategies.

Multi-Asset proved to be the highest performing composite of the quarter, rising by 2.8% in Q2. Its year-to-date return is now +8.7%. Risk Parity was once again the standout strategy thanks in large part to the bond rally in June. Our representative group of Risk Parity strategies is now up by 17.8% so far this year. Absolute Return, Diversified Growth and Unconstrained Balanced strategies all rose by around 2% in Q2.

Diversifying strategies continued

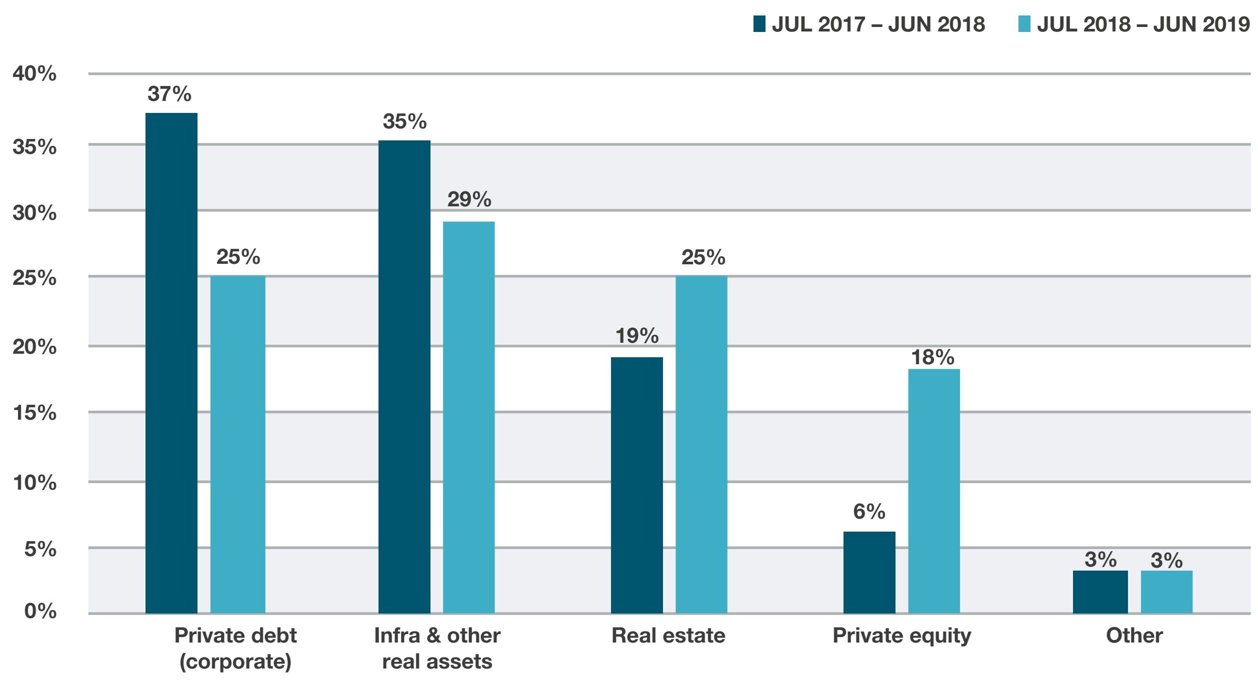
News from the alternative manager world

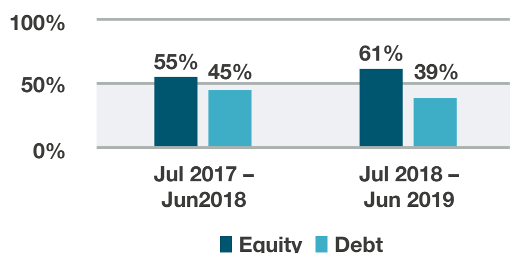
- Andrew McCaffery, Head of Alternatives at **Aberdeen Standard Investments**, joins **Fidelity** as CIO of Alternatives and Solutions.
- **Winton** co-founder Martin Hunt is named Chairman of the firm, taking over from David Walker. Winton also closes its Diversified Futures UCITS fund on the Generali-owned platform, although the firm's strategies remain available in UCITS format through Deutsche, Lyxor and Winton directly.
- **Lyxor** launches a UCITS fund for statistical arbitrage manager **Academy Investment Management**. It will launch a UCITS macro strategy for **Bridgewater** later in the year.
- **Nektar**, Sweden's oldest hedge fund, closes. It was focused on fixed income and currency trading. **CTA Amplitude** Capital also announces that it will shut down.
- **IPM** closes its long-only equity business to focus on core systematic macro hedge fund strategies.
- Luke Lynch, former co-CIO of European Event-Driven specialist **Oceanwood**, is preparing to launch his own firm, **Aslan House Capital**.
- Following the sale of its hedge fund platform to Generali in 2018, the former **BAML** platform rebrands to **Lumyna** Investments.
- **Alma Capital** buys **Deutsche Bank AM's** alternative UCITS platform, while **Entrust Global** takes a 25% stake in Alma.
- The Financial Times reports on illiquid bonds being held by some **H2O** funds, resulting in outflows from the Natixis subsidiary. The liquidity crisis at **Woodford** has increased attention on daily traded funds that may be holding illiquid positions.

Private markets

Real assets lead new manager searches as corporate private debt mandates decrease

NEW PRIVATE MARKETS MANAGER SEARCHES TO 30 JUNE 2019, YEAR-ON-YEAR





Note: these annual figures only represented projects that were initiated during that year, and do not include pre-existing arrangements that continued during the year.

Private markets continued

Investor trends

Corporate private debt has undoubtedly been the "flavour of the month" (or, to be more accurate, the previous five years) among asset allocators, with investors either creating or boosting allocations. This sector represented more than one in three of all private market manager searches handled by bfinance in the twelve months to June 30 2018 but one in four for the subsequent year. That 25% figure is still a very strong proportion from a historical perspective, but a notable decrease versus 2017 and early 2018.

At bfinance, this shift has been offset by a substantial rise in new private equity engagements, which have risen from 6% to 18% of the total number of new mandates in private markets. Yet it should be observed that this increase in private equity activity is indicative of increased research team staffing levels and does not reflect the market at large: the volume of new PE fundraising is essentially flat, as illustrated by the table below.

Real assets, as a whole, represent the lion's share of new manager selection activity for the 12 months to June 20th 2019, as was the case for the previous 12 months: 54% of searches for illiquid investment managers targeted infrastructure, real estate or niche real assets such as agriculture and timberland. These figures exclude so-called "listed real assets" (REITs and listed infrastructure), which occupy an increasingly substantial portion of new equity manager selection activity as shown on page 8.

CAPITAL RAISING MOMENTUM ACROSS PRIVATE ASSET CLASSES, Q2 2019

Asset Class	Q2 2019 No. & Vol., and % change in share		Strategy & Geography Focus	Largest Fund Raises During Q2 2019
	No. Funds	Volume		
Real Estate	44 -16%	$29bn -37%	Significant increase in Real Estate Debt capital raising, representing a third of capital raised. Remainder equally split between Vale Add and Opportunistic, but continued increase in Core Open Ended.	• Lone Star Real Estate Fund VI, Opportunistic Global. $4.1bn • Cerberus Global NPL Fund, Global. $3.6bn • AG Reality Fund X, Value Add, Global. $2.5bn • Gateway Real Estate Fund VI, Opportunistic APAC. $2.0bn
Infrastructure	18 +38%	$19bn -21%	Capital raising broadly evenly split between North America and European funds, with relatively few Global funds closed during the quarter.	• Marcquarie European Infrastructure Fund VI, Core, Europe. $6.7bn • Cube Infrastructure II, Core, Europe. $1.0bn • Fengate Core Infrastructure Fund III, Core, North America. $985m • Clean Energy Europe III. Core+, Europe. $950m.
Private Equity	244 -14%	$109bn -3%	Capital raising dominated by the US, which represented over 60% of capital raised, with Europe and Asia accounting for around 20% and 15% of activity respectively.	• Advent Global Private Equity IX, Buyout, US. $17.5bn • Cinven VII, Buyout, Europe. $11.2bn • TA XIII, Buyout, US. $8.5bn •BDT Capital Partners Fund III, Buyout, US. $6.3bn
Private Debt	29 -9%	$25bn +7%	Direct lending represented close to 50% of capital raised, far less than in Q1 2019, with Distressed Debt rising to 30% and Special Situations close to 20%.	• GSO Energy Select Opportunities Fund II, Distressed, Global. $4.5bn • AG DLI III, Direct Lending, US. $2.8bn • Twin Brook Capital Partners Fund III, Direct Lending, US. $2.8bn • Broad Street Partners II, DL, Global. $1.8bn

Source: bfinance, Preqin. Note: Based on capital raised for closed ended commingled funds. Given the tendency for most recent quarter to be revised, the % change shows the change in the share of each asset class out of total private markets. For instance, in Q2 2019, Real Estate accounted for 16% of capital raised and in Q1 2019 it accounted for 22%, a decrease of 29%.

Private markets continued

Market snapshot

The extended period of strong performance across private markets has led to increasing concerns over valuations in the various asset classes, although there are considerable variations by geography and strategy. Even those that are attractively priced in relative terms are fairly expensive in absolute terms. This challenge, and the need to identify more attractive or well-insulated opportunities, continues to be the primary concern for institutional investors working with bfinance.

Manager watch

There have been a number of notable manager recapitalisations and corporate expansions in Q2. These include **BlueBay** spinning out from its parent through a management buyout and a stake taken by **Dyal**, and **Morgan Stanley** purchasing some equity in Tikehau.

A number of asset managers and asset owners continue to expand their in-house private markets teams. These include **Allianz**, which appoints Karen Horstmann as Head of Real Estate Equity Acquisitions and Michael Cale as Co-Head of Debt Investments, and **LPP**, which strengthens its infrastructure team with three senior-level appointments.

Meanwhile, as private equity managers look towards the expanding Real Assets sector, Carlyle announces the creation of an Infrastructure Debt business. The firm is also expanding its infrastructure equity business, with a particular focus on renewable and sustainable energy.

Spotlight on: fundraising

Quarterly private markets fundraising has plateaued over recent quarters at close to $200bn, down from the $250bn or so per quarter we saw over much of 2017. There has been a marked reduction in the number of funds closing, but there is still a high level of activity.

Private Equity continues to dominate capital raising, accounting for 60% of all capital raised in Q2, and 70% of all funds. Each of the other asset classes accounts for 10–15% of the total, with quarterly numbers heavily influenced by the timing of the closing of 'mega funds'.

Although **Private Equity** remains the largest asset class, capital raising is much lower than in 2017. There are still challenges in deploying capital, with Preqin reporting another record level of dry powder of over $1.5tn at the end of June, and close to 4,000 funds in the market seeking to raise nearly $1tn. Large funds continue to dominate, with just 5% of funds in the market seeking to raise nearly two-thirds of capital.

Real Estate accounted for 16% of all private capital during the quarter, down from 22% in Q1. Despite the spike in Q1, overall levels are continuing to slow, with just 47 funds closed in Q2, fewer than the quarterly figures we saw in 2016–18, and down to levels last seen in 2010. Despite this slowdown, investors are still showing their willingness to take exposure to global real estate strategies, niche strategies such as impact real estate, and sector- or country-specific strategies.

There was a slight uptick in **Private Debt** fund closings in Q2, although Q1 had seen the lowest level of capital raised for ten quarters. These subdued levels are a consequence of the considerable amounts that have been raised in prior years and the $270bn of dry powder that is waiting to be deployed. There is also increasing concern among investors about managers' ability to deploy in a disciplined manner at this late stage of the economic cycle.

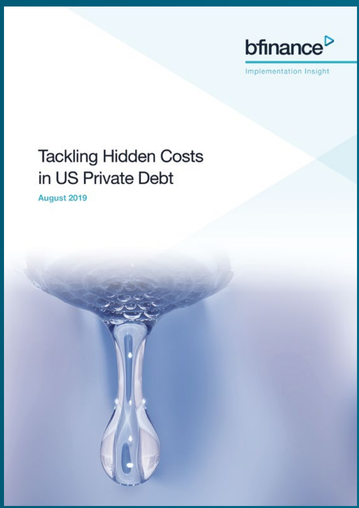
Despite a slight slowdown in **Infrastructure** capital raising in Q2, 2019 is still set to be a record-breaking year at over $100bn. This will be driven by the closing of the GIP and Brookfield funds, both of which are likely to raise around $20bn. Despite these high levels of activity, it is becoming increasingly difficult to deploy capital in this asset class too, with dry powder reaching a record level of $200bn.

Private markets continued

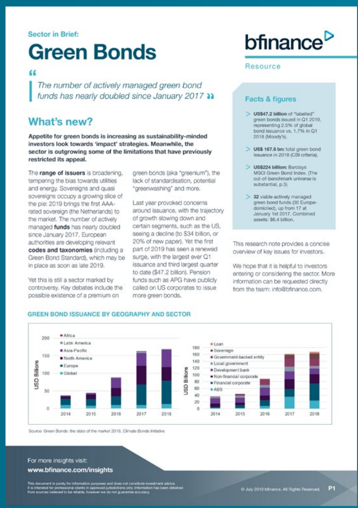
News from the private market manager world

- There is further activity related to the **Abraaj** saga, with **Actis** taking over Abraaj Private Equity Fund IV, a global buyout fund, and Abraaj Africa Fund III, which invests in in sub-Saharan Africa.
- Nathalie Charles becomes global head of **BNP Paribas Real Estate Investment Management**. She takes over from Barbara Knoflach.
- Mark Preston stands down after 12 years as CEO of **Grosvenor Group**. He is replaced by Craig McWilliam.
- Former Colony Capital Managing Director Georges Asmar launches **LeadCrest Capital Partners**, a New European sale and leaseback business.
- Jon Rickert joins **Man Group** to lead its European real estate debt team, having fulfilled a similar role at **GAM**.
- After the sad and untimely death of Alex Navab, the decision is taken to wind down the recently launched **Navab Capital**, which had been targeting a $3bn debut fund.
- Mario Berti stands down as CEO of **Octopus Property**; Benjamin Davis becomes CEO of the newly merged Healthcare and Property groups.
- Alex Jeffrey is the new CEO of **Savills Investment Management**, taking over from interim CEO Kiran Patel.
- Joseph Landy, co-CEO of **Warburg Pincus**, leaves the firm after 29 years in charge. Chip Kaye takes over as sole CEO.

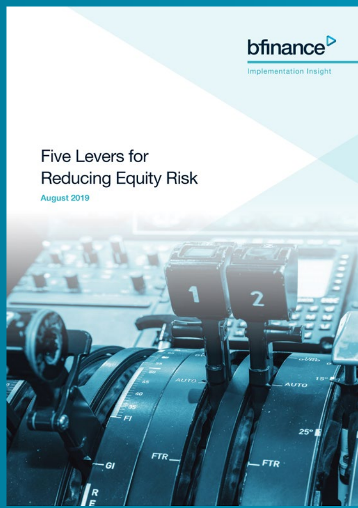
Recent publications available at **www.bfinance.com**



Tackling Hidden Costs in US Private Debt
(August 2019)



Sector in Brief: Green Bonds
(July 2019)



Five Levers for reducing Equity Risk
(August 2019)

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