BAI REPRESENTING ALTERNATIVE INVESTMENTS

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Editorial article from Frank Dornseifer, Managing Director, BAI e.V.

Dear Ladies and Gentlemen, dear members,

Private Equity – Business as Usual?

For a brief moment, I was tempted to simply refer to the editorial from last year's newsletter on the same topic. In the Newsletter Issue IV/2023, I began the editorial with the headline of an interview from the Börsen-Zeitung with the CIO of Allianz Capital Partners, which read "End of the Boom in Private Equity," and then referred to another headline from the Börsen-Zeitung from the same period that read "Private Equity Deals Are Gaining Momentum." A little over a year later, we are once again – or perhaps still? – seeing headlines and statements like "Zombie deals plague private equity" recently in the Börsen-Zeitung, or on the other hand, "Positive outlook – more deals and more dynamism in Europe" in a recent Handelsblatt article on the same topic. Even our advisory board member Armin Beerwart, Head of Private Markets at W&W Asset Management, asked in the latest issue of Absolut|private, "Is the party over in the private markets?" So, is everything clear?!

As sharply concluded last year, these statements are, of course, not contradictions, and secondly, headlines must be well-chosen to pique readers' curiosity. However, the overall situation does not seem to have changed significantly compared to the previous year: Portfolio companies are – still – being held longer, and investors are waiting for distributions, which in part also leads to a standstill in new investments. Prices for new PE investments or multiples are falling, financing costs remain high, the market is consolidating, etc. And it remains true that this is not a disaster! PE firms can use this environment to, for example, further improve the operational performance of portfolio companies, intensify PIPE transactions, set up new platforms, attract new investor groups (ELTIF!), etc. In short: the PE carousel continues to turn, albeit perhaps a bit more slowly and in different dimensions.

Before I and you fall into lethargy, there might be a new facet worth considering, namely the current realignments and M&A activities in the asset management industry, particularly the AXA-BNP deal, which is causing quite a stir. But also various new strategic partnerships/joint ventures, such as Schroders/Phoenix, the management buyout at Hayfin, etc., illustrate that the asset management sector itself is now becoming more dynamic. Economies of scale, cost and revenue pressures, increasing regulatory requirements, technological trends, strategic considerations, etc., are parameters that also apply to the asset management sector, which is sometimes spoiled and hence somewhat sluggish.

It is well known that there is much room for improvement, especially at the top! German asset managers are regularly accused of – with the exception of one or two companies – not being among the European champions; European asset managers, in turn, only play second or third fiddle internationally, if at all. This finding is astonishing, given that we have had the European single market for funds for decades, known since 1985 for UCITS and since 2011 for alternative investment funds. In a vast and, above all, affluent EU single market, one would have expected that it would foster the development of pan-European and ultimately global players, whereas critics might argue that the EU regulation, with its complexity and bureaucracy, national gold-plating, and tax law, may have even hindered the emergence of global champions.

Not without reason, the new EU Commission has therefore put the topic of Capital Markets Union back on the agenda, as there is still much to be done, especially regarding cross-border fund activities, including distribution. The German Federal Government, particularly the Federal Ministry of Finance, has also recognized the important role played by the fund industry and that the fund location Germany has substantial catching up to do. Various legislative initiatives, ranging from the Fund Location Act, the Future Financing Act I, the Growth Opportunities Act, to the Infrastructure Promotion Act, the recently passed Fund Market Strengthening Act, and the brand new Future Financing Act II, show that the repeated messages and requests from BAI concerning the consistency of regulation and tax law and thus also the competitiveness of the industry have finally had an impact. While one can and may criticize the coalition government in various areas, it is currently doing a good job in fund regulation, with the three parties pulling in the same direction. However, it was also negligent that it was more or less ignored for many years that good regulation enables rather than prevents and that a forward-looking financial market above all needs a strong and innovative fund industry. The Federal Government's goal of becoming a leading sustainable finance hub will only succeed if the fund industry is one of its pillars. With the aforementioned legislative initiatives, we are certainly on the right track, but it must be acknowledged that the gap with other domiciles is, in some cases, quite significant, and they will naturally do everything to maintain their lead. So, it would be premature to pop the champagne corks now.

The aforementioned legislative initiatives also include a number of proposals that specifically relate to the PE and VC sectors and concern both the funds and their management companies (and their taxation), as well as their investors, so that more venture or start-up capital from different investor groups, who have so far provided limited or no venture or start-up capital at all, can explore new avenues, which are also of great economic importance. Here too, some ideas and suggestions that BAI brought forward from its expert committees are being picked up. On our member platform, you will find further information on these topics, especially regarding the association's positioning and the discussions in the relevant expert committees.

Now, let's return to the important question of how the private equity industry will fare in these turbulent times. I could refer you to last year's editorial again, but it's even easier and better to simply point you to a highly representative and insightful source: the soon-to-be-released BAI Investor Survey 2024, along with the accompanying member survey. The evaluation has now been completed, and I can already reveal that we not only have a new record number of participants but also many interesting facts and insights into alternative asset classes, including private equity. In short, there's certainly no room for boredom in the portfolio, and private equity is always full of surprises.

That's precisely why we've dedicated the focus of this newsletter to this exciting asset class, featuring very insightful expert articles. I wish you an engaging and informative read of our newsletter! And welcome back from the summer holidays!

Frank Dornseifer
Managing Director, BAI e.V.