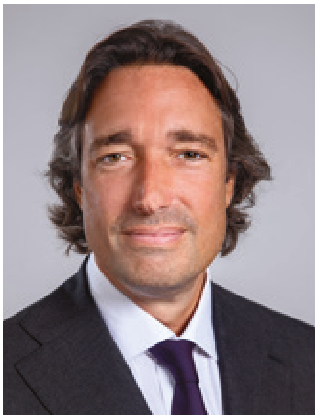
KEYNOTE INTERVIEW

Appetite for infra undimmed in Asia



Investors continue to flock to infra funds as administrators provide support to cope with increasing complexity and a changing domicile landscape, says Alexander Traub, chief commercial officer and regional executive Asia-Pacific at Alter Domus

Q Do you see any change in the appetite for infrastructure funds in Asia as a result of the coronavirus downturn?

Infrastructure is a growing investment destination for both GPs and LPs, sitting well with the growth across the private markets. We are starting to see, particularly in Asia, large infrastructure funds being raised by offshore managers, and these fund sizes increase every time they go back to market because US and European LPs have an appetite for what is happening in the Asia-Pacific markets. Infrastructure is well financed by funds and private markets in Asia, more so perhaps than in Europe and the US where the infrastructure gap has yet to be plugged by private investors. Asia has a lot of fund opportunities and that is something investors are alive to.

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Unlike the last economic crisis, we now have significant amounts of dry powder sitting with private equity and infrastructure fund managers. Infrastructure can be privately financed because there is so much cash, so naturally there is a huge opportunity for private market investors provided there are sellers willing to do deals. That said, the recovery we are seeing isn't as beneficial to private investors as we'd hoped. The assumption was that a lot of assets were going to come to market at very low prices and that hasn't happened. Still, there is a huge opportunity to deploy capital.

Q What impact has covid-19 had on fund administrators, both in the short term and longer term?

Fund administrators have obviously had to adapt to this new way of working, with many of us still working from

“Regulators are looking for more transparency around who is investing in what, and how those investments are structured”

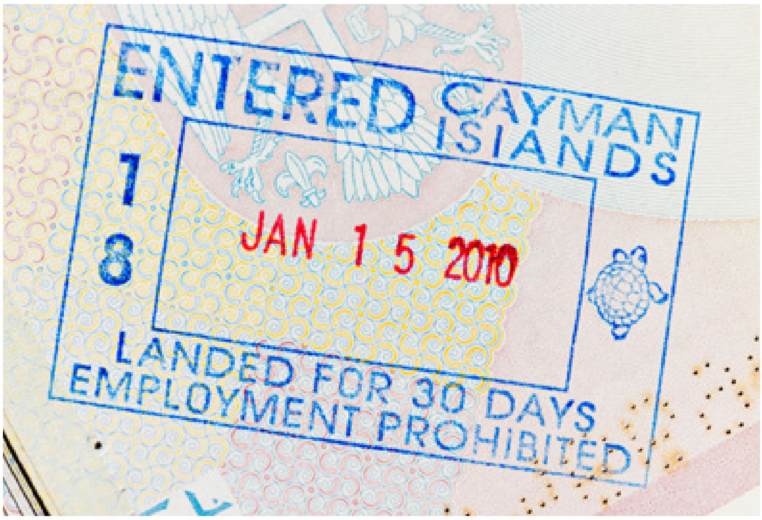
home. If we’d had to do this 10 years ago it would have been a whole different ballgame, but today everyone has access to the same systems and the data is on hand through shared platforms, which removes the need to send Excel spreadsheets around via email as we used to. It’s a lot easier than it would have been, but fund structures are increasingly multi-jurisdictional, which adds a new layer of complexity. But I know that clients have been impressed with how we have managed to maintain service delivery without disruption.

The threats that have come between us and managers have tended to be around cybersecurity. Clearly people are trying to get in the middle of payment and drawdown processes between us, the GPs and the LPs. That’s something we have seen more and more over the past five years. It is not something widely spoken about because of the nature of the industry, but it is an issue on GPs’ minds.

The great thing about our business is it continues irrespective of fundraising, so we haven’t seen a decline in our existing book. We might have expected, particularly in real estate, to have portfolios under stress, and maybe in private equity as well, but in infrastructure the game is longer. We really haven’t seen distress in those portfolios; people have bought into the fact that the assets are meant to be held for the long term and valuations will come back.

Back in March and April, we had LPs who said they were not going to participate in any fundraising – just a small number – and there were also those that had a bunch of existing processes ongoing with managers that they knew and they kept going and wrote those cheques. A small group did start to look at new relationships irrespective of covid and the size of that group has increased in the past few months.

Remote due diligence was difficult for the first few months but has become a way of working. Covid is not going away any time soon and so we are going into a remote diligence phase for LPs



Q In terms of domiciles, where are the favoured jurisdictions?

For US LPs and Asia GPs, Cayman is still a market that they are very comfortable with; that is not going to change. The infrastructure is set up in places like Cayman, so they are able to put in place solutions that address LP questions on regulation. That presents an opportunity for service providers like us. Cayman is such a widely used jurisdiction for us and yet GPs often don’t want to put resources on the ground, so they want us to be an outsourced solution – just as they want us to provide support in markets where they decide to put investment managers but not back office staff, like Hong Kong.

Luxembourg continues to be the domicile of choice for US investors investing into Europe and for European LPs going outside at a master-feeder level. Into Asia, Singapore has become the regional domicile of choice, though in Hong Kong a lot of the initiatives around limited partnerships and the new tax rules are responses to other jurisdictions playing a more onshore game, making Hong Kong one to watch. But for a lot of US LPs, Cayman is still huge, and they are still really the ones calling the shots and driving the agenda.

and GPs for the first time, and people are willing to look at new relationships on that basis.

Pension funds and insurance funds are still collecting premiums and if they have a long time horizon, they are still looking to invest into infrastructure. In markets like Asia, access is a big part of what LPs are looking for from their GPs – it's a relationship play – and so fundraising continues

That said, early on this year one of the big risks to fundraising was the denominator effect. This didn't play out as liquid markets held up and LPs weren't put in a position where they had to make fundamental shifts in the asset allocation. Six months down the line with covid here to stay for now, the risk is that the economic weakness of a prolonged covid effect kicks in and markets and sentiment sours.

Q Domicile choice is back on the agenda given ongoing regulatory and geopolitical change. What trends are you seeing around the jurisdictions currently being chosen by managers?

In terms of domicile, increasingly regulation has a role to play in LP and GP decision-making. Those decisions are still largely driven by GPs, and we see a number of domiciles that have been used historically to segue into big infrastructure markets where GPs are now looking at changing that, because they can get tax benefits elsewhere, even if they are more comfortable going through feeder funds. Cayman, for example, was never really a low compliance or low regulation jurisdiction but it has certainly upped its game over the past few months. None of these jurisdictions are going to over-regulate themselves out of the market.

Q What piece of legislation or regulatory trend do you see that should be a focus for investors and managers at this point?

Aside from domicile, transparency is a big theme and is clearly the way that the market is going from a regulatory perspective, even if there is some resistance. Regulators are looking for more transparency around who is investing in what, and how those investments are structured.

But really, from a regulatory perspective, this crisis is very different from the global financial crisis when we saw a huge swathe of new regulation as a result. Now, we were already seeing an increase in regulation in jurisdictions like Cayman and others way before the crisis, and we can look to markets like Mauritius where regulation is tightening because of the situation with the EU blacklist around anti-money laundering. In Singapore, the fact that you need a licensed manager on the ground in order to operate out of there and get the tax advantages is having an impact. But these were all trends that were in play before the crisis hit – we don't expect the current crisis to prompt any particular regulatory response in the way that the GFC did in 2008-09.

"US and European LPs have an appetite for what is happening in the Asia-Pacific markets"

Q Finally, environmental, social and governance issues remain a key topic for investors and managers. How will the new EU regulations change the landscape, if at all?

Clearly, ESG is a topic that LPs are very interested in and, as a result, a growing number of GPs have also got very interested in it recently. It is becoming something that we are asked a lot of questions about, both in terms of how we can assist with developing a policy or a framework, and also how we can help develop a reporting package that ticks the boxes.

That has been the case for some time, but now it is moving beyond simply ticking the boxes and there is an emotion about the topic; it has become something people really want to embrace.

Investors are realising that valuations are not necessarily impacted, and you can get the same returns and do some good at the same time.

Certainly, ESG is an opportunity for us as a service provider, in Asia in particular, where LPs are perhaps looking at this more carefully now than they have been and to an extent playing catchup with other parts of the world. LPs here are perhaps a bit more forgiving of GPs' lack of compliance in Asia, but we definitely expect that to change as ESG moves up the agenda in Europe and elsewhere and the conversation develops.

For the large managers that are able to provide the reporting and take ESG into account across the life of their investments, LPs are definitely asking more questions.

For the smaller GPs, they are more forgiving because they are relying on those managers for market access and are less willing at this point to push them on reporting or making sure all of their portfolio companies are ESG-compliant. But the conversation is definitely moving forward in Asia just as it is elsewhere, and the virus has only accelerated that discussion. ■