Pension funds set to increase allocations to private assets and Asian emerging markets

- *Pension plans are set to increase allocations to private markets and Asian emerging markets*
- *They now see attractive opportunities going forward in private markets, particularly in private debt and private equity with 86% of respondents expecting to be invested in three years' time. Key features for manager selection are a proven track record in delivering consistent returns and matching ESG goals in a more competitive market.*
- *Asian emerging markets are currently under-owned by pension plans, but positive tailwinds should mean increased allocations with 76% of respondents expecting to be invested in three years' time*

London, 10 December 2024 – Public markets in the West are hitting their all-time highs; share buy-backs continue apace, and the IPO pipeline becomes more irregular. This underscores the need for pension plans to find new growth engines, according to a new report published by CREATE-Research and the largest European Asset Manager, Amundi.

The survey is based on responses from 157 pension plans globally, managing €1.97 trillion of assets. It sheds light on the areas pension funds are turning to for continued returns over the next three years. In this new regime, the two sets of underinvested asset classes offering the most attractive opportunities are private markets and Asian emerging markets (AEMs).

At present, three quarters (74%) of pension plans are invested in private market assets and just under two thirds (62%) are allocated to AEMs.

Vincent Mortier, Group Chief Investment Officer at Amundi, said: *"Private markets and Asian emerging markets have had to adjust to a new era with respectively steep hikes in interest rates and a new geopolitical chessboard. Yet, both still offer diversification, attractive returns and are well-placed to take advantage of the more predictable sources of value creation from secular mega trends. It's encouraging to see fresh allocations to historically under-invested areas."*

Slower private markets growth hasn't diminished their appeal

Private markets have come under scrutiny as the era of market-driven returns fueled by cheap money has come to an end. While the returns in private markets are likely to be lower than in the recent past, their appeal remains strong with 86% of respondents expecting to be invested in three years' time. Behind this increase is the heightened search for risk-adjusted returns in a low real return environment (72%), further cuts in interest rates (54%), more growth companies in private markets (53%) and the fact that fast-growing companies are staying private for longer (51%).

The survey shows that respondents' interest in individual asset classes over the next three years varies. Private debt tops the list for 55% with direct lending, real asset financing and distressed debt garnering most attention. The sectors to be favored are healthcare, real estate, renewables, carbon capture technologies and social infrastructure.

The second preferred asset class is private equity (49%), specifically growth equity, and to a lesser extent, leveraged buy-out. This is followed by infrastructure (40%) which has received powerful tailwinds from policy measures like the Inflation Reduction Act in the US and the Green New Deal in Europe. Next is real estate (38%) where the narrowing gap in price expectations between buyers and sellers is improving price discovery and creating attractive buying opportunities.

Venture capital is at the bottom of the list (28%). It is viewed as the riskiest in today's private market environment.

Private market assets are seen as ideal for exposures to mega trends

The energy sector is going through a period of complete transformation thanks to four powerful mega trends known as the 'four Ds' (decarbonisation, decoupling, digitalization and demographics). This so-called '4D revolution' is turning the spotlight on companies whose business models are solely focused on these specific themes.

Such companies prevail more in private markets and have the potential to leapfrog their public market peers by directly investing in chosen themes with a higher likelihood of positive impacts. According to one interviewee, *"our impact investing mostly relies on pure play companies that tend to be in private markets*".

To future-proof portfolios, pension plans are capitalising on what are likely to be the focal points of value creation for the foreseeable future. As such, new inflows into private markets will target themes based on these transformational forces.

Investors see room for improvement in Asian emerging markets

Asian emerging market assets have remained under-owned, despite their 46% collective weight in global GDP. Over one third (38%) of respondents currently have zero exposure to AEMs, half (51%) have allocations of up to 10% and only 11% have allocations of more than 10%.

According to 68% of those surveyed, geopolitical issues are the primary reason for such constrained allocations. Other determining factors include rising trade frictions (58%), high market volatility (53%) and opaque governance within AEMs (51%).

However, the growth outlook for the region remains promising and policymakers are implementing reforms to attract foreign capital. As a result, 76% of respondents expect to be invested in AEMs in three years' time.

Thematic investing will dominate Asian emerging markets with India, South Korea and Taiwan set to benefit

Monica Defend, Head of the Amundi Investment Institute, said: *"As the geopolitical rivalry between the US and China intensifies, and two rival trading and currency blocks consolidate, other Asian markets are becoming increasingly attractive for investors. Increased intra-regional trade and connectivity have enhanced the regional resilience and we expect to see allocations increase in nearly every asset class."*

Thematic investing will shape the next wave of investment in AEMs, with one interviewee claiming it provides *'good shock absorbers in the era of geopolitical risk'*. Half of respondents expect to increase their allocations to thematic funds covering renewables and high-tech over the next three years. On the ESG front, green, social and sustainability-linked bonds are preferred (49%), as the region continues to seek foreign capital to create greener and more inclusive economies and societies.

Bonds are now perceived as a value opportunity. Hard currency bonds are expected to become more attractive for 48% of respondents now that the US has started to reduce rates. Local currency bonds are favoured for 45%, as across Asia, independent central banks have been exercising strong anti-inflation policies and public finances are in much better shape.

Professor Amin Rajan of CREATE Research, who led the project, said: *"Private market and Asian emerging market assets have long remained underweight in pension portfolios. Now, the winds of change are evident."*

Press Contacts:

Danae Quek
Amundi
Tel: +44 (0) 7385 003 723
danae.quek@amundi.com

Rachel Cohen
H/Advisors Maitland
Tel: +44 (0) 7557 178 196
rachel.cohen@h-advisors.global

Amin Rajan
CREATE-Research
Tel: +44 (0) 7703 444 770
amin.rajan@create-research.co.uk

About Amundi

Amundi, the leading European asset manager, ranking among the top 10 global players[1], offers its 100 million clients - retail, institutional and corporate - a complete range of savings and investment solutions in active and passive management, in traditional or real assets. This offering is enhanced with IT tools and services to cover the entire savings value chain. A subsidiary of the Crédit Agricole group and listed on the stock exchange, Amundi currently manages more than €2.15 trillion of assets[2].

With its six international investment hubs[3], financial and extra-financial research capabilities and long-standing commitment to responsible investment, Amundi is a key player in the asset management landscape.

Amundi clients benefit from the expertise and advice of 5,500 employees in 35 countries.

Amundi, a trusted partner, working every day in the interest of its clients and society

www.amundi.com

About CREATE-Research

CREATE-Research is an independent research boutique specialising in strategic change and the newly emerging business models in global asset management. It undertakes major research assignments from prominent financial institutions and global companies. It works closely with senior decision makers in reputable organisations across Europe and North America. Its work is disseminated through high-profile reports and events that attract wide attention in the media. Further information can be found at www.create-research.co.uk

[1] *Source: IPE "Top 500 Asset Managers" published in June 2024, based on AUM as at 31/12/2023.*
[2] *Amundi data at 30/06/2024.*
[3] *Boston, Dublin, London, Milan, Paris and Tokyo.*