STABLETON

Future of Private Markets
in Switzerland

Allocation to Private Markets in Switzerland: an Inaugural Survey

2022

Executive Summary

"Your greatest and most powerful investment strategy is going to be the speed at which you handle the speed of change. That speed of change is trend"

Ajaero Tony Martins

We open with this quote to highlight not only what inspires investors today but to draw attention to the current re-shaping of global investment markets. Consider this: in a relatively short period of time, alternative assets globally have grown from just under USD 5 trillion to close to USD 18 trillion (2020), according to CAIA Association estimates. And, perhaps more importantly, alternative investments once dominated by various trading strategies have a new inflection point – private markets made up of private equity and debt, venture capital, private infrastructure, and private real estate.

In a relatively short period of time, alternative assets globally have grown from just under USD 5 trillion to close to USD 18 trillion (2020), according to CAIA Association estimates

It is with this backdrop that we introduce our inaugural survey of investment allocation within private markets in Switzerland, a study whose main purpose is to better understand how Swiss investment professionals use or intend to use these assets within diversified portfolios. We see at least three motivations for undertaking this study. First, because private markets are by definition insulated from the transparency of public markets, readers will likely gain first-hand insights with respect to opportunities in this setting. Second, these same insights will expose the other side of the coin – that of the key challenges that await private market investors. And finally, because Swiss markets have a history of trend setting, our conclusions may indeed provide both clarity and insights with respect to the global portfolio of the future.

With respect to our overall findings, consider these five take-a-ways:

1 Key Opportunities

Investors seek exposure to private market investments mainly for performance potential and return diversification. But most importantly, the survey unveils that a high number of investors view private markets as a way to both differentiate the portfolio and to signal manager and investment quality.

2 Key Challenges

Access to private market investments, be it to specific opportunities or to managers, is the most frequently mentioned challenge. Also, perceived risk of private investments is a frequently cited reason not to invest. Not surprisingly, devoting resources to due diligence, either internally or through quality external providers, is essential in overcoming these challenges.

3 Key Levers for Success

Swiss investment professionals are particularly experienced and sophisticated, holding advanced degrees and numerous professional designations. There is evidence that the level of education held by respondents in our survey is higher than the average of the overall financial services industry. This feature bodes well for the growth of private market investments in Switzerland.

4 Key Means to Access

Constraints such as minimum investment size and regulations provide formidable barriers to direct investment in private markets. However, investment vehicles such as feeder fund structures and structured products are favored options to gain access to those unable or unwilling to invest into LP-type structures.

5 Key Future Insights

Survey participants expect to increase allocation to private markets over the next 12 months. This is especially true for banks and wealth managers. Although the interest rate cycle has likely turned, this does not seem to deter investors' appetite for private markets. Important future themes relate to technological advancements, health, and ESG.

Respondent Demographics

77% of survey respondents identify as investment professionals, of which a majority is actively participating in allocation decisions

SURVEY CONDUCTED IN SPRING 2022

The survey, conducted in April and May of 2022, received responses from 193 investors, all located in Switzerland. These investment professionals work at banks, wealth management or asset management firms, pension funds and collective investment schemes, family offices or independent asset management/wealth management firms, insurance companies, investment boutiques and fintech firms. Of the total, 120 were either CAIA Charterholders or CAIA candidates. And so, ours is not a random sample of investment professionals but is instead targeted to professionals with experience in alternative assets.

Of the total, 54% were part of their organization's investment allocation decision-making process. Of the remainder, 23% were investment professionals with an understanding of private markets but without direct involvement in decision-making. The remaining 23% were private investors with at least some experience in private markets. The overall response rate was 3.2%, in line with similar surveys. While most of the report will focus on the 54% with decision-making responsibilities, the report will also highlight differences from the other two categories whenever appropriate.

PARTICIPANT CHARACTERISTICS

Most respondents were senior investment professionals. Of those, 76% were age 35 or older. Those not directly making investment decisions are younger, confirming previous research showing experience as an important success factor when making decisions such as manager selection[1]. Of the total, 83% identified as men and 13% as women, which is in line with other surveys[2] but, for women, lower than the overall industry ratio[3] reported by the Swiss financial services and banking industry. This indicates that there should be opportunities for talented women to develop into private market investment roles.

EDUCATIONAL BACKGROUND

A majority of professionals directly involved in the investment decision-making process have a master's degree (83%), while 2% hold a Ph.D. degree as their highest educational attainment. Of those not responsible for investment decisions, 70% hold a master's degree. Moreover, many respondents hold professional designations such as CAIA, CFA, CPA or FRM charters. Taken together, our group's education level is higher[4] than the overall average observed in Switzerland's financial services industry. Research showing a positive relationship between education and investment results[5] and manager selection[6] suggests that private markets require highly specialist knowledge. As others have found, education is a key factor in building professional credibility and investor trust[7].

According to our survey, the education level in private markets is higher than the overall average observed in Switzerland's financial services industry

SWISS FINANCIAL SERVICES INDUSTRY LANDSCAPE

Respondent activity aligns with the overall landscape of the Swiss financial services industry. Those associated with banks, wealth managers and related asset managers (24%) represent the largest category, while independent asset and wealth managers are the next highest. Those in insurance and trust represent the smallest category, with the rest shown in **Chart 1**. Our respondents work in organizations that serve private clients of all segments (30%), institutional clients (28%), both private and institutional clients (24%), and in organizations that invest proprietary money (15%), be it as an insurance asset manager on behalf of policyholders or as a pension fund on behalf of beneficiaries.

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[1] see Rzepczynski, Mark S.; Black, Keith (2021)
[2] according to the annual job market survey conducted by Swiss Finance Institute, Finews and Communicators, 81% were men and 17% women (2021).
[3] e.g. 38% according to Swiss National Bank (2021)
[4] according to the annual job market survey conducted by Swiss Finance Institute, Finews and Communicators, 33.1% of survey respondents have a master's degree (2021).
[5] e.g. Stewart, Scott D. (2013), p. 78
[6] see Rzepczynski, Mark S.; Black, Keith (2021)
[7] see e.g. CFA Institute (2020)

Almost half of the respondents have been looking at private markets for ten years or more

YEARS OF INVESTMENT EXPERIENCE

Most respondents' organizations have more than 3 years of private markets experience (92%), and almost half of the respondents' organizations have been in investing in the segment for more than 10 years. Perhaps of interest is that only a small percentage of these firms (8%) have been investing in the segment for 2 years or less, indicating that only a few started during the pandemic. From these data (**Chart 2**), we infer that wealth and asset managers have been increasingly promoting private markets over the past 10 years.

ASSETS UNDER MANAGEMENT

Respondents are overseeing assets under management (AuM) that are spread between CHF 100 million to above CHF 500 billion. The most common size category is between 100 million and 1 billion in AuM (**Chart 3**). While the upper end of AuM is represented by banks and related wealth and asset managers, as well as insurance companies, the medium size range is mostly pension funds and family offices, with the lower end being mostly private investors of all segments, as well as Fintech intermediaries.

CHART 1

Survey respondents by type of organization

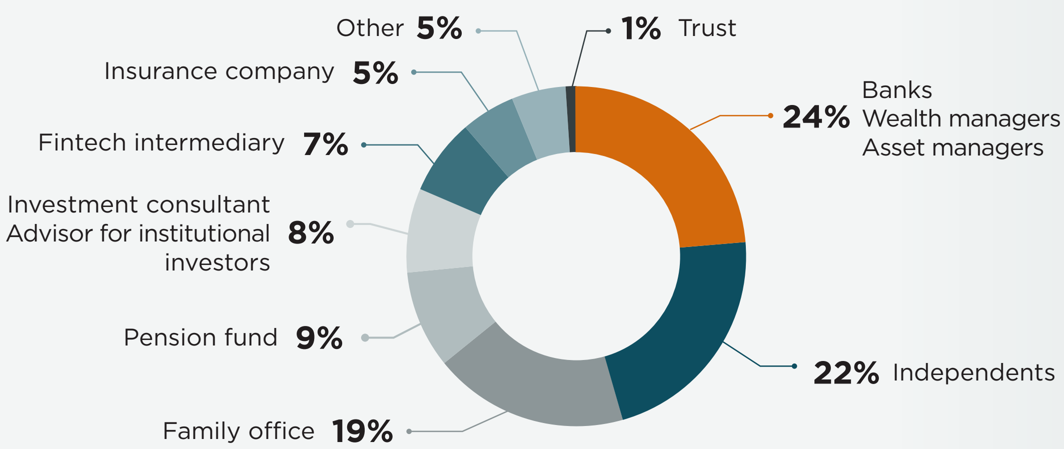


CHART 2

Experience of organizations in private markets

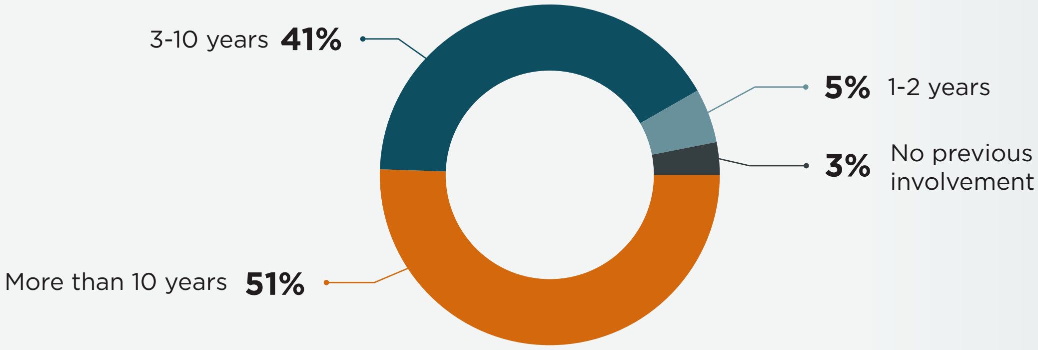


CHART 3

Breakdown of AuM in CHF

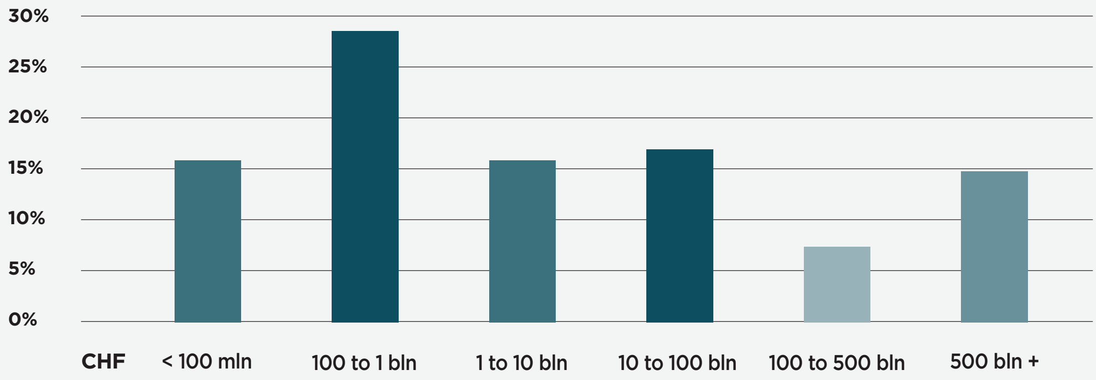
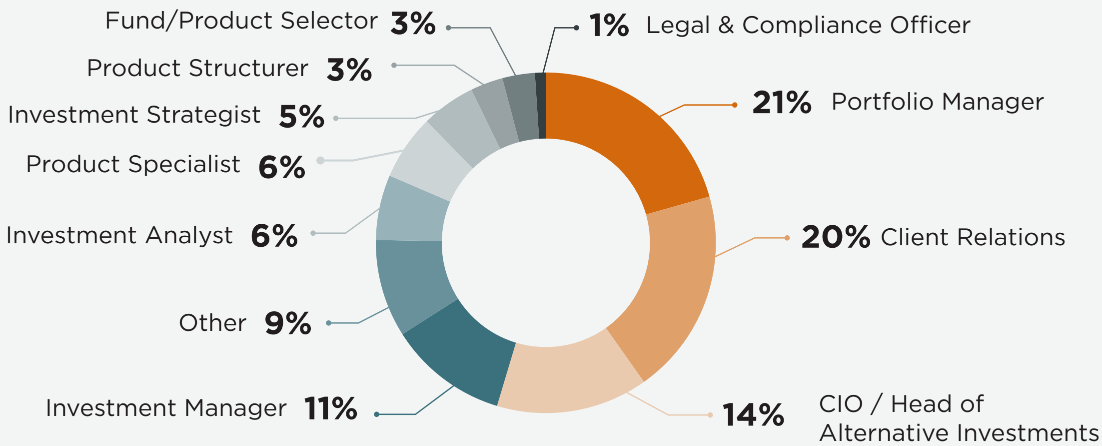


CHART 4

Respondents' role within their organizations



THE VALUE CHAIN OF INVESTMENT PROFESSIONALS

About four out of ten respondents have important responsibilities that include co-signing asset allocation decisions, veto power, and voting power

Respondents to this survey work along the entire value chain (**Chart 4**), beginning with the work areas stated as portfolio manager, client relations, chief investment officer, head of alternative investments, and moving down to the entire distribution value chain to the areas of product specialists and client relations personnel. This upstream is typical of alternative investments in general and private market investments in particular. In contrast, the downstream distribution network in and outside the banks, wealth managers and asset managers is typical for the structure of the overall Swiss financial services industry with many wealth management, asset management and independent asset management/ wealth management firms. About four out of ten respondents have responsibilities that include co-signing asset allocation decisions, veto power, and voting power.

Analysis of Private Markets

The need to differentiate was cited as the third most important reason for investing in private markets, in addition to performance and diversification

PRIMARY INVESTMENT OBJECTIVES

When asked about investment objectives (**Chart 5**), the two most mentioned were capital gains followed by capital preservation & wealth accumulation. Against the current backdrop of rising inflation, it would seem reasonable that investors would look to private markets as a way to provide inflation protection to their portfolio. While opinions and back-testing vary on the extent to which the various asset classes perform well in an inflationary environment[8], there is some consensus that public equity[9], private equity, private infrastructure, and private real estate[10] performs well in this regard. Hence, according to survey respondents, it seems that investors believe in the ability of private markets to provide inflation protection, attesting to private markets fundraising reaching record highs[11] globally at the start of the recent inflation escalation in 2021.

DIFFERENTIATING FACTORS

The question focusing on reasons to invest in private markets drew the expected responses of performance potential and low correlation/ diversification (**Chart 6**). Perhaps as important

CHART 5

Investment objectives

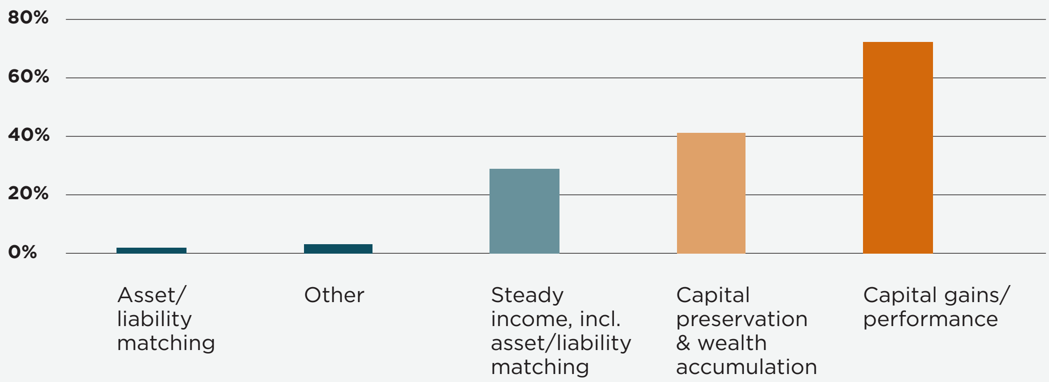
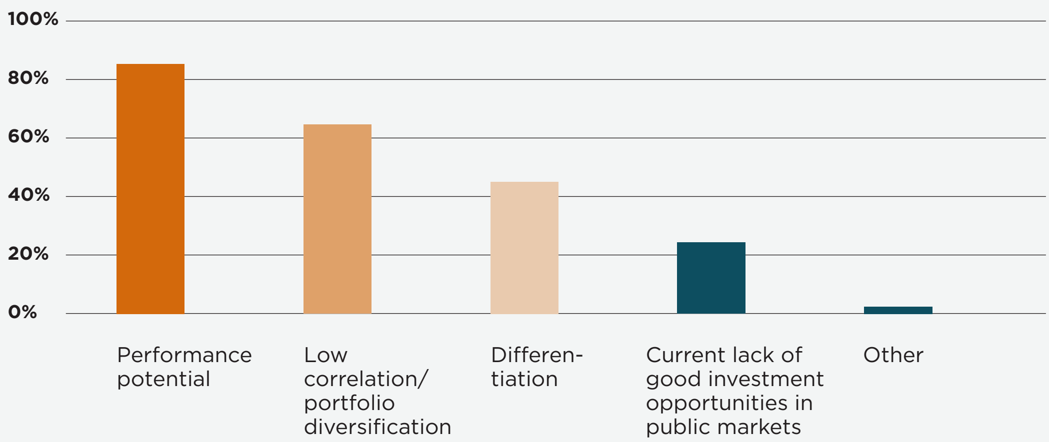


CHART 6

Reasons for investing



[8] for a recent position paper see e.g. Bowman, John; Filbeck, Aaron; Kelly, Bill (2022)[2] according to the annual job market survey conducted by Swiss Finance Institute, Finews and Communicators, 81% were men and 17% women (2021).
[9] see e.g. Neville, Henry, Draaisma, Teun, Funnell, Ben, Harvey, Campbell R., & Van Hemert, Otto (2021) for a recent analysis
[10] e.g. Chambers, Donald R.; Black, Keith H. Lacey, Nelson J. (2018), especially p. 70
[11] see e.g. McKinsey (2022)

Family offices, banks, and related asset and wealth management units lead in terms of relative allocation to private markets

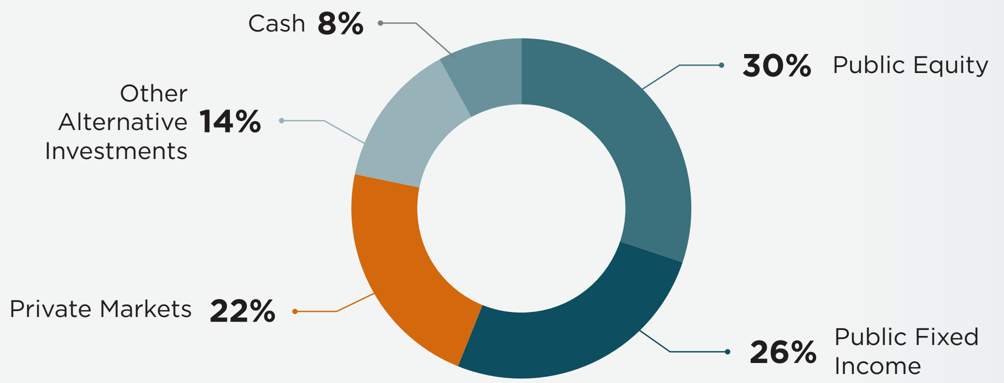


CHART 7

Asset Allocation

was the high number declaring differentiation (first mover, innovator, exclusive access) as a key reason to be active in this investment area. Differentiation was especially the choice of those in family offices and banks. Of course, providing access to alternatives requires capabilities in the areas of due diligence, structuring and life cycle management. Thus, investors look toward private markets for performance potential[12], diversification benefits, and inflation protection, while firms offering access to private markets can achieve differentiation but need to provide requisite investor services.

INVESTMENT ALLOCATION

Surveyed participants (excluding those who invest solely in private markets) on average[13] allocate 22% of their portfolio (**Chart 7**) to private markets (private equity, including venture capital, private infrastructure, private real estate, and private debt). Within this 22% average allocation, there is, however, a notable range from 1% (minimum) to 40% (maximum). In terms of allocation geography, North America and Europe were most

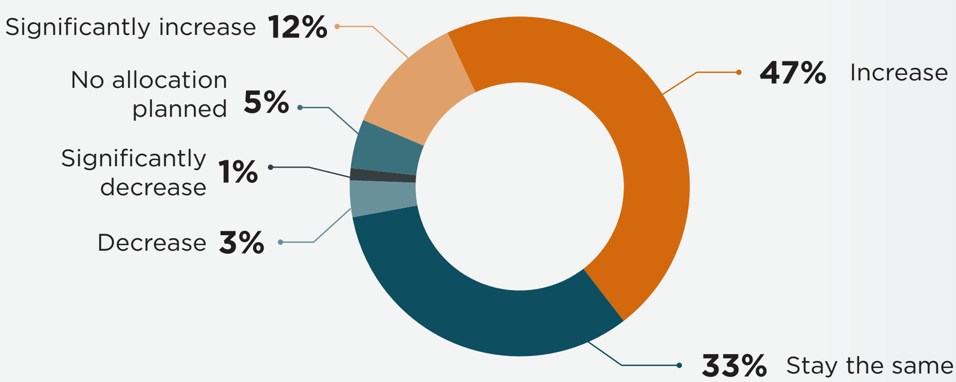


CHART 8

Changes in allocation to private markets

[12] see e.g. Credit Suisse (2021), p. 21, 43 or JP Morgan Asset Management (2021), p. 97
[13] average of responses of surveyed participants, not asset-weighted

Survey participants expect to add to current allocations, even with larger positions

mentioned. With respect to allocations across institution types, family offices rank highest at 24%, while banks and related asset and wealth managers are next highest at 19%. Insurances and pension funds are only slightly above 10%. Independent asset/wealth management firms invest significantly more than average. As is true of many surveys, such findings may be imprecise as the reported percentages are a mixture of target allocations, actual allocations and commitments. Additionally, some respondents may not distinguish between areas such as private and listed/direct real estate. However, a case can be made that our results are appropriately targeted due to the experience and seniority of the surveyed participants.

The develoment of interest rates, inflation and economic growth are cited as factors that will influence private market investments over the next 12 months

Our survey found that a majority of respondents (**Chart 8**) intend to increase (47%) or significantly increase (12%) their allocation to private markets across almost types of organizations. This finding was highest at banks/wealth managers (76%) and lowest at family offices (29%) that already commit high allocations to private markets. This is consistent with other recent studies[14] that find increased intentions to allocate into private markets. Finally, surveyed investors (65%) intend to increase their transaction sizes in the future.

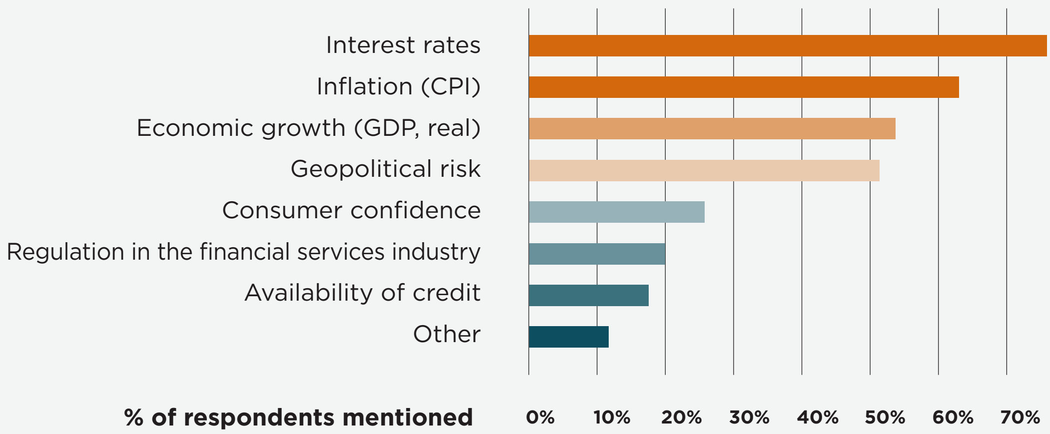
INFLUENCE OF INCREASING INFLATION

Most investors mention interest rates, inflation, and economic growth as factors influencing their investment activities over the next 12 months (**Chart 9**). Very recent macro-market movements reverse a decade-long trend of low or even negative interest rates combined with strong public equity market returns. How a new regime of higher interest rates and rising volatility in the public markets will impact future allocations to private markets is difficult to assess. While predicting where markets will settle is a fool's errand, our survey found that investors intend to keep a close eye on these and other factors such as geopolitical risks and changes in regulations when considering future allocations.

In summary, survey participants remain optimistic with respect to private markets and expect to add to current allocations with larger positions. While the interest rate cycle has already turned and rates are likely to increase further, this seems not to limit investors' appetite for private markets. Most of those asset classes provide other benefits such as inflation protection.

CHART 9

Factors influencing investing activities in private markets



[14] see also «Portfolio of the Future", i.e. Bowman, John; Filbeck, Aaron; Kelly, Bill (2022)

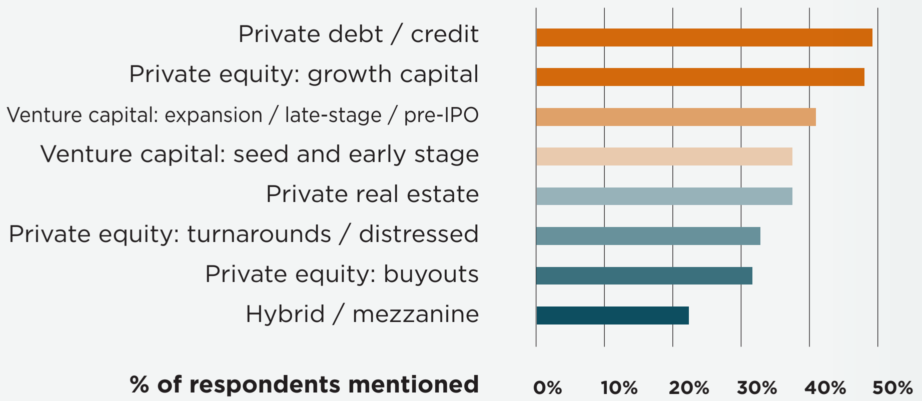
MOST PROMISING INVESTMENT THEMES

Private equity, venture capital and private debt are deemed the most attractive private markets segments

Private equity, venture capital and private debt were mentioned by most survey respondents as being the most attractive segments of the private market space, while hybrid/mezzanine is the least attractive segment (**Chart 10**). With respect to investment themes, new technologies such as artificial intelligence and fintech (also regtech and insurtech) are mentioned most often, followed by health and environmentally driven segments such as impact investing, climate investing, and ESG **(Chart 11)**. While these themes are clearly dominant across the entire risk-premium spectrum, private markets, particularly private equity and venture capital, are perhaps the most suitable way to gain exposure to these dominant themes.

CHART 10

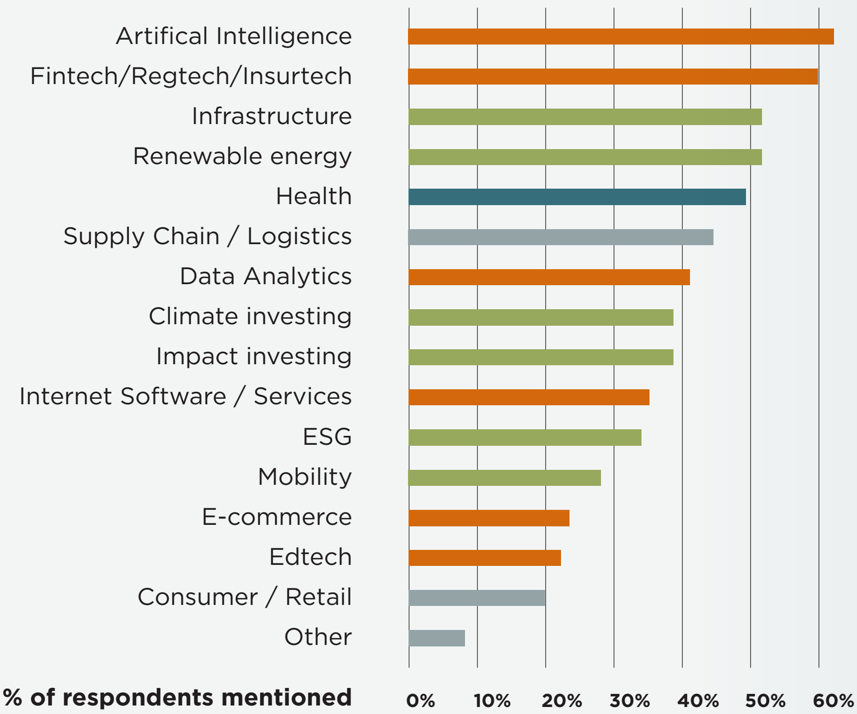
Most attractive investment segments



Artificial intelligence, Fintech/Regtech/ Insurtech are the most attractive investment themes

CHART 11

Most attractive investment themes



KEY CHALLENGES

Access to good deals, high investment minimums and lack of liquidity still rank as top three challenges

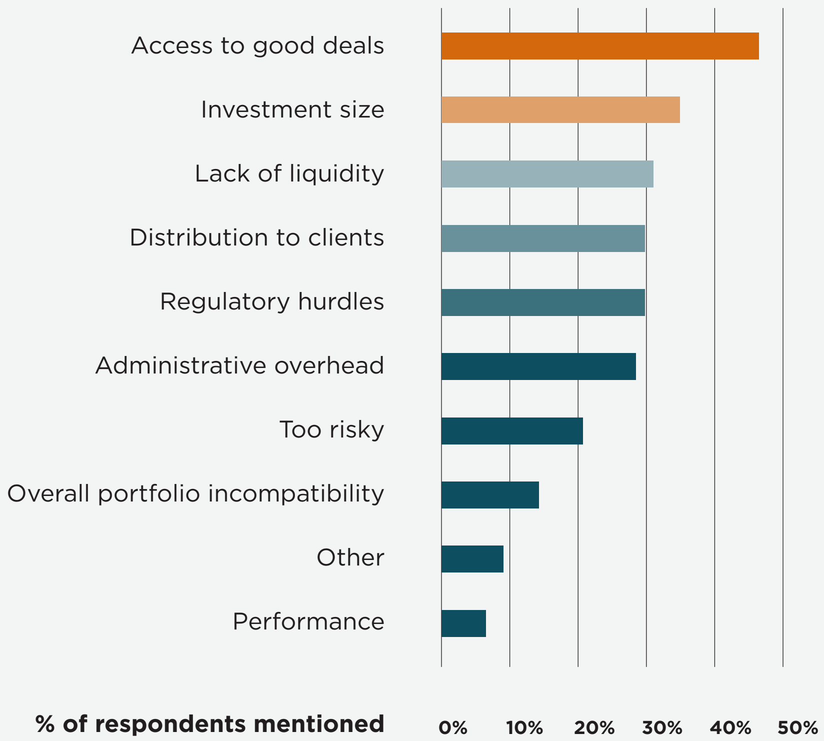
The most mentioned challenge when it comes to allocating to private markets was access to good deals, a consistent response across all types of organizations. Ironically, many of the other challenges listed in **Chart 12** are somewhat muted in private markets. For example, alternative investments can only be distributed to professional and institutional investors, thereby excluding small investors. Thus, surveyed investors currently not invested in private markets, and who don't intend to invest, cite overall portfolio incompatibility (unpredictable capital calls, achieving a stable allocation, difficulty in aggregating across other asset classes), regulatory hurdles (not permitted, unfavorable tax treatment, no vehicles/formats, etc.), lack of liquidity, and risk as important factors.

The constraints related to deal access appear to be formidable and cannot be easily dismissed. Indeed, a large part of the institutional value proposition depends on gaining access both to superior opportunities and top-quartile managers. Meeting this challenge requires a network of qualified employees trained for the specific purpose of sourcing opportunities, performing due diligence as well as finding suitable vehicles for accredited investors. Proper due diligence capabilities should be able to limit risk, at least as far as outliers in a return distribution are concerned, and help overcome information asymmetry.

In summary, the survey shows that the biggest barrier to entry with respect to allocating to private markets is access to deals and finding good managers. Although the perceived risk of private investments is frequently mentioned as a reason not to invest, a proper due diligence team could mitigate this concern.

CHART 12

Key challenges when investing in private markets



Key factors to success in sourcing new opportunities are having a dedicated private markets team, access to a strong network and external sourcing partners

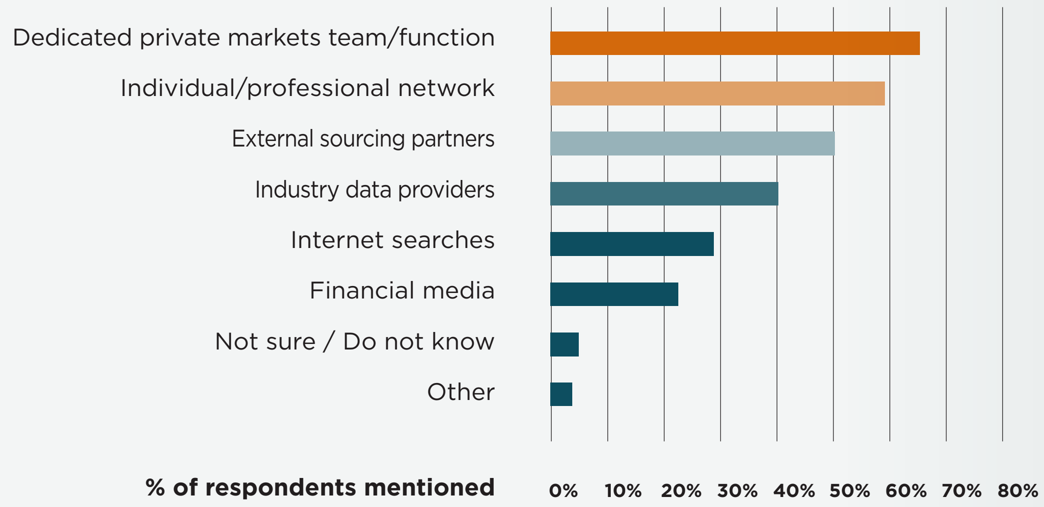


CHART 13

Resources used to perform sourcing and due diligence of investments

SOURCING AND DUE DILIGENCE

Track record, reputation, experience, and the ability to provide access to exciting deals are important when selecting an external provider

Concerning the sourcing and due diligence of private market investments, a dedicated private market team (**Chart 13**) performing these tasks was most mentioned. While creating a network is particularly important, especially for securing access to investments, finding external sourcing partners had high importance. With respect to partners' qualities (**Chart 14**), the following factors mentioned by most investors as particularly important are track record and reputation, followed by team experience and facilitating access to deal exits. Note that many of these qualities are to a large extent interconnected.

In summary, access to deals and due diligence are particularly important capabilities. Should the investor not have dedicated resources, external providers or partners can add value.

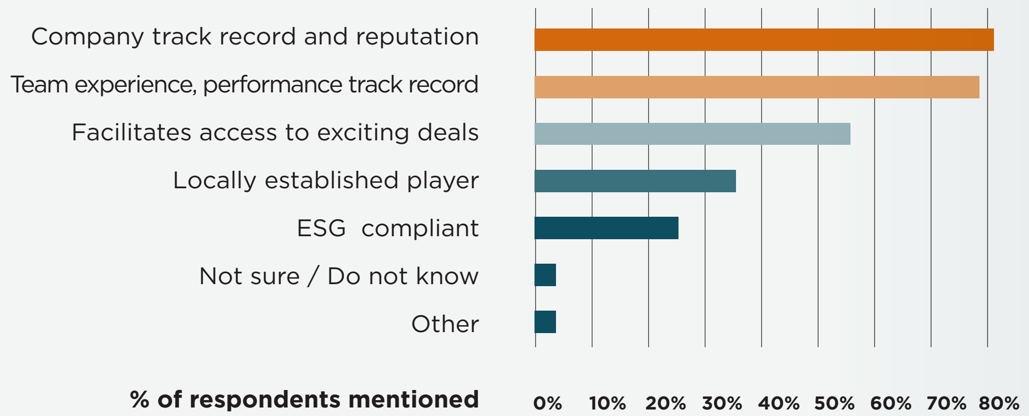


CHART 14

Qualities of ideal partners

INVESTMENT VEHICLES

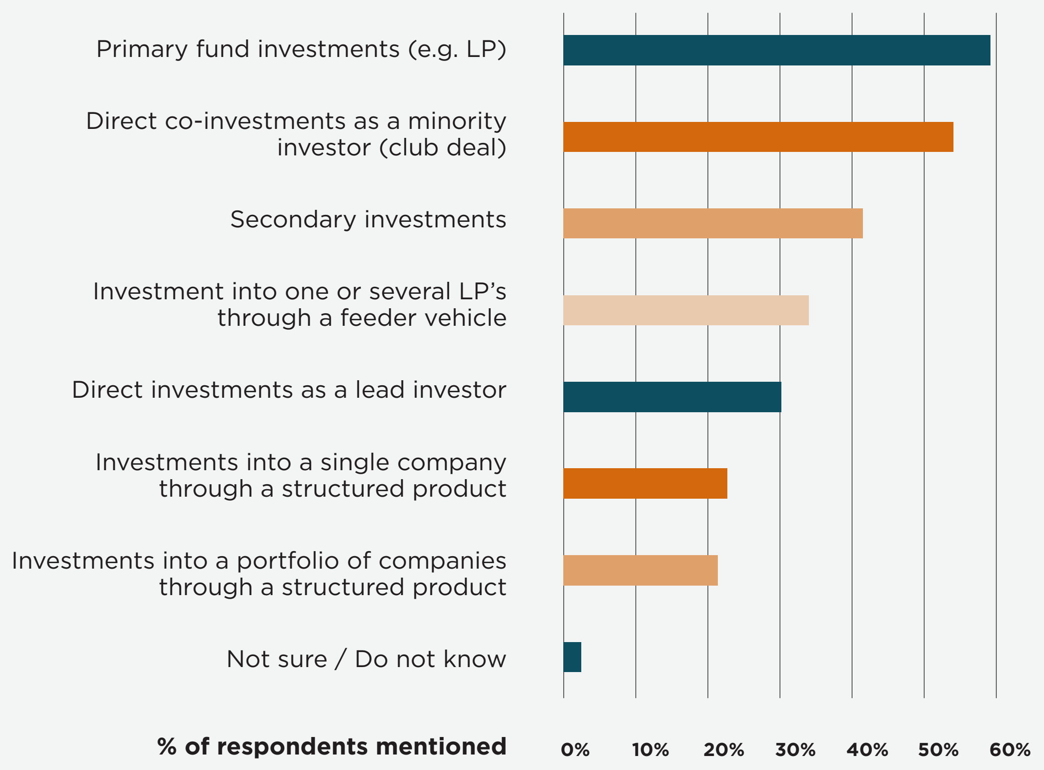
Feeder funds and structured products have the potential to open access for investors unable or unwilling to invest into such LP structures, irrespective of the type of investor

The vehicle through which investors can access private markets is a crucial topic to examine, as it is very much interconnected to limiting factors and reasons not to invest in private markets.

According to survey respondents (Chart 15), primary investments as limited partners (LP) are the most favored means for institutional investors to gain exposure to private markets. However, in a market with many banks and bank related asset and wealth managers, those types of LP interests are often not easily bookable and require a very high minimum investment. Our survey found that co-investments, secondary investments, and investments into one or even several limited partnerships through feeder fund structures also create pathways to invest. Investments into one or several structured products are especially favored by independent wealth and asset managers.

CHART 15

Preferred way to get exposure to private markets



In summary, only few, mostly institutional, investors, can invest directly in a private markets portfolio as an LP. Feeder funds and structured products have the potential to open access for investors unable or unwilling to invest into such LP structures, irrespective of the type of investor.

Conclusion

This Swiss investor survey substantiates and authenticates the attractiveness of private market investments.

The key qualities of these markets are performance, diversification, and differentiation.

Technology, health and ESG-related themes are deemed most promising. Access to good investment opportunities and their due diligence are important capabilities to any private equity investor, requiring both experienced and well-educated investment professionals. External partners can also be useful in that respect.

Gaining access to private markets through appropriate vehicles is of paramount importance, particularly to non-institutional investors.

Assuming that Swiss investors are representative of investors globally, these findings provide insights into the allocation to these markets.

Imprint

CAIA UK OFFICE LIMITED, Londres, succursale de Genève,
Avenue Dumas 37-39, 1206 Geneva, Switzerland
www.caia.org

Contact person: Laura Merlini, CAIA, CIFD
Managing Director, EMEA

Stableton Financial AG, Tödistrasse 38, 8002 Zurich, Switzerland
www.stableton.com

Contact person: Igor Shelemetiev
Chief Revenue Officer

Authors

Nelson Lacey, Emeritus Professor,
University of Massachusetts
and Senior Associate Director of Examinations,
CAIA Association

Olivier P. Müller, CFA, CAIA, FRM, CIPM
Chapter Executive in Zurich, CAIA Association

Nicolas Jenny, BSc
EMEA Office, CAIA Association

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Charts

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