

GLOBAL PRIVATE MARKETS: RISK, RETURNS, AND THE NEXT PHASE OF GROWTH

Announcer 00:01

Please welcome the panel on “Global Private Markets: Risk Returns and the Next Phase of Growth,” moderated by Chery Kang, anchor and correspondent, CNBC International.

Chery Kang 00:28

Hi everyone! Thanks for the introduction. Thanks for joining us. You know, I was actually talking to one of our live guests on CNBC this morning. He was saying, you've got some good panels. I do, I'm pretty excited. Let me just introduce my very distinguished panelists. To begin with, and I know that some of you are trying to join us. So as you guys are making your way here, we've got, well, let's kick off with this beautiful lady in the pink jacket. We're talking about wardrobe this morning as Wen Ting Geok, Head of Private Equity Asia, Mercer Alternatives Ltd, is joining us. We've got Geeta Kapadia, Chief Investment Officer at Fordham University, and Yup Kim, Chief Investment Officer of Texas Municipal Retirement System. And Hazman Hilmi Sallahuddin. He's the chief investment officer of KWAP. Thank you very much for joining us, and thank you for having me as your moderator as well. So the synopsis is: major ramp up in private markets. The alts market is maturing, so I want to sort of get a pulse check on the stage. Where are we in this cycle? Is it maturing? Is it necessarily bad? And, some are saying that this is a part of the market that hasn't been tested by a steep recession. So do we need to worry about this? Yep, I want to kick things off with you.

Yup Kim 02:08

Awesome. I think just to set the stage, private markets has grown tremendously today. Global NAV is about \$15 trillion, expected to grow to \$20 trillion, kind of by 2029, and I think if you look at recent returns, the past two years, public markets has dramatically outperformed, you know, private markets. And you know, it's well known that for the past 15 years, there have been incredible tailwinds, you know, at private markets backed. Anything you invested in. There should be a component of unearned multiple expansion that many private equity firms and

the like were able to enjoy as part of their investing. I do think going forward, investors should recalibrate their return expectations for private markets. I do think it'll take twice as much effort in really catalyzing the creation alpha or the operational intervention alpha to get to the same returns of the last 15 years. Both for LPs and GPS, it'll just become a lot harder to really generate similar level of returns. And just the last stat I'll give is over the long arc of the past 15 years, the median private equity returns and private markets returns overall have come down, right? It came down from about 17 percent to maybe about 13-12 percent today. But, there is a persistence of those who are best, right? So those who are top, you know, 5 percentile, top decile, they continue to clock well above 20, 25 percent net. So, the cost to you for making the wrong manager selection or the wrong transaction, you will be punished more for that. But the upside is still there, and active management, all this stuff really matters now in ways that it didn't as much in the past 15 years.

Chery Kang 03:56

Geeta, you're nodding eagerly. Do you agree with his assessment? Or, anything to add there?

Geeta Kapadia 04:03

Yeah, I would wholeheartedly agree with Yup. You know, when we think about our return expectations for private markets going forward, we've really seen sentiment come down across our board. So when we think about, you know, mid-double digit returns for private equity, ideally 10-plus returns for private credit, we look at those with a little bit of skepticism right now, especially when we've seen the public markets do so, so well for so long. It's tough to really justify those types of numbers. Even though we'd like to be able to rely on those going forward, I think we really have to modulate our expectations for that part of our portfolio.

Hazman Hilmi Sallahuddin 04:58

So, just to share with you: KWAP is a public pension fund, but we're not really a pension fund, because pension in Malaysia is actually being paid directly by the government. So, we're more like a servant fund, but reserved for pension in the future. Because of that, we can afford to take higher risk, and we are one of those, in Malaysia, that was very aggressive in the private markets four years ago. Our exposure in private markets [was] only 10 percent. Today, we're about 20 percent and want to grow that to 30 percent, but naturally, as a newcomer, the approach is for you to invest in developed markets, and by then being a servant fund for pension, there's also an angle for what can be done domestically, and also the region. So because of that, we specifically designed our portfolio in private markets to make sure that we balance between North America and Europe, as well as what we can do in Asia. The question is whether it is maturing. Of course, in the developed markets, it is. But in Asia, some are maturing, but generally, it's very nascent, and this is where we see that there is opportunity for us to do something here. We recently launched a program where we created 12 co GP funds, where we brought in 12 global GPs to partner with 12 new local GPs. Their mandate is to do 40 percent in Malaysia, 60 percent anywhere they want. This is part of our catalytic effort to sort of develop the ecosystem in Southeast Asia, particularly. Of course, because we believe that, I think there's a pattern just now saying that nine out of 10 people, 75 years from now, will live in Asia, in Africa. If you realize that half of the population in the world now actually lives in Asia. So if you take a longterm lens, this will be the market in the future. So we want to take an early step in betting on that.

Chery Kang 06:16

Hazman, do you want to bring in some regional context, and do you feel like there's a spread, perhaps in Asia emerging markets versus the US and some of the European markets?

Wen Ting Geok 06:47

If I may just add a bright spot, you know, just look on the bright side of things. Slower realizations cause NAV to be trapped, but the liquidity issue has really allowed secondaries to come up. So you know, that's a positive. And because fundraising is difficult, we are seeing more and more managers also using co-investments as a carrot. So we see secondaries and co-investments volume come up. So I think these two transaction types can really give a boost to your portfolio, and also add on to return. So, it's not all doom and gloom. I think these two are trending in a positive manner.

Chery Kang 07:27

Yeah. I mean, you know, this is perfect for a balanced conversation, and I was going to save the secondary sales for later in the conversation, but since you brought it up, I mean, let's get in there, right? So secondaries. But, so, correct me if I'm wrong, and any one of you: The way that I look at secondary is that there is really no exit, and people can sort of get in there, choose, and negotiate some of these deals. Oh, I can take some of these companies off your balance sheet at a discount, but maybe it's sort of driving transactions. But overall, does that suggest the health of the private markets? How should I understand it? Wen Ting.

Wen Ting Geok 08:13

Yeah, so maybe let's take a step back. Let's look at the market. Global secondary steel flow has hit unprecedented deal volume. So, this is suggesting that people are seeing the benefits of using it as a good portfolio-management tool. And because there's so much volume, you know, you can also be more selective when you invest into asset class. But you know, before I get there, maybe let me address, you know, for people who are less familiar with secondaries, as to the two buckets of secondaries that we typically see. So, the first one would be LP-led secondaries. What that means is that if you are an investor in the fund, I sell my stake in the fund to another investor before the fund term ends. And the other type is GP-led secondaries. So, this is where the managers themselves sell their assets to other people, you know, before the fund term ends. So, there's two distinct types, and let's dive a little bit deeper into LP-led secondaries, which is to your question. Why do people do that? Why do people use the liquidity issues? Or, even portfolio construction considerations, coupled with a pretty decent pricing environment. We have seen a diverse set of sellers, such as pensions, funnel funds, family offices, that have been using it as a tool so they can rebalance their portfolio, free up some capital to make new investments back into private equity or private credit. Also, just to exit some underperforming investments. And then why do buyers, you know, buy them? It's, you know, you see a lot of 40 Act funds, you know: evergreen vehicles emerging in the recent years. And this has really boosted demand. So, it's adding another dimension to a market that is growing and

maturing. And, as a buyer, you can see what you're buying. You buy at a discount for certain funds, and you have a shorter investment duration.

Chery Kang 10:08

You don't have to wait 5, 10 years. Need to wait three years.

Wen Ting Geok 10:13

Exactly. So it really does boost your IRR. And let's talk about pricing for a little bit. If you look at, you know, all strategies across the different transaction types and within private markets. In 2024, you see an uptick in the pricing, and you know that has been sustained this year. So you can, you know, get an indication of how popular secondaries are. So buyout credit and, sorry, private credit and infrastructure tends to trade at 5 to 10 percent discount. Venture was more hefty at 30 percent, and now that has dropped to around 20 percent. Real estate would be the most hefty discount at about 30 percent. So that gives you a sense, which brings me to the other side of secondaries, which is GP-led secondaries. And now continuation funds are the most common of them all. It's very common for managers to use it as an exit opportunity for investors. So continuation funds can have one up to five assets in there, so very concentrated, and managers only do it if they feel that there is a lot more economic gains to be made in that. But for, you know, the plus for investors into continuation fund is that, as opposed to investing into a close-ended private equity fund, the fees are cheaper and generally the terms are more investor friendly. So, you know, we think that, because there's a supply-demand imbalance right now, we will continue to see continuation funds as a key growth for the market.

Chery Kang 11:48

So then, at this point, I need to be asking LPs about how they feel about secondary sales. Geeta.

Geeta Kapadia 11:53

Yeah. I mean, a lot of what Wen Ting has just talked about, we've seen as an LP when I first started at Fordham three years ago. The pricing, when I looked at the secondary sale environment, was really very unattractive for the funds that we were talking about, and we've really seen strong improvements since then. And so it's been a good place to think about deploying into if you have the willingness and the ability and the time to be able to oversee it. And as someone who's just coming out of it now, it's a lot of time and a lot of work, but hopefully, in the end, it'll be worth it.

Yup Kim 12:32

Oh yeah. I think, I think that's a nice thing. It's a nice feature as private markets become more mature and more sophisticated. Just a toolkit that LPs have to really manage their portfolios, is nice. And in bull markets, you're able to actually sell, you know, not at a discount, which is quite good. And, you know, I've probably sold about 7 billion of interest, including unfunded, in my career, and it's been a very nice way. You know, obviously you have to be intellectually honest about the rate of return you can generate, you know, on the new capital you deploy. You know, as a result, there's a lot of different ways you can, you know, differ portions of the proceeds and things to get better pricing. But I think ultimately, it is, it is a good thing for the market overall.

Chery Kang 13:14

Hazman, how can funds like yours sort of use secondaries to rebalance portfolios?

Hazman Hilmi Sallahuddin 13:20

The past four years, as we execute our private-market strategy, there is a point in time because of the illiquidity of private markets, assets that the panel has been asking, and because of the reduced immediate DPI. The panel has been asking, Hey, is it worth it for us to still continue new our rampant target in private markets? And, of course, the emergence of continuation vehicles, to some, is seen as an avenue for exit, like a Ponzi scheme, right? But, I think for us, we see secondary as serving two purposes. One is it's an opportunity for you to buy at a discount. And there's a statistic by ILPA that says that 60 percent of LPs are willing to take discount. So that's an opportunity for you to make money there in an asset that has been tested and sort of almost at the end of the J-curve. And second, especially in Asia, I think Michelle mentioned this morning, that most tycoons and big family businesses have such an issue. So secondly, provides the avenue for institutions like P firms and like us to come in and acquire and build on the strength of that company at the attractive valuation. So, at KWAP, secondary used to be a small portion of a private market allocation. Today, it stands at 20 percent of our private markets, and we are thinking of increasing it to 30 percent because currently our secondary fund, secondary exposure, gives the best IR among other private-market strategies.

Chery Kang 14:47

I want to pivot the conversation to talk about this so called democratization of a private market. So, definitely something topical for the media industry, as well as for the private-markets industry. Geeta, you had some thoughts around this, and do you see this as an opportunity? And to be very cynical about it, it's really the institutions, they're tapped out. So, people are looking elsewhere, looking for new opportunities who can pick up the tab. The retails. I mean, it's not exactly that they haven't been exposed at all to private assets. But your thoughts?

Geeta Kapadia 15:28

I'm very conflicted on this. You know, generally, I personally am very much in the camp of people who should be able to invest in what they want to invest in, and so it's really the buyer who should know what they're doing, and the onus is on them to learn and to know enough about what they're investing in. And I'm not a huge fan of the nanny state, sort of protecting people against things that they may already be aware of. On the other hand, I do have concerns about what the retailization of private investments will do to the landscape. Part of the selling point of investing as an institution is that you are able to take on the illiquidity risk, the time risk, and you'll be rewarded for that. And I worry that the flows of retail investors at this point, aren't an impact, but could have an impact going forward. So when I...you know, when you hear about things like the Mansion House accord in the UK and the current US administration, you know, making things, kind of encouraging more investment from your average person on the street, I sort of view it with a little bit of skepticism.

Chery Kang 16:39

What is the main source of your concern? Is it because retails don't get it? They can study?

Geeta Kapadia 16:50

Yeah, less about they don't get it. I think we sometimes underestimate your average investor. I think it's more about the mismatch between an individual's investment objectives and an institution's investment objectives, and being able to marry those two: sometimes they just don't connect. And so if you have an investment that's really not set up for inflows and outflows regularly, it kind of makes me question the suitability of that type of investment.

Chery Kang 17:21

Anybody who wants to react to Geeta's concern or mixed view?

Yup Kim 17:27

Yeah, I probably agree. I think, when you look at just all wealth in this world, it's 150 trillion of institutional capital, 150 trillion of private-wealth capital. And so, clearly, the institutions are well penetrated and private markets. And so when you look at the next slug of growth, it will have to come from a channel away from institutions. I do want to...I fully agree, just the needs of 100-year-old organized institutions, and just the liquidity needs, cash needs of individuals, are not the same, right? And so just, you know, I think there's just been 100 different ways folks have tried to structure, you know, kind of these vehicles to accommodate for those liquidity needs of individuals. But it hasn't been easy. Obviously, those institutions, you know, those family offices are so large that they are run like institutions, right? You know, it works well for them. But, you know, as I kind of just think about, you know, high net-worth, ultra-high net-worth kind of TAMS, I'm just unsure, you know, kind of what the right structure would be. And a lot of institutional investors are concerned because, you know again, I think they'll just kind of view, hey, retail investors have a lower cost of capital, right? And so what are the implications of that, for strategies we back?

You know, obviously, maybe they have greater appetite for, you know, returns and are less margin sensitive, as institutional LPs are very, very margins, you know, kind of economic rack-rate sensitive. And so, you know, I think there are a lot of conversations happening now right around that. I do have some LP friends who won't invest in products where there is retail, you know, tied to it, and sometimes these retail vehicles are kind of—you have—you're forced to deploy capital quickly, right? I think one of the reasons why it's a great time to be a seller of private market interest now is that these 40 Act funds will pay much higher prices because they have to buy, they have to buy. And so I don't know that that's the best underwriting discipline for long-term, risk-adjusted returns.

Geeta Kapadia 19:33

Chery, I'll give you an example. I have a cousin who lives here in Singapore, so I spent the weekend at his house, and he literally emailed by WhatsApp to me a private equity investment deck that he was given by his banker. And he was like, "What do you think about this?" Like, oh, my god, are you kidding me? And he was like, "Yeah, you know, it's like, run by this well-known firm in the States, and my banker thinks I should put some money into it. And I'm like, no, what? And he was like, "But why not?" And I was like, okay, so this is a good—this is a good debate. It's a good question. But, I mean, if your average person on the street is asking the question...

Hazman Hilmi Sallahuddin 20:09

It's coming. I'm a big proponent of that. In fact, I would love to be a retail investor, and I think to address that equity issue among the retail investors. I mean, talk about the tokenization of all these LP interest—that kind of stuff. So I think, give it another 5 to 10 years, it will come.

Chery Kang 20:26

Yeah. Okay, sorry, all right.

Wen Ting Geok 20:31

So I was going to say that there's an emergence of semi-great credit funds. A lot of people are raising money for that. And there's a reason, because every time you talk to individuals or family offices, it's always liquidity that they are most concerned about. They're just not comfortable locking up money for so long in private markets. So I think, you know, semi-liquid was the answer to all these problems in terms of getting them access to private markets. So it's pretty much halfway, in terms of liquidity, between a public market fund and a close-ended private markets fund. And you know, basically, investors can enter or exit investment on a quarterly or monthly basis, and then that gives them, you know, some flexibility. That's why it's semi-liquid, not entirely liquid, but I think maybe perhaps offering something that people should take note of, which is this thing called "redemption gates." They have this, usually, at 5 percent of NAV, you know, which means that at any point every quarter, only 5 percent of NAV can be withdrawn from the fund. So in times of stress, investors may not be able to get all their money out at the same time. So, it may not be as liquid as you think if there's a stress event, but, you know, it really simplifies a private

markets program for individuals or family offices, because that's constant exposure to the asset class. You know, it's fully and 100 percent immediately deployed on Day 1. It's evergreen. You don't need to worry about staggered capital calls, or what you do with the distributions that you get back from from PE funds. But, of course, the flipside is that you don't—you cannot expect as high a return as a close-ended private market fund.

Chery Kang 22:15

I want to ask, I mean, all of you guys, I do detect a degree of caution. I know that Wen Ting wanted to stay on the broader side of things at the top. But does that come from the fact that many of these private assets are sort of locked in at the valuation of 2021, 2022, and we're sort of still in the middle of that cycle? Is that why? Anyone? Do I need to add more, please?

Yup Kim 22:49

Yeah. Well, I think 2020 will be a terrible vintage year. You know? I think people overpaid. I think people were overly aggressive. I feel pockets of private markets, second half of 2025 feel that way too, right? And so I think obviously, AI is going to change all our lives, but the prices being paid for some assets today are probably too high. You know. Again, I think, I think the three things that will underpin, kind of the structural changes in the next decade are demographics, technology, and geopolitics. And I think, you know, as we think about kind of the, you know, the risks ahead, I truly do think it's really emanating from those, you know, three factors, right? I think as private-market investors post World War Two, you know, kind of up until the COVID era, we were able, you know, to invest in an environment where things were largely stable, right? And your fan of outcomes could be pretty specific and precise, but I do think—kind of going forward—just a lot of you know, if you think about the quarter or third of global private equity NAV that sits in software, I mean, there's just a lot of different viewpoints on how much risk there is, you know, to the revenue pools: you know, this battle between AI-native companies versus, you know, software incumbents who are trying to AI-enable their legacy workflows. You know, there's just a lot of potential, you know, risk out there. And so I think part of it is, you know, obviously, the the overpaying of assets of 2021 and '22, but I think there's a lot of other risks ahead. And you know, the last point I'll make is, I think volatility dispersion and change are here to stay. And so, I do think the investors who are committed to being incredibly active, and making sure they are turning that volatility, dispersion, and change into a competitive advantage, will be the ones who earn a disproportionate share and pool of the alpha out there. It's no longer a passive person's game. Honestly, in the past 15 years, you could just buy high, sell higher, and do quite fine and not work that hard. But I do think the game has now changed, and it's just going to get a lot harder to earn the same type of outperformance.

Hazman Hilmi Sallahuddin 25:06

And to mitigate on that race is through diversification, not just across time, but across geography, sector, and strategy. I think that's where the importance of a pacing rule applies. I think in most of the funds that we come in, we have to make sure that, I mean, they don't rush into one particular wind issue, right? I mean, despite—because, with this 5000 horizon, but we also have to make sure that, I think, GPs would like to deploy ASAP because of the fee, and raise the next one. But it's important to have that conversation with the GPs that give it the microcycle

you need. They may need to be careful and have a pacing rule. In our program that I just mentioned—the co GP program—we provide a pacing rule that [says] they can't invest more than 1/3 in particular years. Just to make sure that it will take them at least three years to deploy everything.

Chery Kang 25:53

And you know, the narrative that plays out, and I said narrative because, the easy sort of flow of logic could be, oh, rate cuts are coming. Things will be better. We can expect cuts to somehow breathe life again into the IPO markets. Maybe exits will come through. Things will be rolling again for the private markets. Is that too naive right now, because the valuations again, going back to 2021, 2022 levels, we're not at that level right now when it comes to exits? Is that a problem?

Hazman Hilmi Sallahuddin 26:36

I think, for us, we—I mean for me—a bias because, I mean, because you invested in 2021, '22 so you sort of hope that things will turn better with the rate cards and theoretically, and which regime is good for private assets, right? But, lucky or not there, there will be impact. And the way we see it, as a long term investor, you look at it in terms of your blended returns. So we are cognizant and expect some impact. Overall, we're still going to generate those attractive returns from markets.

Yup Kim 27:13

Yeah. I mean, I'd say, just kind of, in recent years, you know, the fundamentals have been, you know, challenged, right? Obviously, with higher cost of capital in your capital structure, you're seeing, I think the average feedback company grew 10 or 11 percent EBITDA annually; it's 5 percent, 6 percent now. You're seeing interest coverage ratios come down from 3 to 1.5. It's stabilized a little bit, but it is still a little bit concerning. And, you know, I think overall, the, you know, LPs are not in the business of buying the median return. If you were, I think you should be concerned, right? I think everything you mentioned is still, you know...and lower rates themselves won't change everything. But I do think kind of across every sector you know, every part of the world you know, across tech, across health care, industrials, consumer, business services, energy, there's just a tremendous amount of dispersion of growth. You know, there's pockets of companies that are growing asymmetrically, you know, and value is accruing to different parts of the value chain. And so for those astute investors who pick the right place, it doesn't matter where rates are, it doesn't matter, you know, like, if you have, you know, kind of a good sub-niche market, great revenue model, great management team, and you're able to buy it at a good price, then you should be rewarded, right? And so I think that the broader story is a bit more challenged. It's been a little bit challenged in recent years, but I'm pretty hopeful. Yeah, I mean, I'm biased, but I do think private equity has some of the smartest investors in the world. (I shouldn't say that!)

Chery Kang 28:32

Anyone who wants to disagree with that?

Wen Ting Geok 28:55

I'm also very biased, so just to add two things, you know, and this is something we keep to as for our philosophy and telling our clients. You need vintage diversification, so don't skip a vintage just because things don't look great right now. Because if you look at the long term—you know, track record for private equity and private debt over the long term—we still outperform the public markets. So stick to it. You know, if you have a program, you're putting a part of it to private markets. You want to make sure that you're constantly putting putting money back.

Chery Kang 29:32

I like that. That's actually a good point that I should have mentioned throughout the discussion as well. Yup pointed out these three sort of big forces that a lot of capital allocators should be working based on. And they are demographics, technology, and geopolitics. I think that naturally leads to how to construct the right portfolio at this point in time. And perhaps I'll kick off with you, Wen Ting, on that note?

Wen Ting Geok 30:03

Yeah, sure. In our firm, we do this for our discretionary portfolios. We have a (fund of fund) product, and also OCIO accounts (OCIO for "outsourced CIO"). I just want to clarify something before I get to that. In no manner are we saying we should outsource or get rid of the CIO. I am very conscious [that] I'm sitting with three of them here, but thank you. [Inaudible] really just saying that is a discretionary portfolio, right? And maybe because I'm a PE specialist, I can talk a little bit more about private equity. We invest into buyout for transformation, growth acceleration and venture for innovation. But as to how much you put in each bucket, it really depends on your investor appetite. But just to draw a reference to a conservative PE portfolio, how will that look? That will be around 60 percent to buyout, 10 percent to growth, 15 percent each to secondaries and co-investments. And what this typical portfolio, the reference portfolio, would do is lower your return dispersion and help with mitigating the J-curve. Of course, you know, allocating is one thing, and sometimes after the money gets deployed, your NAV looks a little bit out of whack from what you allocate. And the reason is that there is a difference in timing as to how quickly, you know, the capital goes in and how quickly the capital comes out. So I'll give an example for secondaries, they deploy quickly, the money also comes back quickly. But you know, quite the opposite can be said for a VC fund. So you do get a little bit of mismatch when at the end of the day, you look at NAV and say, okay, that's not how I allocated initially. But there are a few ways around it, and I'll be brief about this. If, you know, you just started out having a private markets program, there are two things you can do: No. 1 is to really overcommit in the first two years, and No. 2 is to really overweight on secondaries very, very early on in the program. But if you have an existing program, it will take time to readjust, because you need to wait for the capital to come back, and, you know, just allow yourself a look-through basis on how that will shape up. But that would take a little bit longer.

Chery Kang 32:21

Why is that? When you don't have a lot of allocations in, get in there, go overweight, and a lot of secondaries at the top. Why is that?

Wen Ting Geok 32:30

I think a lot of concern for investors is mitigating the J-curve. J-curve, meaning, you know, you go into a negative before you come back to the positive again because managers are drawing fees. They are investing without actually giving you back the money yet. So you are in the negative. And the secondary part actually helps to make that J-curve a lot less deep. And then overcommitment is because actually, you know, if you put 10 million into a fund, they don't actually use up all 10 million. Actually, maybe, you know, depending on the manager, they use up 80 or 90 percent and it's over a period of time, and you want to overcommit so that it will end up in the allocation that you actually want. So that's basically how we view things. And maybe two pointers for people to take home.

Geeta Kapadia 33:20

I agree with everything that Wen Ting has talked about. And actually, as she was speaking, it reminded me, and kind of drew me back to some of the comments I was making earlier about the retail investor. This is not an easy program to just put money to work. And it's not like buying a stock or an ETF or a mutual fund where you just give them \$100 and you know that it's being invested. It's a much more complicated and sophisticated strategy and program to monitor, to maintain, to deploy. You have to be willing to overcommit, which, even for institutional investors, my board is very unhappy with—the idea that we have to not only deploy across vintage years, but we have to overcommit, even though we're overexposed to private markets right now. And it's just a hard concept even for sophisticated people to understand. And so I think all of those things really lead or lend this asset class to just sort of...you've got to be committed, you know, literally committed, because going in and out at the wrong time is a recipe for disaster.

Chery Kang 34:25

And prepanel, you are saying that it's essential to have a thematic approach, to have something sustainable and durable. Did you mean by a thematic approach, did you mean the three forces that you were talking about, or is it something else?

Yup Kim 34:41

Yeah, so just on portfolio design, just on our total portfolio design. You know, public markets, we run largely passive, low cost, right? I think it's, you know, we have a 20 percent bucket for active. There are some tremendous active public managers out there, and so they deserve a spot in the portfolio. But really, if you look at the top 5 percentile of returners and public markets to median, you get about 300 basis points. In private markets that's 1,500 to 1,800 basis points. So you really do get paid for good selection. The vast majority of our performance, you know, we are seeking through our private markets portfolio. And so I think, if an LP takes yesterday's sticker

price on funds and project that forward, I do think they'll be disappointed with their private markets returns. And so I think what we're trying to do is, you know, we're trying to deploy up to half of our annual deployment, you know, kind of directly into operating companies and assets alongside our GPs, you know, some sourcing ourselves. But I think, holistically, you know, what does that give you? That gives you a 3 to 4 percent bump, you know, through the gross net savings. But you also want to get additional returns through good selection, right? And for good selection, if you're just in the business of reacting to co-invest flow coming your way, you're just not going to succeed, right? Trying to go from zero to 70 percent market understanding every time is just not going to get you to a place where you have pattern recognition and you're able to deploy well. And so, you know, we have a world class team. You know, the vast majority of our team spent the majority of their careers on the GP side, and we just invest behind five mega trends: digital transformation, health-care innovation, industrial resilience, energy modernization, and financial empowerment. And we know exactly what parts of the value chain, what types of assets we want to buy in those areas, and we're continually compounding our domain expertise in those areas. And only then can you hope to have incremental returns on your asset selection, right? And so, again, I do think the past 15 years of returns in private markets has been tremendous. It's justified a fee burden that gets you to a very respectable return that served pension funds, institutions, ENFs and the like. But I think going forward, it's just going to be more challenging, and so LPS have to be more creative around what is your path towards a respectable private markets, you know, return that will help you continue, in the next 10 years, the good returns, you know, you've had in that part of the book. But it's not going to be the same playbook. Using yesterday's playbook for tomorrow is not going to get you to a good place.

Yup Kim 34:42

I like that line. Hazman, does your experience somewhat differ? I mean, does it lead to a different conclusion because of the different sort of regional context? Or do you agree and want to answer?

Hazman Hilmi Sallahuddin 35:42

In terms of the theme, I mean, we refer to the thematic sector. So we do have a few verticals that we would like to deep-dive further. But if you're talking about KWAP as a national pension fund, our current theme is almost like Asia Summit. So ours is purpose beyond return and, in doing so, just to share with you the allocation within the private equity, actually, we have about 40 percent buyout, 30 percent secondary, 20 percent growth, and 10 percent VC. And then why is a VC there? Because we believe that in order for us to resolve and sort of strengthen the structural issue in this region, there is a need for it to make sure of a healthy funnel of good companies coming in. And like it or not, somebody got to invest in much earlier-stage companies, and we believe that we should take a part of that role, and hence we have that 10 percent allocation for VC. I think another thing that is also very important for us, on top of making sure that we get the desired returns—optimal risk-adjusted returns—we also, again as national sovereign fund, have to make sure that the returns are sustainable and responsible. I think most people here forget about the term "ESG," no longer a famous term this year, but for us, ESG integration is very, very important, and as part of our plan to achieve that net zero target, which everyone has here, but not sure why they're still important, especially in the US, I don't know. But for us it is still very important, and in order for us to achieve that consequentially, we are going to launch a climate fund where this is part of our action plan to achieve that net zero. So, yeah, so that's the theme: financial returns, which is sustainable and responsible.

Chery Kang 39:24

I want to wrap up the conversation by sort of touching on the evolving relationship between GPS and LPs. What kind of environment are we? Are we in a sort of competitive fund-raising environment, and what kind of evolution are we seeing in GP-LP relationships? Wen Ting.

Wen Ting Geok 39:46

So fundraising is actually very difficult right now, as you know. We are seeing that managers are very open to terms negotiation now, as opposed to days when terms were very good. And a lot more engaging. So it's great, you know: we see our GPs communicate more during times like this. And, you know, again, back to my initial comment, we also get more co-investments as a result of, you know, enticing investors to come in.

Chery Kang 40:21

So co-investing, sorry to interrupt, but it's basically, I got the money. I want to go in there, but I want to go in there with you so that I can bring down the fees.

Wen Ting Geok 40:30

Yeah, that's right. So usually managers will offer "no fee, no carry,"—depends on the manager—but carry but no fee, no carry co-investments, where you can put additional money into the portfolio companies that the fund is investing in. So you're kind of double-downing on some of the investments there. But, you know, because they don't charge fees, you basically bring down—basically mitigate—the J-curve as we speak.

Chery Kang 40:58

Geeta, do you see the same kind of dynamic playing out for you—your fund—as well?

Geeta Kapadia 41:06

I mean, fundraising is very difficult. We've realized that not only from just speaking with other LPs and GPS, but from the amount of time that GPS suddenly seem to have to want to talk to us about their products. You know, we want to have strong relationships with our GPS regardless of the environment. So, they may have more time on their hands, or want to invest more time with us, but we expect the same amount regardless of what's going on in their world. And I think any ability for LPS to negotiate terms, to benefit us as a group, is a good thing. And so people like Yup, who manage many, many billions of dollars, you know, we rely on people like his organization—

him and his organization and the team—because we can help, we can ride on the coattails of the work that they're doing. And so we really appreciate it when large investors are able to help with that, because organizations like ours, you know, we don't get to dictate terms. So in light of that, we try to negotiate and work with GPs in other ways. I'll give you an example. We have a venture manager in the valley that had a program for interns, and our student body is largely many minorities and first-generation college students, university students, and so they were able to invite our students, our business-school students, to apply. One of our students was successful, and that could be a transformational opportunity for that student. And you know, he had a wonderful summer in the valley, interning with one of the leading venture managers in the US. So those are the types of things that, you know, really demonstrate alignment with what we're trying to do.

Hazman Hilmi Sallahuddin 42:52

The second jump in and to be blunt about this GP-LP relationship: I think the GP-LP relationship should be beyond transactional. I mean, because our ticket's about 50 to 100 million dollars per fund, typically, somehow you're not that small. Pre-close, post-close, you're quite small, and they ignore you. None of the GPs here, by the way, but I think it has to move beyond that. And also what we observe is the GPs that we like are those who understand our strategic angle that we have to bring to the table. And for example, that they asked the GP where we are working with them, whereby part of our commitment will come back to Southeast Asia. We're doing this, all this plus one: China plus one, Taiwan plus one, GCC plus one, that kind of stuff. So it has to move beyond just the fundraising period. Of course, the good ones, they engage you. They spread the love all the time. The bad ones just there for those few months for fundraising, which we don't really like. So it has to move beyond that transactional relationship.

Yup Kim 44:02

Yeah, I couldn't agree more. I think, I think a lot of LPs are embracing this, but historically, it was really kind of a "service provider-client" relationship. Now it really has to be a co-partnership around, you know, there's limited alpha out there in the world, how do we capture a disproportionate share of that by being partners, right? And I think that mentality will get you a very, very long way. And, you know, the thing I asked my team to do is, hey, look like, you know, so everyone's kind of in one of these five pods, and I just tell them, hey, pick the three to five most interesting, established, and emerging deal makers, like, in the target areas where you're focused, you know, sourcing deals and just really mandated to get smart about, and just find people you like and find people who you want to be knowledge partners with. Really, I think the nature of LPGP relationships should elevate, you know, going forward. You know, there's been a few cases where we were able to source deals, you know, for our GPs and just introduce them to ecosystem partners that are kind of idiosyncratic and unique to Texas. And so, you know, those are things that only we can do. And so, you know, I just hope that more partnerships look like that going forward.

Chery Kang 45:19

Knowledge partners. I like that. Thank you so much. And thank you so much for educating me, giving, sharing the knowledge on private markets today, and thank you for having me as the moderator. Thank you so much for your great, robust conversation.

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