Steering the Global Investment Committee through rough seas

Q&A with René Biner

René Biner, Chairman of the Global Investment Committee

As Chairman of Partners Group's Global Investment Committee, René Biner not only evaluates hundreds of new investment opportunities every year, but also keeps a close eye on the firm's existing portfolio of companies and assets spanning multiple sectors and geographies. With the COVID-19 global health crisis affecting almost every segment of the economy, neither of these tasks has been easy. However, while René believes social distancing may be around for longer than we might wish for, he has reason to be optimistic about the future of private markets investments, as he explains in our latest Q&A.

What does a day in the Global Investment Committee (Global IC) look like during a global health crisis?

In the early days of the crisis, it was all about ensuring the safety of employees and maintaining business continuity across our portfolio. We commissioned our investment teams and portfolio company boards to establish different financial projection scenarios, such as a June 2020 COVID-19 trough case and a September 2020 COVID-19 trough case, to evaluate potential liquidity and capital needs. We worked intensively with each company to provide support and direction in navigating the evolving pandemic. We also rallied to raise a Portfolio Employee Support Fund to support the most financially vulnerable employees at our portfolio companies during the crisis. It was a case of all hands – and brains – on deck.

Flexibility, decisiveness and determination in decision-making are key in these situations. The differentiator in private markets is that we have sufficient capital for add-on liquidity injections and were able to provide injections to those few assets that needed it. In contrast, in public markets, it is much more difficult and complex to raise capital during a crisis like this, especially when stocks corrected sharply in Q1 from their peak valuations in February.

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Today, things already look very different. Our discussions in the Global IC are centered around returning to regular business operations, as well as making new investments. We want to support portfolio company employees in going back to their regular working environment as soon as that is feasible – of course, all while strictly adhering to local regulations and with their health and safety as the continued priority. Our ambition is to be first movers rather than late adopters when it comes to these important steps. Our teams have established detailed strategies to enable our assets to return to regular business operations, and we are back in offense mode.

In this phase, the advantages of our global platform come to the fore. The visibility we have on our portfolio in Asia has really driven us. Our teams based in the region were the first to go into lockdown and the first to navigate their assets through the crisis. Our team in China managed our assets well through the shutdown in January and that gave us a head start in building a roadmap for other geographies while others were still assessing the magnitude of the crisis. Most of our Chinese assets are now back at 80-95% of pre-Coronavirus performance levels. We have also seen statistics showing that mobility across China has recovered and is only around 20% below last year's levels, with some of the largest provinces back to normal mobility schedules. Equally, China's consumer market has shown strong recovery since April. These data points make us optimistic and our outlook is generally positive.

How have you supported Partners Group's portfolio companies through the crisis?

Throughout the crisis, we have been sharing best practice across our portfolio companies to ensure that management teams are providing adequate leadership, protecting their people, maintaining liquidity and working with local authorities, as necessary. As a multi-asset investor in private markets, we were well positioned to offer guidance to our portfolio companies on topics such as debt capital structure negotiations and real estate rent negotiations. In the Global IC, we also initiated personal protection equipment sourcing initiatives for those portfolio assets that required the equipment to operate safely.

Again, this is where the advantages of a global platform come into play. I was on a board call for one of our US portfolio companies during the first week of March, when it became evident that most of Europe would also go into lockdown. At the time, there was about a two-week lag in terms of the spread of the virus and adoption of lockdown measures in the US. The management team really appreciated our perspective on what was happening in Europe, just as I had appreciated the invaluable insights and perspectives of my colleagues in Asia at the start of the crisis. This allowed many of our assets to be prepared for what was to come early on. And in a shutdown, any extra week of thinking through the details of the different potential scenarios makes a difference.

Have the opportunities or sectors that Partners Group would invest in changed since before the pandemic?

Our general approach to sourcing investments according to long-term, high conviction themes has not changed. Even during the crisis, we have kept up our Thematic Sourcing efforts. We have had several discussions in the Global IC about new themes we are keen to explore. Equally, we continue to work on themes we liked before the crisis. For example, we had been working on two-to-three high conviction assets based on our thematic research before we went into lockdown. While we mutually agreed with the sellers to put discussions on hold in the midst of the pandemic, we have now taken those discussions up again as we still believe in the long-term sustainability of these assets and the trends they cater to.

We also continue to evaluate opportunities for add-on acquisitions for several of our existing platform assets, both on the private equity and infrastructure side, and have kept an open dialogue with sellers throughout the crisis.

In the private infrastructure market, we still favor themes related to the global shift towards clean and more efficient energy. One example is our recent agreement on behalf of our clients to invest in the construction of a wind farm in the Asia-Pacific region, which we anticipate being able to announce publicly soon. In addition, various large, global energy and transport companies have recently announced divestment plans and this may open up opportunities to invest in quality assets in these sectors that have been repriced as a result of post-COVID-19 dynamics.

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Finally, we are seeing some good movement in the private equity secondary market as a number of institutional investors consider using the secondary market as a tool to satisfy their immediate liquidity needs, with portfolios priced at significant discounts to NAV. We are currently working on evaluating and pricing portfolios that we believe have a lot of upside potential. We have also been quite active in the broadly syndicated loan space, capturing opportunities when loans traded down during the early phase of the crisis. Looking ahead, there may be opportunities generated by further market dislocation as the knock-on effects of the crisis become more apparent. Additional volatility in public markets, for instance, may generate liquidity-driven opportunities across all four of our business lines: private equity, private debt, private infrastructure and private real estate.

How do you expect the crisis will impact the private markets investment market in the mid-term?

One thing that has changed is the way we price potential investment opportunities. In the old world, our approach placed a heavier weight on last twelve months (LTM) earnings. Today, the weight of pre-COVID-19 LTM metrics has decreased and become less relevant. Instead, we are focusing much more on 2021/2022 earnings expectations to price assets. We have a lot of debates about what the right risk/return metric is based on these forward-looking assumptions.

Another impact this crisis will have on the private markets industry is that due diligence efforts will be more heavily weighted towards the pandemic disruption risk and how individual businesses and sectors will recover from the crisis. In addition, financing structures offered by certain market participants will probably become more prudent and less aggressive.

In the short- to mid-term, the one big question in private markets is, will there be enough matches between buyer and seller expectations? We believe this very much depends on where market participants are located; in Asia, they will be back in the market earlier, while in the US or UK, buyers and sellers will continue to be more cautious.

How does the current environment compare to what you experienced during the Global Financial Crisis (GFC)?

To me, this crisis feels very different to the GFC. 2008 and 2009 was a financial crisis, caused by easy credit and too much risk-taking. Valuations were elevated, most people did not expect such a sharp economic contraction and correction, and there was distress in capital markets.

This 2020 global health crisis was caused by an external shock. As opposed to 2008, when the recession lasted several quarters, in 2020, economic activity froze up almost instantly, at an unprecedented speed and force, caused by the drastic government lockdown measures. The policy response has been much stronger and faster than during the GFC. We are seeing this in capital markets, where equities have so far recovered a substantial extent of their Q1 losses.

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Currently, we project a partial rebound from the sharp economic contraction, with modest growth thereafter, but there will be clear winners and losers. Our job in the Global IC is to identify the winners for the benefit of our clients and their more than 200 million beneficiaries – that is what we come to work for every day.