

Asset consultants see investment opportunities in the wake of pandemic

Key points

- *The pandemic has resulted in a highly uncertain environment but has also created new investment opportunities.*
- *Distressed credit has been one area with the potential to deliver higher returns for investors as defaults rise.*
- *Investors also need to be nimble and accept higher risks, such as illiquidity in some instances, to pursue gains when presented with opportunities.*

Asset consultants around the world are focused on the multi-faceted risks emerging from the coronavirus pandemic but are seeing a growing number of new investment opportunities such as distressed credit.

"There absolutely are opportunities, but I do think we are in an environment now where there is pressure across the board," Frontier Advisors Director of Sector Research, Paul Newfield, said. "There's not one area which is immune to that either geographically, geopolitically or macro-economically; in every asset class, there are some aspects of pressure."

Fellow asset consultants Segal Marco Advisors (North America) and LCP (UK), which collaborate with Frontier through the Global Investment Research Alliance, are tackling similar challenges.

Segal Marco Consulting Senior Vice President, John Ross, said the uncertain environment has prompted the firm to undertake its first intra-year review of capital market assumptions in two decades.

"Yield curves have shifted down, which implies a lower risk-free rate as a part of a total return, so there's a challenge there," he said. "Thinking about volatility; managing sentiment versus fundamentals in terms of what's driving markets."

Amid this uncertainty and volatility, Newfield said it was crucial for investors to have a clear purpose and governance protocols to lead them towards their goals.

"In calm seas, every ship has a good captain but when you go through tough times like this, you really do see the stand-outs. These are investors with great clarity on their mission, sense of purpose and they understand their competitive strengths"

Distressed credit, renewables and other investment opportunities

LCP Senior Investment Consultant, Natalie Brain, said these challenging markets were also creating new investment opportunities. Some of LCP's clients are introducing equity protection strategies and investing in opportunistic credit strategies.

"The opportunity set out there is big and the level of defaults coming up is higher. They really can take account of some of those opportunities where there are distressed companies and can move on that restructuring piece."

Ross also said there were opportunities in distressed credit, as well as opportunistic real estate, renewable energy as it relates to real estate, secondary opportunities in private markets, and infrastructure such as power generation where demand remains strong through crises.

Newfield said in this environment, Frontier is looking for certain distressed credit opportunities as well as investments that might be less sensitive to GDP growth, such as renewables.

"We are looking for investment opportunities that are either compelling because an event occurs or because they have tailwinds pushing them along," he said, but cautioned that investors needed to be nimble and comfortable with taking on illiquidity risk.

While markets are volatile and uncertain, he cautioned investors against becoming overly conservative.

"To the extent that they do have capacity to invest and be longer term investors, they shouldn't necessarily be fearful of elements in credit or in private market assets where their capital might be locked away, provided they're getting fairly compensated for not having access to their capital."

The implications for longer-term inflation and rising debt levels are also front of mind for asset consultants as they tackle an investment landscape shaped by responses to the pandemic.

Newfield concluded by saying "There are also opportunities in various areas of the alternatives universe. A number of clients have, during Covid, specifically engaged with Frontier on derivative strategies with the focus on downside protection. These delivered positive outcomes, as expected, during Covid and clients and prospects who have concerns on downside risk continue to engage with Frontier in this important and highly bespoke area."

Key questions the panellists answered

- *(11.35m) What are the key issues facing institutional investors in your respective markets?*
- *(22.45m) What are the greatest risks facing your clients at the moment?*
- *(36.55m) What are some of the investment opportunities that clients are starting to contemplate?*
- *(50.22m) How do your firms get global breadth of coverage and how important is that for your clients?*