Fundraising and Client Strategy seminar

Presentation Transcript

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Chris Hunt

Good afternoon, and thank you all for joining us at the seminar today on fundraising and client strategy. This is of course a topic that is fundamental to ICGs prospects and I'm looking forward to having an interesting discussion over the next 60 minutes or so. Importantly, we're focusing today on this topic through a strategic lens and very much in the long term. The slides are available on our website, and the recording of this presentation will be available on the website in the coming days. We're hoping for an interactive discussion today. We'll make sure we leave lots of time for Q&A. For those of you joining online, you can submit questions through the webcast messaging function or by telephone and you can find details in the online portal.

I'm delighted to welcome two senior colleagues today who'll be speaking, Andreas Mondovits, who has been with the firm for over a decade and who heads up the firm's global marketing and client relations team of roughly 70 people globally, and Bashak Demir who joined last year to head up our client relations function globally.

We will be covering a range of topics today. Firstly, some observations on the macro backdrop, then some colour on ICG's client base, it's history, and where it is today, how this has been supporting our strategy of growing up and growing out, and finally spending some time looking ahead. What I hope is at the end of this session, you'll have a better appreciation of ICG's approach to client development and fundraising, and our strategic areas of focus historically and importantly going forward as they relate to this area.

There are five key messages we want to leave you with today. Since we really made the decision to pivot towards being a third-party asset manager, we have successfully built a global blue-chip client base. The focus over the last decade has been on increasing the number of clients on our platform and we have executed on that across all geographies and with a particular focus on institutional investors who are the largest, most sophisticated, and most concentrated pool of capital within private markets along with investing.

Along with investing well, our clients are of course a crucial component in growing up and growing out, and our client franchise today gives us a lot of confidence that we can continue to do this in the future. Building on our progress over the last decade, ICG is increasingly well positioned to capitalize on the demand for alternatives across multiple asset classes, and we have spent a lot of time historically broadening our product offering. As you look at the pipeline of strategies today that have not yet even had a final close on a first-time fund, there is a lot of opportunity here and the focus in the coming years is very much bringing them to market and scaling them.

As we continue to become bigger and broader, we are becoming evermore relevant to evermore clients and we see real, tangible benefits both of our franchise and of our scale. So, looking ahead, we believe we have substantial runway to grow our existing client base and to increase the share of wallet in our existing clients, so in all, we think some pretty long-term, powerful supporters of our equity story. At this point, I'll pass over to Andreas to share some observations on the macro environment in which our clients are operating.

Andreas Mondovits

Thank you, Chris, and thank you all for joining today. It's been a few years since I've been on stage. Last, I think, 2018 if I recall correctly, and while many of the messages are similar, our scale is notably different. Compared to 2018, we have almost two times as many clients now and three times as much AUM across a broader range of scale strategies. From my perspective, we're now a business that is increasingly able to focus on serving the world's largest investors across multiple asset classes. That is incredibly exciting and positions us well to benefit from a number of macro trends we're observing.

I want to start by looking at the AUM growth in the private markets over the last 10 years. The growth has been remarkable, over three and a half times in the last decade, and now standing at almost 12 trillion, which is around 10% of global AUM that is professionally managed. That tailwind has obviously been a huge structure support to our growth, but it's worth noting that we have grown our AUM nearly six times during the same period, meaning we have significantly outperformed a growing market.

The focus of this seminar's clients. Among that perspective, we have observed a number of trends. As Chris said, I joined ICG a decade ago, so I've seen a few of these from within the firm. For example, alternatives are no longer alternative. There's not an investor globally who is not allocating or at least considering allocating to the alternative asset class. Within private markets, asset classes are at different stages of maturity. Many investors' first taste of private markets was private equity and globally that remains the largest component. Private debt infrastructure and private real estate, for example, are younger with smaller AUM in the private markets. But to my mind, there's no structural reason why over the coming decades these should not converge or at least the gap be closed.

What explains this increasing continued demand for private markets? Has it all been a search for yield in a low-rate environment? From a structural, long-term perspective, I can confidently say, "No. It's not." Clearly, yield pickup in a low-rate environment can be one driver and our ability to offer clients exposure to floating rate in direct lending is a good example as the strategy is currently generating some unprecedented returns. However, there are a number of other reasons in my view that go beyond this and are far more strategic. Attributes such as high returns, partly a function of illiquidity or complexity premium, and access to asset classes with inflation-linked protection, along with lower volatility, are key attractions to private market strategies and differentiators versus the public market, as is the ability to match long-term liabilities with long-term assets. For certain types of clients, for example insurance companies, this duration matching can be a driver.

Beyond this, if you're a mid-size business services, education, or healthcare business in the western world today, you probably have no need to ever raise public capital in the debt or equity markets. You may choose to do so for a variety of reasons, but you do not need to, as the private markets are sufficiently scaled and mature, that you can grow and monetize your business exclusively within private markets. As a client, therefore, investing in private markets gives you exposure to many parts of the economy that are increasingly difficult to access in the public markets. For example, high-growth companies, particularly in Europe, business technology and healthcare services, and of course infrastructure. In all, the reasons for clients investing in private markets are of course multifaceted and vary between client types, but they're based on long-term and strategic approaches, which are not really driven by a short-term tactical response to prevailing conditions at any particular moment in time. Finally, given the illiquidity and private nature of our business, dispersion and performance between manager and the arena is huge, so manager selection really matters and Bashak will show you later how our clients view ICG's performance.

On the previous slide, I mentioned that many companies, they are and can be very well capitalized without ever needing to raise public capital. This creates a self-reinforcing ecosystem within private markets that is quite powerful, driven both by the client demand and investment opportunity. In particular over the last decade, but beforehand as well, we've seen a substantial increase in the amount of AUM focused on private markets. This has enabled more companies to stay private for longer, and they may decide to do this for many reasons: flexibility of capital, ability to focus on long term with fewer quarterly distractions, the regulatory burden of a public listing, and so on. In doing this, companies create a larger addressable market of investment opportunity for private AUM, so it is more money chasing investments. Because both sides of the equation are growing, private markets have been able to continue to generate attractive returns at increasing scale. Those returns, along with the other dynamics I discussed on the previous slide, mean that there is an increasing demand for private markets, which helps drive that same cycle.

In many ways, this is a function of private markets maturing, but we are not fully there yet, and I see this self-reinforcing cycle as becoming a powerful driver for many years to come. Of course, once we're talking today about the long term, we cannot ignore the current environment. Once we see structural appetite for our alternatives remaining strong, in some areas things are slower across the industry than there may have been 18 months ago, but that is timing and is also not the case across the board. For some clients and client types, we have seen very little change in their investment programs and behaviour, for example, Middle Eastern clients and sovereign-wealth funds in particular, along with certain insurance companies who are not as impacted by the denominator effect.

For certain clients, of course, particularly pension funds, the so-called denominator effect is important. It has caused a slowdown in their ability to commit capital to private markets. We expect this to be a temporary situation. Indeed, some investors are increasing their allocation to alternatives, which will help alleviate this.

For example, at the end of 2022, New York City pensions, which in aggregate manage roughly 450 billion of assets, increased their allocation to alternatives from 25 to 35%. This adds approximately 45 billion of additional firepower going to alternatives and we expect this to be a long-term allocation. As we speak today, there are a lot of our largest pension funds going through a similar approval process underlying the structural interest in private markets allocations. Despite the current volatility and market uncertainty and perhaps in part be because of it, we continue to see clients allocate capital to private markets. Provided managers are able to continue to deliver even in turbulent times, this will further reinforce the rationale for clients having a meaningful location to this asset class.

Alongside successful investment strategies a key to us being able to capitalize on this opportunity is route to market. Over the last decade, we have grown a global sales and marketing platform from scratch. As you can see on this slide, we have 40 marketers and locations across EMEA, the Americas, and Asia Pacific. Over the last 18 months, we have been hiring into areas where we see specific growth for opportunities and where geographic client or strategy knowledge are particularly powerful. At this point, I'll pass to Bashak to share some thoughts on our client base and how it's fit into our historical AUM graph.

Bashak Demir

Thank you, Andreas. Thank you to everyone for joining today. As Chris mentioned, I joined ICG last year, and since this time I've continued to be impressed by the scale of our client franchise and really the depth of our relationships with some of the largest allocators in the world. What I would like to discuss with you today is how our client base has grown over the last decade and what it looks like today before going into more detail on what this has translated to fundraising wise.

As you can see from the chart on the left-hand side of the page, over the last decade, we've grown the number of clients ninefold, which is really quite extraordinary, from just 69 clients in 2012 to well over 600 today. This equates to an annualized growth rate of 23% and it's very much consistent with Andreas' comments earlier around ICG having a deliberate, strategic focus on growing the number of institutional clients on our platform.

Just digging into this growth a little bit more, what you can see is that it's been very global with a particular focus on US clients. In fact, since 2012, the number of North American clients has grown over 11 times and stands at approximately 160 today, and includes six of the top 10 allocators in the region. This growth in client numbers has also had the added benefit of reducing client concentration and you can see this here. Our single largest client in 2012 accounted for 16% of third-party AUM. Today, this number is around 3% to give you an idea.

Our AUM also benefits from being incredibly diversified, and this diversification includes geographically, by investor type, and by mandate.

I just want to reflect on this point for a moment because I think it's particularly powerful from a shareholder perspective, both in terms of reducing single client or geographic exposures or risks, but really for underlining the broad-based appeal of our products. But it's all very well and good me telling you how great ICG is. I suspect what you'll find more interesting is what our clients say about us.

For background, we commissioned Coalition Greenwich, with whom I'm sure many of you will be familiar, to do a global client survey for us in 2022. And as part of this survey, they went out and conducted in-depth interviews with 200 consultants and clients and prospects. And what you see here on this page is some of the direct verbatim quotes from investors on how they describe ICG and what they perceive to be our strengths. And really the key themes to come out of this are consistent with the messages we've been communicating to equity markets for some time. To summarize, they see us as innovative, diversified, strong track record, and of meaningful scale.

We also had Greenwich ask how our clients perceive us across a range of factors including investment experience and client service specifically. Before we just delve into this, just a quick note on how to read the charts. So the dark gray bars denote the third quartile of each measure with anything below by definition being fourth quartile. And then the blue bars denote second quartile. Again, anything above being first or top quartile.

And finally, the very, very small dots which are incredibly difficult to read are ICG's rankings, which as you can see are all top quartile and, in some cases, top decile.

So clients perceive us to be a top quartile investor with top quartile client service. For me, being responsible for our client service efforts globally, these last two slides here are an incredibly powerful validation of how our clients see ICG. And this is clearly a large part of what has allowed us to grow our client base at both the scale and pace that we have over the last decade. It also gives us confidence that we can continue to grow our AUM both with new and also existing clients.

I want to shift gears now, if I may, from the growth in our client numbers and turn to how this growth has driven AUM. So again, you'll see that over the last decade we have raised roughly a $100 billion in aggregate from our clients and this has really been the result of increasing the size of existing strategies, so growing up. And by launching new strategies, growing out. I'll talk through a couple of interesting dynamics relating to each of these points.

Firstly, growing up. And here we look at average commitment sizes. As you would expect, as our more mature strategies grow, so too do the average ticket sizes. And what we show here is the data for both our flagship European corporate strategy and also our market-leading GP-led strategic equity strategy. And these are just two examples of this dynamic in play. What you see is that as we grow, our clients are able to grow with us. Additionally, as our funds get bigger, we're able to absorb larger individual commitments. As some of you may recall, in Europe VIII, we had a brand-new client to ICG commit €500 million. We wouldn't have been able to absorb that size of commitment in Fund VII, let alone Fund V.

Now, of course, for any fund and fundraising, existing clients within the strategy are really the bedrock on which you build success. And on this page here, we show the value of so-called re-ups for the same two strategies. As you'll see in Europe V, which had a total fund size of €2.5 billion, €600 million was committed by clients who were in the previous vintage. So, Europe IV. Fast-forward to Europe VIII, which held a final close last year at 8.1 billion, 3.9 billion was committed from investors who were in Europe VII. And we see the same trajectory for strategic equity.

So the takeaway here is clients who've invested in a strategy with us typically like what they see and then they invest in the subsequent vintage, often with larger ticket sizes. And what this enables is for us to deliver increasing AUM from existing clients as our strategies scale. Again, this dynamic is very consistent with our clients' perceptions of ICG.

Now growing out. So, the launching of new strategies has a slightly different dynamic. So obviously with a new strategy you don't have an existing track record. So what you need to rely on is the appeal of potential returns, along with ICG'S franchise and platform to really give investors comfort that we can deliver for them. And we saw this come through very powerfully with the first vintage of our European infrastructure fund, which held a final close last year. As many of you will know, infrastructure is a very well-established asset class globally and many clients and investors have dedicated teams and pools of capital focused on making infrastructure fund investments.

Now, despite this, we were still able to successfully break into this market and give clients confidence that we could deliver for them. And the reasons for this were really, firstly, we were able to hire a great team and that is a function of our brand and reputation. Secondly, we were able to develop a differentiated green generalist strategy and really build a niche offering for clients. In fact, a number of the funds' investments are in renewable assets. And finally, although this is an equity strategy, the team could and does leverage ICG's knowledge around structuring of transactions with, of course, a continued focus on downside protection.

All of these factors combined resulted in a highly attractive proposition for clients. By the end of the fundraising, three quarters of the clients who committed to the fund were new investors to ICG. As we launch subsequent vintages, we will seek to grow commitments from these clients and also introduce other ICG products to them.

So these clients' additions are potentially incrementally valuable to ICG in the long term from a broader platform perspective.

For Sale and Leaseback, which was another first time fund, the client split dynamic was exactly the opposite, with the majority being existing clients to ICG. Sale and Leaseback is a strategy which is less established in Europe, although it's very well developed in the US. So as a result of this, our clients needed more education about the risk and return profile and how the investments generate returns. Fortunately, the nature of Sale and Leaseback played to a number of our strengths, namely credit analysis of tenants combined with real estate valuations of the underlying assets.

And all of this meant we were in a prime position to bring this product to the market, given our existing in-house expertise in both credit and real estate. And we were able to bring a number of existing clients from other strategies into the first vintage.

What I can confidently say is that the success of both of these examples of growing out was due to the strategies being part of ICG and that is a real and tangible benefit of our franchise and our scale. And this will enable us to generate incremental equity value going forward. So I've spent a lot of time looking back. I'm going to stop now and hand back to Andreas, who will spend remaining time looking forward, before we open the floor to Q&A. Thank you so much, everyone.

Andres Mondovits

Thank you, Bashak. I open by talking about long-term growth in private markets, and Bashak has gone into detail on how our breadth and scale has enabled us to grow AUM historically. Looking ahead, we believe this will continue and become increasingly clear. In the medium term, private markets are expected to grow at 10% per annum approximately, depending on the asset class. This is from a public source and aligns pretty closely with our internal views. Our waterfront of products and the scale, both materially different from 2018 and let alone 2012, should enable us to capture this growth. In that sense, we're increasingly able to help clients meet their investment objectives across all key private market strategies.

Of course, different client types have different areas of focus within private markets. Insurance companies, for example, are overweight private debt because of regulatory capital treatment. By contrast, sovereign wealth funds with their long time horizons and no regulatory capital issues are more attracted to the higher return with our structured and private equity asset class.

But strategically from an ICG perspective, the individual areas of interest is not the point. More important is that due to the successful broadening and scaling of ICG over the last decade, we're able to meet client demand across multiple asset classes globally.

As I look forward to the next decade, I see a number of exciting opportunities ahead in many areas of our client franchise. I set out three areas here, and of course there are some interrelationships between them. First, further expanding the client base. Second, increasing share of client wallet. And third, cross-selling.

Firstly, in terms of attracting new clients. Over the last decade, we have focused on client growth. As you have seen earlier, we've grown at 23% over the last 10 years. However, this growth came at the expense of penetration of wallet in the short term, but that was a conscious decision, to onboard clients first and then focus on share of wallet. Given the trends of client consolidating their relationships, we want to make sure we get through the door before it closes and then focus on increasing share of wallet.

And despite our historical growth, there remains a substantial opportunity to further grow our client base, particularly in the Americas and the Middle East. And as we launch new strategies, that will naturally attract new investors, as we saw with our infrastructure equity fund.

Turning to increasing share of client wallet, the graph on the left-hand side is the natural consequence of having focused on growing client numbers in the first instance. Now that those clients are on our platform, we have a substantial opportunity to increase our penetration of wallet for larger ticket size in subsequent vintages and through cross-selling.

Some overly simplistic maths. We could increase our AUM by roughly two third without winning another single client simply by getting to the average AUM per client shown on this chart. That underlines the scope of the opportunity this one lever potential presents in the coming years.

With more strategy at scale and a larger client base, cross-selling is becoming an increasing area of focus for ICG'S marketing team. But of course, none of this is easy and importantly, it takes time. This slide sets out some statistics to support that and let me walk you through what they show. Standing at the right-hand side of this page, our oldest clients, those who have been with us since 2012 or before.

Of those, 62% have invested in more than one ICG strategy while they have been a client of ICG. And on average, it's taken them over four years to make their first investment in a new strategy. Roll forward to all clients who have been with us since at least 2017, and the cross-sell rate drops to 33%. This makes perfect sense. The number of clients is much greater given how many new clients we have onboarded between 2012 and 2017, and we have had less time to cross-sell to those clients. And that pattern is the same when you look at our entire client base today. A client who made their first investment six months ago is highly unlikely to have already invested in a ICG product. And with a cross-sale rate of roughly 24% today, there's a substantial opportunity to cross-sell to today's client base in the years to come.

I just want to outline here a case study of one of our key relationships in Asia. We met them first in 2012. Three years later, they're committed to Europe VI. Another three years later to Europe VII. Two years later to SDP-IV, a new asset class, and most notably in 2021 to Strategic Equity IV. So, a new strategy. And the doubling of their commitment to Europe VIII compared to Europe VII, as well as awarding us an SMA liquid credit. It's taken us nine years since the first meeting and six years since the first commitment. But we've now cumulatively raised roughly 1.6 billion from this client.

Today they're one of our largest investors globally, and I'm sure there's more to come. Interestingly, it took five years from their first commitment for us to cross-sell another strategy. In this case, going from European corporate to SDP and Strategic Equity. So hopefully, this slide has helped you to see that cross-selling is something that requires some thought and time to capture the opportunity. Given the scale of our platform and the growth in our client numbers in recent years, I'm confident there's a lot of fertile ground here in the years to come.

To wrap up, I finish by reiterating the key messages Chris outlined at the start. We've grown a scaled blue-chip global client base that perceives us as a top quarter investment performer and client servicer. Our ability to deliver for our clients has supported our growth up and out and will continue to do so. We are now at the point where we are relevant for the world's largest investors across a number of strategies, and that relevance will only increase as we continue to grow. Putting those pieces together, I think ICG has huge potential to continue to grow, rooted in a compelling client offering, and I'm excited at how my team can continue to sort the business in the years to come.

Chris Hunt

Thank you very so much for joining and we will look forward to speaking soon. Thank you very much.