

# Private Markets: The New Traditional Asset Class



**B**enefits and Pension Monitor’s session ‘Private Markets: The New Traditional Asset Class,’ had BMO Global Asset Management’s (GAM) Head of Institutional Sales & Service, Samantha Cleyn and Partners Group’s Co-Head Portfolio Management, Adam Howarth emphasize the growing importance of private markets and the paradigm shift in asset classes. Cleyn shared that Canadian institutional investors have steadily increased their allocations over time. Private markets represented on average 10% of a plan’s total portfolio 20 years ago, but today that average is between 20-30%<sup>1</sup>.

The webinar delved into the shifting dynamics between public and private markets. This transition, driven by a belief that the new economy is not solely reliant on foundational companies, supports investment in non-profitable, innovative businesses. In contrast, private markets have evolved to focus on long-term value creation, encompassing a wide range of industries.

Cleyn underlined BMO GAM’s commitment to democratizing private markets and innovating investment capabilities. The partnership with Partners Group is a strategic move to offer differentiated, tailored solutions to Canadian investors. Cleyn says, “Where we have the ‘right to win’ we have begun and will continue to develop innovative investment capabilities in-house and where we do not, we have sought to partner with best-of-breed managers globally to bring forward differentiated and relevant solutions tailored to the Canadian investor. The BMO Partners Group Private Markets Fund<sup>2</sup> that we launched this past July is an example of the latter and our first major partnership that we wanted to take the opportunity to spotlight today.” BMO GAM spent over a year conducting due diligence globally to find a best-of-breed manager to bring this solution to Canada. Howarth highlighted Partners Group’s attractive track record and management of over \$190 billion CAD in assets.

## Active versus passive investment strategies in private markets

The webinar underscored the significant growth of private markets, with assets in private markets outpacing new issuances

in public markets over recent years. The expectation is a continued expansion in private markets, potentially tripling to a \$30 trillion industry, driven by the desire to access diverse investment opportunities in the real economy.

Howarth says, “When discussing market growth, it’s often overlooked that private markets fundraising—assets raised and allocated for private markets—has been outpacing new issuance in public markets for several years. This doesn’t mean the total value in private markets surpasses the market cap of public markets, which have been around for hundreds of years. However, in the last few years, there’s been significant development in the fundraising of private markets, leading to a bigger and deeper pool.



“We anticipate a global investment need of ~\$100 trillion in key infrastructure areas, including energy, water, transportation, and communication.”

- Adam Howarth

“This supports the thesis that companies might not need to go public, as there are other avenues for financing large enterprises.”

A key discussion point was the bifurcation of investment strategies in private markets into passive and active approaches. Passive strategies involve selecting sectors or geographies, while active strategies focus on transforming businesses and driving value creation. Evidence suggests that active management at scale, like that practiced by Partners Group, may consistently deliver attractive performance.

## The next generation of infrastructure investments

The webinar highlighted the significant opportunities in next-generation infrastructure investments, identifying structural drivers and the need for a substantial influx of capital

in key areas like energy, transportation, and communication.

Howarth highlighted, “Currently, we’re observing a highly attractive opportunity in infrastructure driven by structural factors that position it as a growing market. We anticipate a global investment need of ~\$100 trillion<sup>3</sup> in key infrastructure areas, including energy, water, transportation, and communication.

“The demand for data, for example, is surging. With government budgets at their limits, it seems unlikely that public funding will meet this increasing demand. This scenario presents a substantial opportunity for private investors. Our focus is on identifying and sourcing the most attractive investment opportunities in this space.”

Unlike traditional infrastructure investment, which often focused on a single asset with limited diversification and capped earnings, next-generation infrastructure investment aims to be more dynamic and value-driven. The goal is to not only leverage the inherent benefits of infrastructure investments but also to actively drive value in these investments or platforms.

The strategy involves expanding the platforms of investment, for instance, by increasing capacity, utilization, or power generation as well as the geographic footprint, thereby fostering organic growth in these companies and exploring mergers and acquisitions opportunities. This approach aims to create diversification within the asset class, enhancing the risk-return profile.

To build successful platforms in the next generation of infrastructure, it’s crucial to have the right teams and resources. Much of the work begins before any investment is made. This involves identifying trends, understanding where disruptions are occurring, and recognizing the secular tailwinds that create transformational opportunities.

Cleyn says, “BMO GAM has embarked on a mission to play a key role in the democratization of private markets for all Canadian investors”. The solution that BMO GAM has developed in partnership with Partners Group offers institutional investors exposure to a globally diversified portfolio of real estate, infrastructure, private credit and private equity, all in a single solution. 

## Sources:

<sup>1</sup> Pension Investment Association of Canada (PIAC)

<sup>2</sup> <https://www.bmogam.com/ca-en/products/alternatives/partners-group/>

<sup>3</sup> Based on G20 – Global Infrastructure Outlook (<https://outlook.gihub.org/>)

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