AIMA Global Investor Forum 2022

The AIMA Global Investor Forum brought over 400 institutional allocators, alternative investment managers and industry professionals to the Ritz-Carlton Toronto for two days of new ideas and new connections, along with long overdue networking and reunions.

Here are the top three takeaways from the AIMA Global Investor Forum 2022:

- Sharp drawdowns in public equities and bonds have underscored the core role of alternatives within institutional portfolios, serving to manage risk and deliver uncorrelated returns.
- The democratisation of alternative assets continues apace with wealth advisors being a new source of capital for alternative investments through more liquid and tokenized structures.
- Innovation continues with fund managers striving to find alpha in new, niche areas of the market including with customised portfolios designed in partnership to meet an investor's specific needs, such as applying ESG principles.

It was abundantly clear that alternatives are front and centre for institutional allocators. Sessions focused on how LPs are managing volatility, inflation and rising rates across their hedge fund and private market portfolios. Pension funds take longer to make large strategic changes to their asset allocations but are tactically seeking out new low-correlation opportunities across alternatives. Other sessions went deep on key trends broadly reshaping the industry – namely ESG, digital assets, DE&I, strategic partnerships and the democratization of alternatives.

This growth of retail interest was the core focus of the adjacent AIMA Wealth Advisors Summit, which inspired investment advisors to consider a more institutional approach to portfolio construction, including considering an increased allocation to alternative investments and a growing comfort with illiquidity, while paying close attention to due diligence, liability-matching and the education of end-clients. The retail market is very underweight in alternatives and should be seen as a huge opportunity for managers.

Using the iConnections app, delegates engaged in one-on-one meetings throughout the program. In addition to new business, this generated a C$10,000 donation to our charity partner Help for Children, with C$100 pledged per meeting by AIMA for the first 100 meetings booked to prevent child abuse and treat its victims. Thank you to all of the sponsors, speakers and attendees whose generous support made this event such a success.

THE ROLE OF THE LP CIO

The mandate of a pension is paramount - meeting liabilities rather than maximizing return. The CIO role is ever more complex with the need to consider the impact of ESG, technology, and DE&I. With respect to markets, managing liquidity is key to taking advantage of down markets, while not being forced to sell into those downturns. One must always be questioning where you might be wrong while educating yourself with innovation along the way.

PARTNERSHIPS

Benefits of partnerships for LPs include deal flow, greater transparency, customization and improved economics. GPs can future proof their business while both sides can gain scale across talent and geographies. However, challenges abound and it's imperative that goals are clear and aligned, even if the partnership isn't meant to last forever.

HEDGE FUNDS

Volatility is here to stay and allocators need portfolios that can deliver in these markets. Allocators are looking for true diversification and non-correlated returns, amid a great deal of dispersion within strategies and managers. People, stability of the team, and succession planning remain paramount when selecting managers, and building deep relationships over a long period of time pays off. Being transparent while articulating depth, consistency, and repeatability of the process and stability of the team will go a long way to building trust and gaining an allocation.

PRIVATE CREDIT

Private credit has been a shock absorber to market volatility. In general, investors are benefitting from the enhanced control private credit offers versus public fixed income and greater transparency. Even a great business may experience difficult moments, which is why having the right covenants between the lender and its borrower is important, as is the need to deeply understand a company so that lenders can be proactive in working out any distressed situations. Sub-sectors of private credit are increasing in complexity, which is why it is important to pick the right partners and underwrite carefully.

PRIVATE EQUITY

The smaller decline in valuations compared to public equity and slower distributions have led to LPs being overweight in PE. There is greater demand for customized mandates and co-investments remain of interest yet these can be difficult to implement with delays and partial exits presenting complexity. Innovative, niche, and nascent industries were noted as interesting themes and thematic funds can offer smaller funds a competitive edge as deals are too small to be targeted by large buyout managers. Overall, 2023 is incredibly challenging to forecast given the volatility of interest rates, energy prices, supply chain, and wages.

EMERGING MANAGERS

The barriers to entry for emerging managers continue to rise, but capacity-constrained strategies can play to their advantage. In addition to capital, advantages of a seed deal can include warm introductions, references, and strategic advice. The Quebec emerging managers program was inspired by US pensions to achieve a specific goal for the stakeholder while delivering risk-adjusted returns and helping the new manager. Managers are encouraged to be patient, personable and transparent as building relationships to gain an allocation takes time.

DIGITAL ASSETS

Conservative institutions are investing in digital assets as a way to learn the technology that has the potential to be so disruptive to their business models. The markets are moving beyond financial speculation to driving real use cases that are attracting many of the largest brands into Web3 as traditional finance and crypto continue to converge. Risks abound, especially with counterparties, and it's imperative to have a robust ODD process, similar in nature to hedge fund due diligence, recognizing that it will take much longer.

TALENT

The pandemic reminded employees that there's a different way to live and work, and hybrid arrangements are likely here to stay. There must be a balance between what's optimal for a particular individual and what's optimal for team in shaping the details of working arrangements. All employees should be responsible for maintaining culture, recruitment, and talent retention.

ESG: CLIMATE

LPs continue to approach ESG investing with a desire for customization, although by and large, the E continues to dominate conversations. Data remains a real challenge, particularly for private companies but innovation continues including the notion of climate VaR to offer a forward-looking view of risk. Carbon calculations for short selling have been contentious, but a long/short strategy can be an efficient way to mitigate industry risk and use financial leverage to activate corporate engagement. Managers are encouraged to define what ESG means to them and embed accordingly within the firm and funds.

DE&I

Many firms begin with affinity groups and training, but to have a sustainable impact, it must be baked into the leadership and culture and be viewed as mission-critical, not merely nice-to-have. A significant majority of job candidates want to work on diverse teams, which makes DE&I imperative to talent management. Investors can take a consultative approach to help their portfolio companies and funds diversify.

WEALTH MANAGEMENT

There is record dissatisfaction with the 60/40 portfolio yet less than 20% of wealth advisors have an allocation to alternative investments and the average allocation is 4%. To succeed in this market, investment managers must invest in education and design products for the local markets (language, tax structures, and vehicles) or partner with those who can provide the infrastructure. A favorable regulatory environment, as in Canada and other jurisdictions, is also essential to allow for the democratization of alternative investments. Technology like tokenization is helping democratize access to alternatives as are retail platforms bringing structured access to private market investments and funds.













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