EXPERT Q&A

Portfolio finance offers a wide range of solutions and its impact in the market shows no sign of slowing, says Matt Hansford, head of Europe, portfolio finance, at Barings

Asset managers and investors queue up for solutions

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Q What is driving increasing attention to portfolio finance across private markets?

The growing focus on portfolio finance is being driven by both private markets asset managers and their investors, as each seeks greater flexibility in how capital is deployed, managed and returned.

From the asset manager's perspective, portfolio finance is attractive because of the range of use cases it can support. It can be used across funds, separately managed accounts (SMA), investor vehicles, special purpose vehicles, feeder structures and corporate entities. It can provide capital for new investments, facilitate distributions to investors, support liquidity and capital management objectives, and serve working capital or bridging needs. It is not a single product, but a wide range of solutions that can support a GP in managing its business.

The same is true for investors. As private markets have grown in scale and sophistication, participants need tools that help manage liquidity, capital efficiency and portfolio construction. Portfolio finance has emerged as one of those tools. Investors are increasingly active participants in private markets. Through SMAs, co-investments and secondaries, they work more closely with asset managers to create investment programmes that fit their needs and maximise returns.

Insurance has become one of the most strategically important investor segments across private markets. Major private fund managers have invested in, acquired or partnered with insurers, reflecting an increasingly close relationship. As insurance allocations to private markets grow, efficient structuring is crucial to maintaining competitiveness in a challenging environment.

Pension funds, meanwhile, are starting to look more like insurers, with a growing focus on portfolio construction and liquidity management. With pension buyout options, they are becoming more active in refining how they think about allocations.

Sovereign wealth is also increasingly institutional in nature. These funds are supported by sophisticated investment teams and can deploy capital at significant scale, but they still require tools that enable them to pursue specific investment strategies.

Q Investors have a range of priorities. How important is a tailored approach when structuring solutions to support those varying objectives?

Investors have a broad range of demands, so the best solution depends on the investor type and the situation they face. Some investors focus on specific allocation buckets and carefully consider how investments fit within broader portfolio objectives. Allocations to private markets are also being actively managed and, in some cases, constrained.

Return requirements can vary significantly, depending on the role an investment is intended to play within a portfolio. For insurers, capital efficiency and regulatory capital considerations are particularly important. Investors must evaluate not only the investment itself but how it fits within the applicable regulatory framework. Requirements can vary by jurisdiction and insurer type.

If a GP is looking to raise capital, particularly in a more challenging environment, they must consider not only their track record but also whether their investment structures are attractive to investors. Capital deployment needs to be as efficient as possible, while remaining aligned with investor objectives.

Q How can portfolio finance be used as a strategic tool to support a broader range of outcomes for GPs and investors?

From a GP perspective, portfolio finance can help address a range of pain points and allocation-related challenges. It can be used to support investor liquidity, either as an alternative to selling positions in the secondary market or as a means of facilitating distributions to investors.

There are also challenges around creating different return levels for investors, or even for a single investor with different allocation buckets. Portfolio finance is a spectrum of risk-return options, allowing GPs or investors to select the solutions that best fit their objectives. It can be used to enhance the return profile of a fund or multiple funds, creating holistic solutions that align with investor demand.

Capital efficiency is another consideration. Portfolio finance can be used to create investment grade-rated structures backed by diversified private market assets. That works well for investors like insurers that are focused on capital efficiency. A GP may have a number of insurance relationships and can use portfolio finance to create structures that allow it to provide capital-efficient products to those investors.

Q How does portfolio finance's broad spectrum of solutions help meet the diverse risk and return objectives of different investors?

It is a spectrum, starting with high-quality, investment grade AA-rated products that give investors a significant pick-up on public comparables. Corporate investment grade bond spreads remain relatively tight by historical standards, but insurers continue to require meaningful allocations to investment grade fixed income. So they need to look for creative solutions to differentiate, such as private markets.

For insurers, robust risk characteristics are typically paramount, and that is where portfolio finance works particularly well. These structures can be rated and may offer a meaningful spread premium relative to comparable public market alternatives, while benefiting from diversified underlying portfolios, structural protections and alignment with the originating manager.

Further along the spectrum, investors such as reinsurers may seek BBB-type risk-return characteristics. Beyond that, the spectrum extends into sub-investment grade, unrated and even preferred equity, touching on the edge of the secondary market. These higher-returning portfolio finance solutions are attractive to pension funds and sovereign wealth investors, who view them as portfolio diversifiers offering compelling returns relative to their risk profile.

Q Finally, do you see portfolio finance becoming a more established component of a GP's toolkit? What will GPs look for from portfolio finance partners?

Looking at the macro fundamentals and the challenges portfolio finance can help solve, the issues are not disappearing. We all hope the distribution environment will recover but the macro overlay continues to make portfolio finance important for GPs and investors.

Scale is key when choosing portfolio finance partners, as is consistency of capital. Given the customized nature of many portfolio finance transactions, GPs increasingly value partners that can provide reliable execution across market cycles and support their evolving financing needs over time.

The second consideration is the ability to tailor solutions, which comes with experience. Successful relationships require lenders that understand a GP's underlying challenges, can structure bespoke solutions and bring creative thinking to complex situations. Many GPs are still evaluating the full range of portfolio finance applications and value partners that can provide insight.

Lenders also need access to diverse pools of capital, enabling them to provide solutions across different risk, return and structural requirements. And trust is critical. These financings sit right at the nexus of the LP/GP relationship so trusting a lender to grasp an issue and build something that works will underpin any successful portfolio financing partnership. ■