BNP PARIBAS
ENTREPRENEUR REPORT / **2020**

In assocation with
AON

PART II

PRIVATE EQUITY AND PRIVATE REAL ESTATE

BNP PARIBAS
WEALTH MANAGEMENT

The bank for a changing world

CONTENTS

p.2 Editorial

p.3 Contributors

p.5 Research Methodology & Sampling

p.6 Key Findings

p.8 Introduction

12

SECTION 1 /
PRIVATE EQUITY

p.16 Formulating a Path Forward

p.20 Deconstructing Risk and Overcoming Barriers

24

SECTION 2 /
PRIVATE REAL ESTATE

p.28 A Tangible Attraction

p.32 Opportunities for the Taking

p.38 In Conclusion

p.40 About Us

WELCOME
TO THE 2020 GLOBAL ENTREPRENEUR REPORT FROM BNP PARIBAS WEALTH MANAGEMENT

“In a world that is ever-changing, entrepreneurs seek to build their strategy with a partner they trust. At BNP Paribas Wealth Management, we are able to serve them through a holistic approach across Europe, Asia and the United States, whether by helping them grow their company or by managing their personal wealth.”


Vincent Lecomte

For the 6th year, we have strived to uncover the impact on the global economy of Elite Entrepreneurs across Europe, Asia, the United States and the Middle East. Each year, we have focused on a different lens, showcasing entrepreneurial motivations and ambitions, their behavior and profiles as both investors and drivers of business and economic growth. Each year, we discover insights that help us reinforce our commitment to accompanying Elite Entrepreneurs in their personal and professional ambitions.

In this report, we focus on the growing appetite of successful entrepreneurs for Private Equity and Private Real Estate. Surveyed in 2019, Elite Entrepreneurs mention that diversification and above-average returns are important to all entrepreneurs investing in Private Equity. Looking ahead, Ultrapreneurs and entrepreneurs in Asia see even greater potential for Private Equity investments. They also mention their interest for Private Real Estate, where we expect allocations to increase in the current environment of the global health crisis.

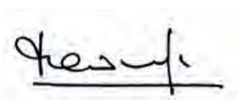
At BNP Paribas Wealth Management, we also believe diversification is a key feature of investment strategies. Over the past years, we have seen a significant pick up in clients’ appetite for Private Equity. In this persistently low interest rate environment, investors are looking for diversification and higher returns to optimise their portfolio’s risk return profile. This is why, as early as 1998, we established a proven track record in Private Equity investments. But today we go further as society evolves fast and we see that there is a clear change in consumers' – and investors' – mindsets. Companies are adapting to a world that demands more inclusion, more consciousness of the need to preserve the planet, more positive impact on social and environmental challenges, more emphasis on the challenges of health care with the Covid-19 crisis. As a pioneer, we have successfully proposed a global Impact private equity fund to our clients, delivering both positive impact on society and a private equity-like financial return.

We provide entrepreneurs with tailored solutions to meet their very specific needs across their personal and professional activities. We draw on the wide expertise across the entire BNP Paribas Group, be it from our corporate and institutional banking, our retail banks, or from our asset management and our real estate business, to accompany them in their ambitions. We foster entrepreneurship through long-term academic partnerships with prestigious universities like Stanford and Cambridge, where we support women and men entrepreneurs to develop their leadership capacities and to deliver sustainable and positive impact in their business.

In a context marked by the Covid-19 crisis, we accompany even more some of the world's most demanding entrepreneurs. As a responsible private bank serving the economy, our objective has always been, and continues to be, to improve our own understanding of how to support entrepreneurs both personally and professionally.

This is the purpose of the report.

#PositiveBanking



Vincent Lecomte
CEO BNP Paribas Wealth Management

CONTRIBUTORS

CLAIRE ROBOREL DE CLIMENS
Global Head of Private and Alternative Investments
BNP Paribas
Wealth Management

LUC LECLERE
International Europe Market Manager
BNP Paribas
Wealth Management

OLIVIER VAN BELLEGHEM
Director Wealth Management
BNP Paribas Fortis

PRASHANT BHAYANI
Chief Investment Officer (Asia)
BNP Paribas
Wealth Management

TASHA VASHISHT
Head of Thought Leadership,
Aon Client Insight

WORD FROM THE EDITOR

Over the course of six years, we have surveyed nearly 15,000 high net worth and ultra-high net worth entrepreneurs across the world.

Since 2015, we have made it our mission to understand the impact of global entrepreneurship by researching some of the world's most successful business owners. This year, with the unexpected advent of Covid-19, their views and consequently actions are even more pertinent. We have gathered feedback from 1,132 entrepreneurs across 19 different countries, spanning the US, Europe, the Gulf Cooperation Council and Asia. Average investable wealth was USD16.1 million.

Over time, the focus of our research has shifted. Initially we sought to understand the modern-day entrepreneur – their motivations, their values, their ambitions and the characteristics that set them apart from others. More recently, we have focussed on the impact that entrepreneurs are able to make through their businesses, their investments and lives. Across this multi-annual research programme, we have remained committed to improving our own understanding of entrepreneurs to support them better.

The start of the new decade is a great time to refresh, which is why we are adapting the format of this year's Global Entrepreneur Report into a mini-series.

In this section (Part II), we analyse entrepreneurs' growing appetite for private market funds by exploring Private Equity and Private Real Estate. It is encouraging to see that despite the volatile market environment, entrepreneurs remain optimistic about future investment opportunities. The ongoing low interest rate environment provides an impetus for Elite Entrepreneurs to increase asset allocation to tangible assets such as real estate. There is a perception that real estate is a 'safe' asset class that does not pose much risk – an insight we explore with BNP Paribas Wealth Management experts in more detail.

We also find that entrepreneurs' confidence in their knowledge of Private Equity is high. Younger entrepreneurs are engaging with the asset class more than older business owners, and there is a strong global appetite – with entrepreneurs, on average, hoping to almost double their allocations in the coming 12 months.

We hope you enjoy the 2020 Global Entrepreneur Report mini-series and would like to thank this year's participants for their enriching contributions.

Tasha Vashisht
Head of Thought Leadership,
Aon Client Insight

RESEARCH METHODOLOGY & SAMPLING

Total sample

1,132

The research program was undertaken by Aon Client Insight between September and October 2019. The audience of participants were high net worth and ultra-high net worth investors that own (or used to own) businesses.

The research methodology involved a mixed online and telephone survey programme with 1,132 participants spanning 19 countries.

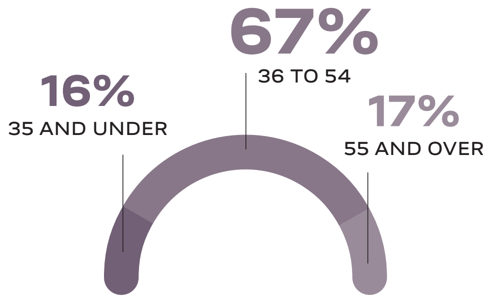
On average

USD16.1 M
AVERAGE INVESTABLE ASSETS

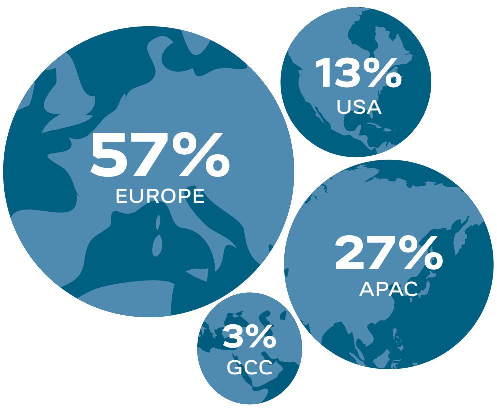
USD18.2 BN
TOTAL INVESTABLE ASSETS

USD104.5 M
AVERAGE TURNOVER OF PRIMARY COMPANY

Age



Regions



Countries covered in sample: Belgium, China, France, Germany, Gulf Cooperation Council (GCC), Hong Kong, India, Indonesia, Italy, Luxembourg, The Netherlands, Poland, Singapore, Spain, Switzerland, Taiwan, Turkey, United Kingdom and the United States.

Gender

Throughout this report, we use the following definitions:

- **'Millennipreneur':** Entrepreneur aged 35 or younger.
- **'Boomerpreneur':** Entrepreneur aged 55 or older.
- **'Serialpreneur':** Entrepreneur who has started at least four companies.
- **'Ultrapreneur':** Entrepreneur with investable assets valued at USD25 million or more.

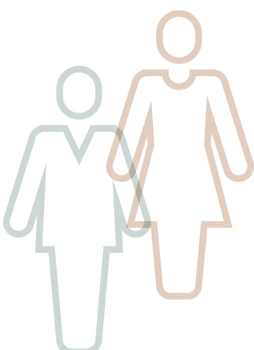
69% of investors in Private Equity (PE) are confident in their understanding of the asset class

Investors in the US (84%) and Europe (72%) display greater confidence than those in Asia (53%), and also report fewer barriers to increasing their future allocation to the asset class.

Millennipreneurs (71%) and Gen-X (83%) entrepreneurs are more likely to engage with Private Equity than Boomerpreneurs (45%). As a result, Boomerpreneurs (18%) are twice as likely to say they lack confidence when it comes to their private equity knowledge than their counterparts.

Looking ahead, Ultrapreneurs and entrepreneurs in Asia see greatest potential for Private Equity investments

Ultrapreneurs anticipate doubling their portfolio allocation to Private Equity – from 10% today to 20% of investable assets in 12 months' time. Diversification and above-average returns are important to all entrepreneurs investing in Private Equity. However, Ultrapreneurs are particularly attracted by the geographic diversification and close alignment to their risk appetite.



Lack of information is a barrier to investing in (or increasing) PE allocations for nearly two-fifths (37%) of entrepreneurs globally and 38% of female entrepreneurs

Female entrepreneurs are also deterred by macroeconomic uncertainly (35%) and the illiquid nature (29%) of the asset class. Their male counterparts are more likely to be discouraged by a lack of quality opportunities (36%) and complexity of the sector.

Ultrapreneurs in China, Hong Kong and Singapore, as well as business owners in the US, Spain and Turkey, see fewest barriers.

Growth (54%) and debt (49%) funds are the most popular PE strategies globally

European entrepreneurs, especially in Belgium (62%), the Netherlands (69%), Switzerland (77%), France (61%) and the UK (61%), favour growth funds. Meanwhile thematic funds, while not popular on the global arena, are preferred by Ultrapreneurs (48%), Boomerpreneurs (42%) and investors in Asia (43%).

The appetite for Private Real Estate is growing; allocations are expected to increase from 10% to 18% in the next 12 months

Older and wealthier entrepreneurs favour Private Real Estate (PRE) because these investments are tangible and a good way to minimise risk. Those in the Gulf Cooperation Council intend to increase PRE asset allocation significantly, from 9% to 24% because it is seen as a straightforward and long-term investment that is easy to understand and pass on to the next generation.

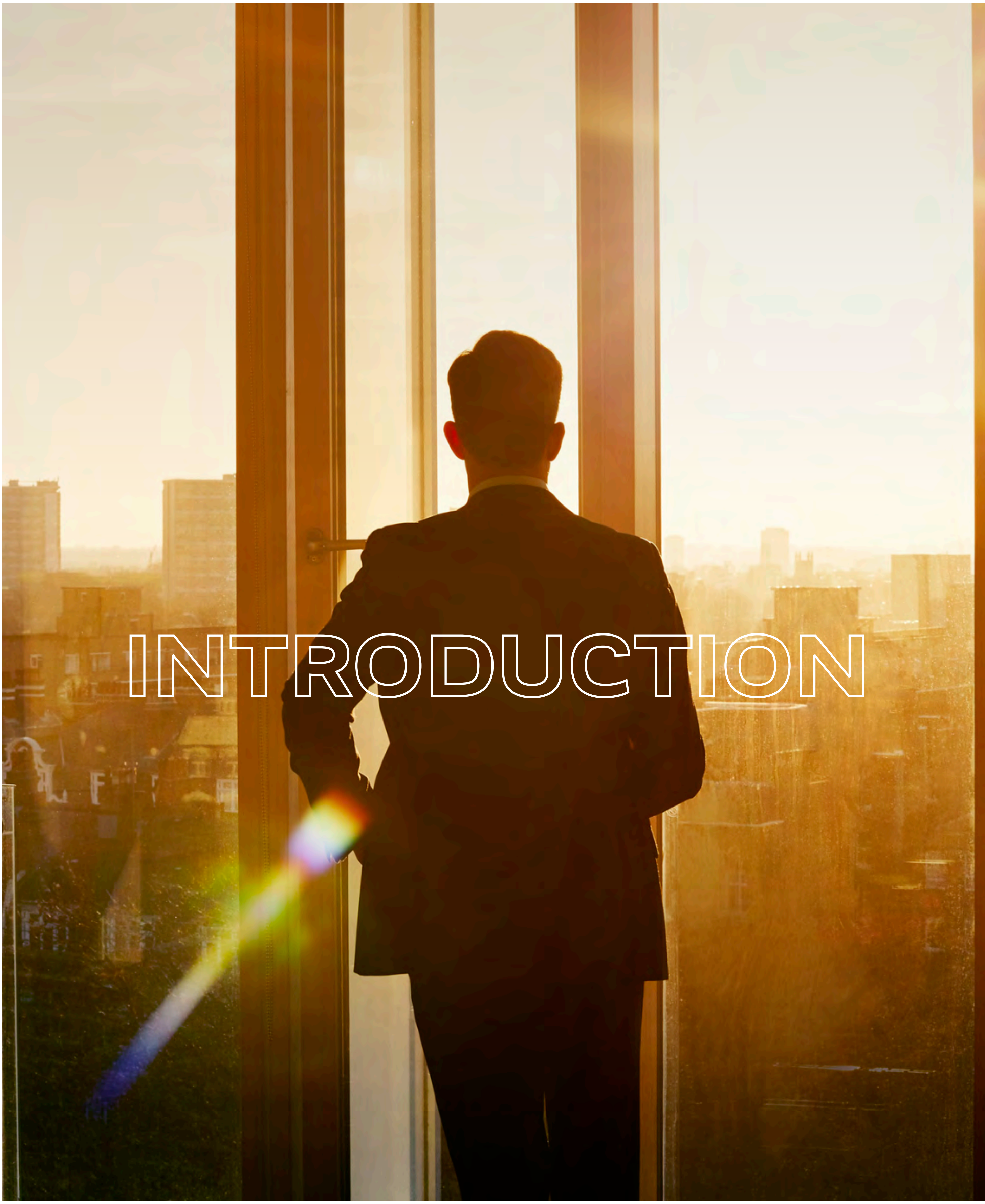
73%

of entrepreneurs are active investors in Private Real Estate

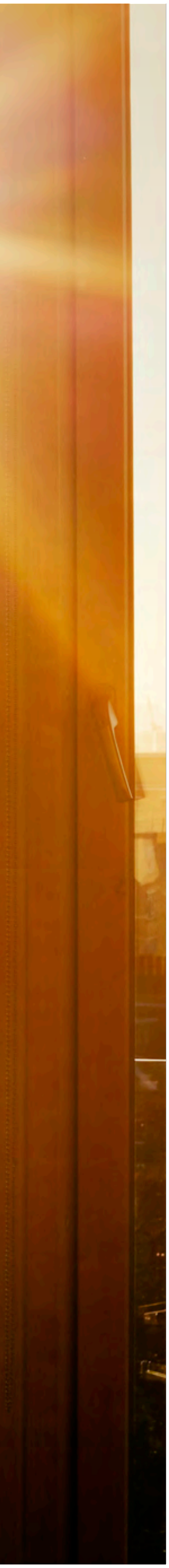
Of these, almost a third (31%) have private real estate overseas. In this group, China is the most popular country for overseas PRE investment, followed by the US and France.

Two-thirds of entrepreneurs use direct investments to access the Private Real Estate market

Direct investments are particularly popular among Boomerpreneurs and Ultrapreneurs, who invest approximately half of their Private Real Estate allocation in this way. Higher-risk strategies are also becoming popular, particularly opportunistic private real estate funds as investors search for higher returns. The increased appetite is particularly visible among Ultrapreneurs (66%) and investors in Asia (60%) – led by China (73%), Hong Kong (69%), Singapore (63%) and Taiwan (64%).



INTRODUCTION



The last few years have seen volatile market conditions. Until recently, listed asset returns clustered around single-digit growth and some experts hypothesised about a looming recession, however – few, if any, could have predicted a shock to global markets like Covid-19. Unsurprisingly, some entrepreneurs may be feeling jittery about what the long-term context for their wealth creation looks like.

One notable exception to this has been, and remains, illiquid investments, such as Private Equity and Private Real Estate (PERE) – which, per asset class, make up on average 20% of entrepreneurs' portfolios, compared to 16% in 2017/2018.

"There has been steadily growing interest for the last three years in these two asset classes," says **Olivier Van Belleghem**, Director Wealth Management BNP Paribas Fortis. "It's something more and more people are talking about. Every time we bring a new fund or offer, we can pitch new clients, new family offices and convince more private clients to invest in PERE."

Prashant Bhayani, Chief Investment Officer (Asia) at BNP Paribas Wealth Management, agrees:

"Our research shows that in regular markets, PE outperforms the stock market by approximately **6%** per annum. In downturns, like The Great Recession or the Dot-Com bubble crash, PE strategies outperform public markets even more, which gives clients some comfort."

"In the initial aftermath of the pandemic, clients had a lot of questions about their portfolios, the uncertainty and their own businesses. However, with PERE investments, the price doesn't change day-to-day, so apprehension was less than expected."

Private market alternative investments have continued to perform well and are known to outperform public markets in times of downturn. However, they are also a difficult niche for private investors to access, as this type of investing is usually the preserve of very large institutional players and come with some unappealing features, such as highly illiquid and leveraged assets.

In spite of this, our research into 1,132 HNW entrepreneurs finds that the investor outlook is largely optimistic. For example, 69% feel confident in their understanding of Private Equity and 38% say the negative interest rate environment is actively encouraging them to invest in properties **[Figure 1]**. Moreover, PE Investors in Europe and the US display greater confidence in their understanding of the asset class than those in Asia, which may explain why these entrepreneurs report experiencing fewer barriers to increasing their future asset allocation further.

In a bid to diversify portfolios and achieve above-average results, investors are therefore refocusing their attention on alternatives. Indeed, this year, 32% of Private Equity investors and 42% of private real estate investors see their allocation to PERE increasing in the near future, in line with approximately 40% in 2017/2018. In times of uncertainty, the wealth management industry should therefore be working closely with entrepreneurs to deconstruct the various risks and bolster confidence. This will ensure investors continue to make well-informed decisions in 2020 and beyond.

CLAIRE ROBOREL DE CLIMENS
Global Head of Private and Alternative Investments
BNP Paribas
Wealth Management

Claire Roborel de Climens explains how the economic environment is influencing the appeal of the asset class:

"The low interest rate environment and volatile markets has meant that in the last 12 to 24 months, we have seen increasing appetite for Private Equity from clients. For example, family offices have increased their allocation to the asset class from approximately 20.7% in 2013 to 25.6% in 2019 – and this trend is likely to continue as clients look for investments that are not correlated with traditional asset classes."

"We also see that the returns in Private Equity over the last 14 years have delivered on average 13.6% per year compared to 6% for the S&P500 so why invest in listed companies instead of investing in private companies, which can deliver double returns?"

LUC LECLERE
International Europe Market Manager
BNP Paribas
Wealth Management

For Luc Leclere, a certain type of investor is likely to be attracted to the alternatives asset class and especially Private Equity:

"Investors attracted to Private Equity are usually those who have an entrepreneurial spirit. Many would have initially made their wealth as an entrepreneur, which means raising capital through Private Equity markets, so it is an asset class they have most experience with."

"We see a lot of potential here," he adds. **"Alternatives, as an asset class, can have stabilising effects on portfolios because they are uncorrelated to traditional assets so 20% to 25% portfolio allocations are not unrealistic."**

How confident are you in your understanding of Private Equity investments?

		Not at all confident	Not confident	Neutral	Confident	Very confident
	Overall	1.2%	8.1%	22.1%	35.7%	32.9%
Age	18-35	1.6%	9.3%	29.7%	37.4%	22.0%
	36-54	0.7%	6.2%	17.4%	36.0%	39.7%
	55+	3.2%	15.0%	33.7%	32.6%	15.5%
AuM	$1M - <$5M	2.5%	8.6%	21.3%	40.1%	27.4%
	$5M - <$10M	0.0%	4.3%	25.1%	32.6%	38.0%
	$10M - <$25M	0.7%	4.8%	16.1%	33.8%	44.6%
	$25M +	1.5%	18.4%	33.7%	35.7%	10.7%
Region	Europe	1.2%	7.1%	19.5%	34.5%	37.6%
	USA	0.7%	3.3%	12.0%	39.3%	44.7%
	Middle East	0.0%	0.0%	30.3%	66.7%	3.0%
	Asia-Pacific	1.7%	13.5%	31.7%	33.0%	20.1%
Entrepreneur profile	Non-Serialpreneur	1.2%	8.5%	23.0%	37.0%	30.3%
	Serialpreneur	0.8%	5.5%	13.4%	22.8%	57.5%
	Non-PE investor	3.5%	12.8%	39.5%	31.4%	12.8%
	PE investor	1.1%	7.7%	20.7%	36.0%	34.5%

[FIGURE 1]

Entrepreneurs are confident in their understanding of PE

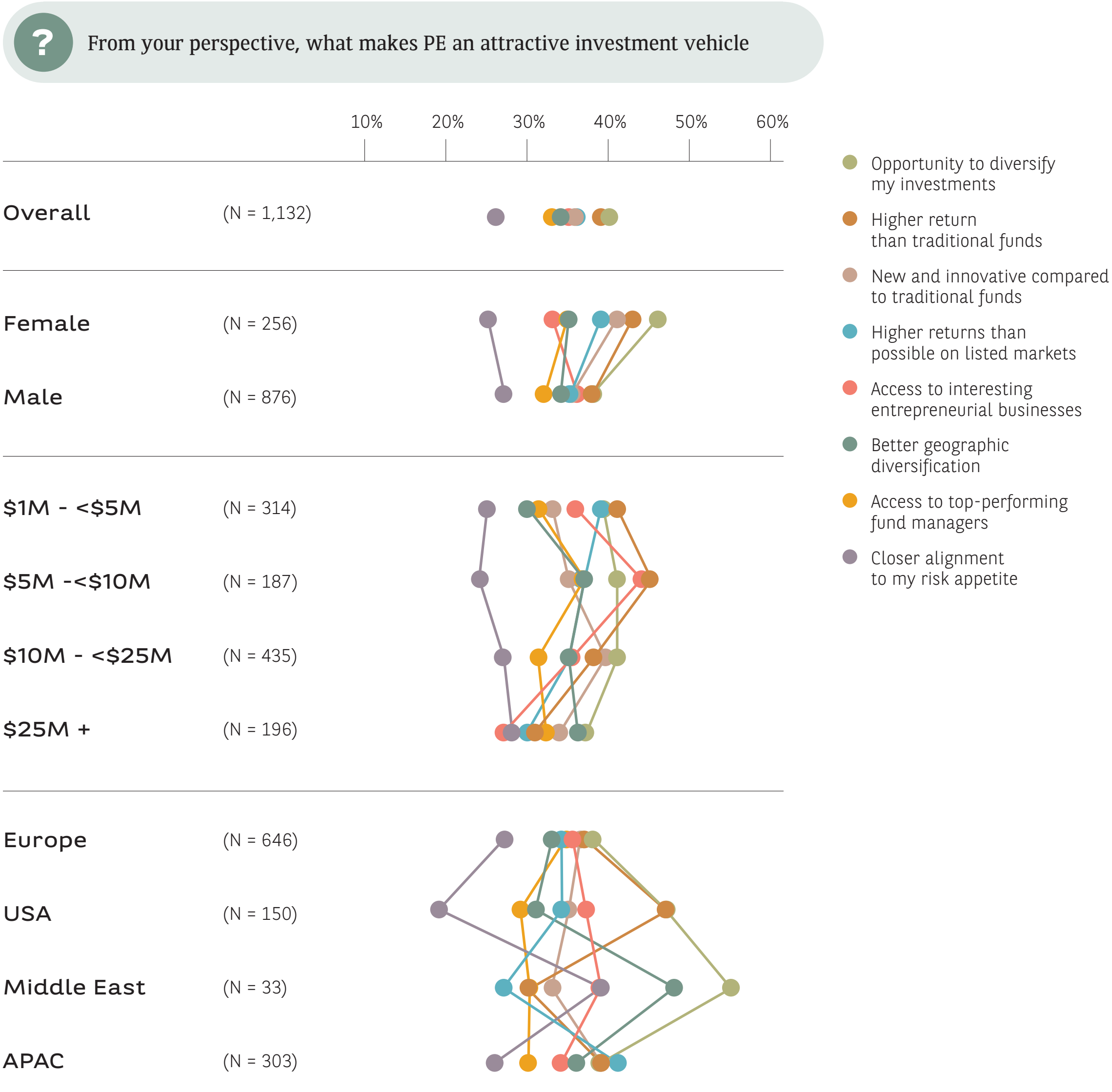
N = 1,132   Source: 2020 BNP Paribas Global Entrepreneur Report

80>100%
60>79%
40>59%
20>39%
0>19%

SECTION 1

PRIVATE EQUITY

From your perspective, what makes PE an attractive investment vehicle



[FIGURE 2]

Entrepreneurs seek diversification and above-average returns

N = 1,132 Source: 2020 BNP Paribas Global Entrepreneur Report

When investing in Private Equity, entrepreneurs are motivated primarily by two factors – financial returns and portfolio diversification **[Figure 2]**. In late-cycle markets, where growth remains positive but slows, these investments – by their nature – become more attractive to investors as they can reduce correlation with equities and fixed income markets to create a stabilising effect on portfolios.

Entrepreneurs are familiar with the risk involved," says **Mr Leclere**, "they have strong opinions on market trends and these are likely to evolve, and the medium- to long-term timeframe is less of an issue for them because they're interested in exceptional stories or ideas to invest in. They're following the mantra that made them successful – that with a little patience, an excellent idea will inevitably generate profit."

"Many entrepreneurs are also coming to the market younger, exiting the business younger and taking money out of their business at an earlier stage on the curve. The trend means there is new liquidity coming to the market from entrepreneurs who set up their business in their 20s, sold in their 30s, and are more familiar with the asset class than previous generations, so are confident and ready to reinvest."

Mr Van Belleghem sees similar trends in the Benelux region:

Five to ten years ago, Private Equity was something few investors were involved in – it was mostly old money, large family offices or former entrepreneurs. Today, the population of investors is much larger. They are aware that there are fewer interesting companies being introduced to stock markets as there were in the past. The only way to increase exposure to these non-listed firms is through Private Equity."

In line with previous years, our research finds that 75% of Elite Entrepreneurs have Private Equity investments and among these active investors, Private Equity comprises on average 14% of their total financial portfolio. And the pandemic does not appear to be dampening interest in the risky asset class as fundraising activity continues globally.

We've done some fundraising during the period of the Covid-19 crisis," says **Mr Bhayani**, "and were able to hit our targets, both in Asia and as a firm. Valuations are now very attractive, so managers are going to be even more opportunistic. There was interest in higher performing managers and buy-out funds, so from that perspective, the overall hit to investor appetite was minimal."

It's all about liquidity so investors can feel comfortable making that kind of capital commitment for 5, 6, 7 years.

There appears to be a difference in how entrepreneurs of different genders approach their use of Private Equity. Aside from diversification and pursuit of higher returns, which matter to all investors, male investors also use PE to seek out interesting entrepreneurial businesses (36%); while female investors tend to perceive it as new and innovative approach to investing, especially when compared to traditional funds (41%).

FORMULATING A PATH FORWARD

Given the complex and exclusive nature of PE investments, perhaps it is unsurprising that a relationship manager is a key source and gatekeeper for approximately a third (34%) of entrepreneurs, and even more so for those in the US (41%), The Netherlands (41%), UK (40%) and Indonesia (39%).

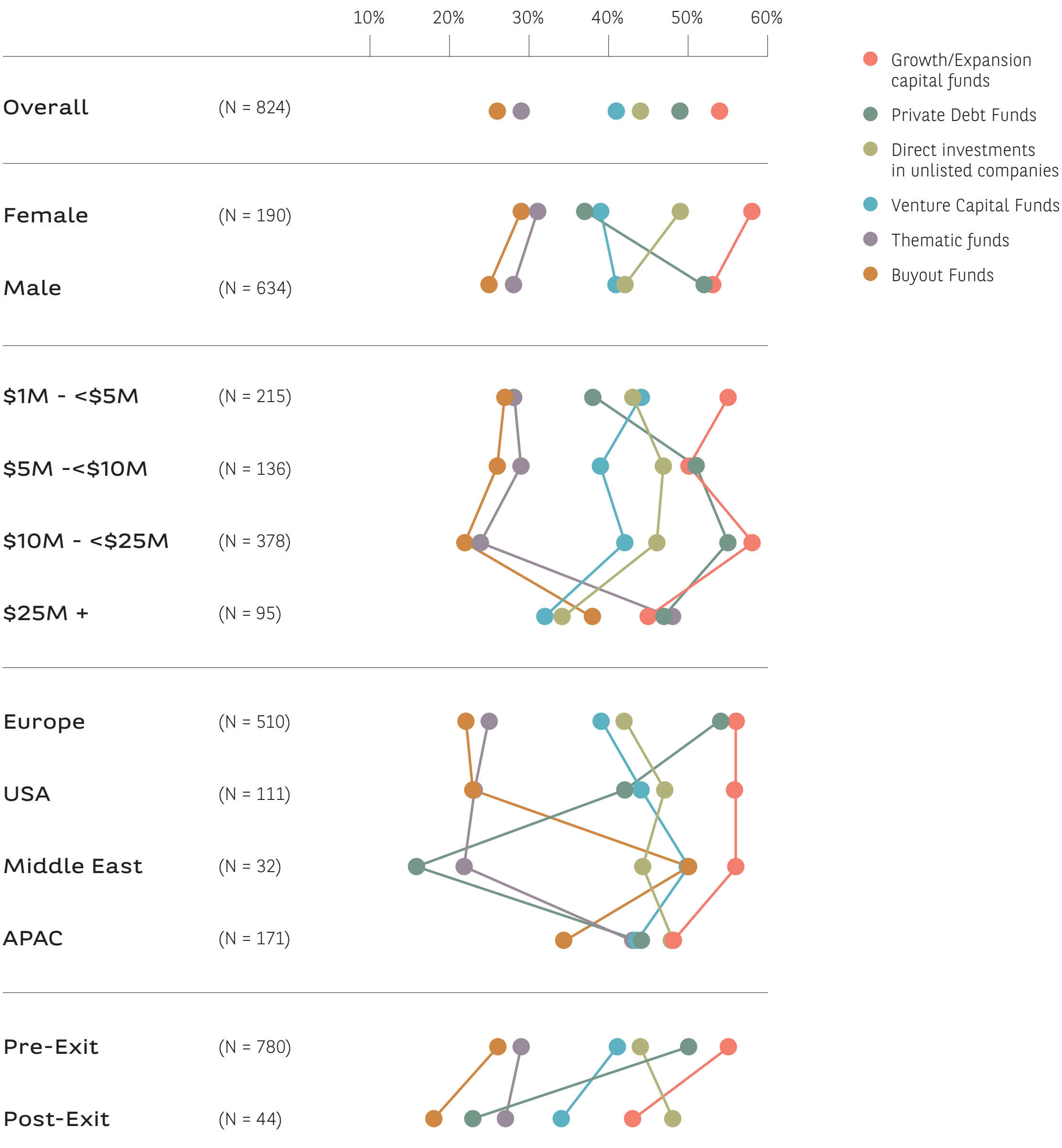
Those who have more confidence, perhaps through prior experience of mergers and acquisitions or connections to deal-making, prefer to rely on their own contacts. For example, entrepreneurs in Singapore (48%), China (42%), Taiwan (38%), The Netherlands (38%) and the GCC (38%) all say they rely primarily on their wider business networks to originate PE opportunities.

In **Ms Roborel de Climens'** view, one of the reasons why wealth managers play such a prominent role is due to their strong track record and experience in identifying truly beneficial opportunities for clients.

"BNP Paribas, for example, is very selective and focuses only on high convictions. Our clients recognise that we have a very solid due diligence process, which is one of our strengths, and so place a lot of trust in our recommendations."

"Poor returns in Private Equity are possible; there is a huge dispersion between top and bottom quartiles, around 1,500 basis points on average since 2000 – so unsurprisingly, top quartile funds are oversubscribed and we, at BNP Paribas, succeed in securing an allocation to these funds and enable our clients access."

Which of the following strategies are used for your PE investments?



[FIGURE 3]

Growth and private debt funds are most popular among entrepreneurs globally

N = 824 Source: 2020 BNP Paribas Global Entrepreneur Report

From Venture Capital and Private Debt funds to Growth and Thematic funds – Private Equity offers business owners myriad investment strategies to choose from. Considerations such as personal goals, investment objectives and timeframes can all influence which approach they choose.

Growth capital funds, for example, invest in relatively mature companies that are looking for capital to expand or restructure operations without a change in control of the business. These funds are one of the most popular in our study, favoured by over half (54%) of entrepreneurs globally and particularly entrepreneurs in Switzerland (77%), Netherlands (69%), Belgium (62%), France (61%) and the UK (61%) **[Figure 3]**.

According to **Mr Van Belleghem**, the labels between 'growth' and 'buyout' are becoming more fluid and overlap:

In 'buyout' we see many 'growth' firms. The exits from 'growth' packages can also be 'buyout'. Since Private Equity belongs to a higher risk asset class, it's important to spread risk. That's why we recommend to explore a range of different strategies – buyout, growth and thematic."

Private debt funds, which are used by 49% of entrepreneurs globally, invest in fast-growing, medium-sized companies and offer investors equity-like elements in addition to attractive rates of interest. These are more likely to be used by European entrepreneurs (54%) than those in the GCC (16%) – where Buyout (50%) and Venture Capital (50%) funds are especially popular.

Meanwhile, thematic funds – which enable investors to take advantage of lucrative or emerging macroeconomic trends – while not popular in general, are the vehicle of choice for Ultrapreneurs (48%) and investors in Asia (43%).

Thematic funds appeal to Asian clients because they offer high returns, comparable to what entrepreneurs would see if they invest in their own businesses," says **Mr Bhayani**. "Healthcare and technology funds are of interest to these clients, as are buyout funds. Where entrepreneurs may be unable to access opportunities directly, for example mid-market companies in the US and Europe, the managers have the ability to step in and add value in a big way."

The strategy pursued will ultimately depend on what the investor is looking for. In **Mr Leclere's** experience:

HNW entrepreneurs have very specific ideas and rely on the Bank for advice and due diligence. This typically involves analysing the trade-off between what the client is looking for and why, then placing this requirement back into the context of what their existing global asset allocation is to ensure there is sufficient diversification."

DECONSTRUCTING RISK AND OVERCOMING BARRIERS

The tenets of wealth creation are underpinned by investors making informed decisions and taking calculated risks. This is especially true in Private Equity, where characteristics such as lack of depth in the market and high entry points lead a third of investors to say they consider this asset class to be a very risky part of their overall portfolio.

Entrepreneurs in Spain (66%) and Belgium (52%) are most conscious of the risks involved, while those in the UK (23%), Turkey (11%) and GCC (6%) are least concerned.

The risks involved are wide ranging and can hamper confidence. Challenges such as sourcing quality opportunities (36%) and lack of transparency (37%) are both powerful factors that prevent investors from either investing in Private Equity for the first time or increasing their allocations further **[Figure 4]**.

That said, many do not see any challenges with investing in PE. Entrepreneurs in China, Hong Kong and Singapore, as well as US, Spain and Turkey are among those who see the fewest barriers.

Compared to the global average, investors in Asia use a broader range of metrics to evaluate risk. For example, approximately half of the entrepreneurs in Asia consider the environmental, societal and governance issue (51%) of these opportunities, combined with their own research into the specific opportunity (50%) and specific geographic exposure (49%).

In contrast, European and US entrepreneurs take a more passive approach. Geographic exposure is their lowest ranked concern; instead these investors are most likely to delegate risk assessment to their bank and its due diligence team.

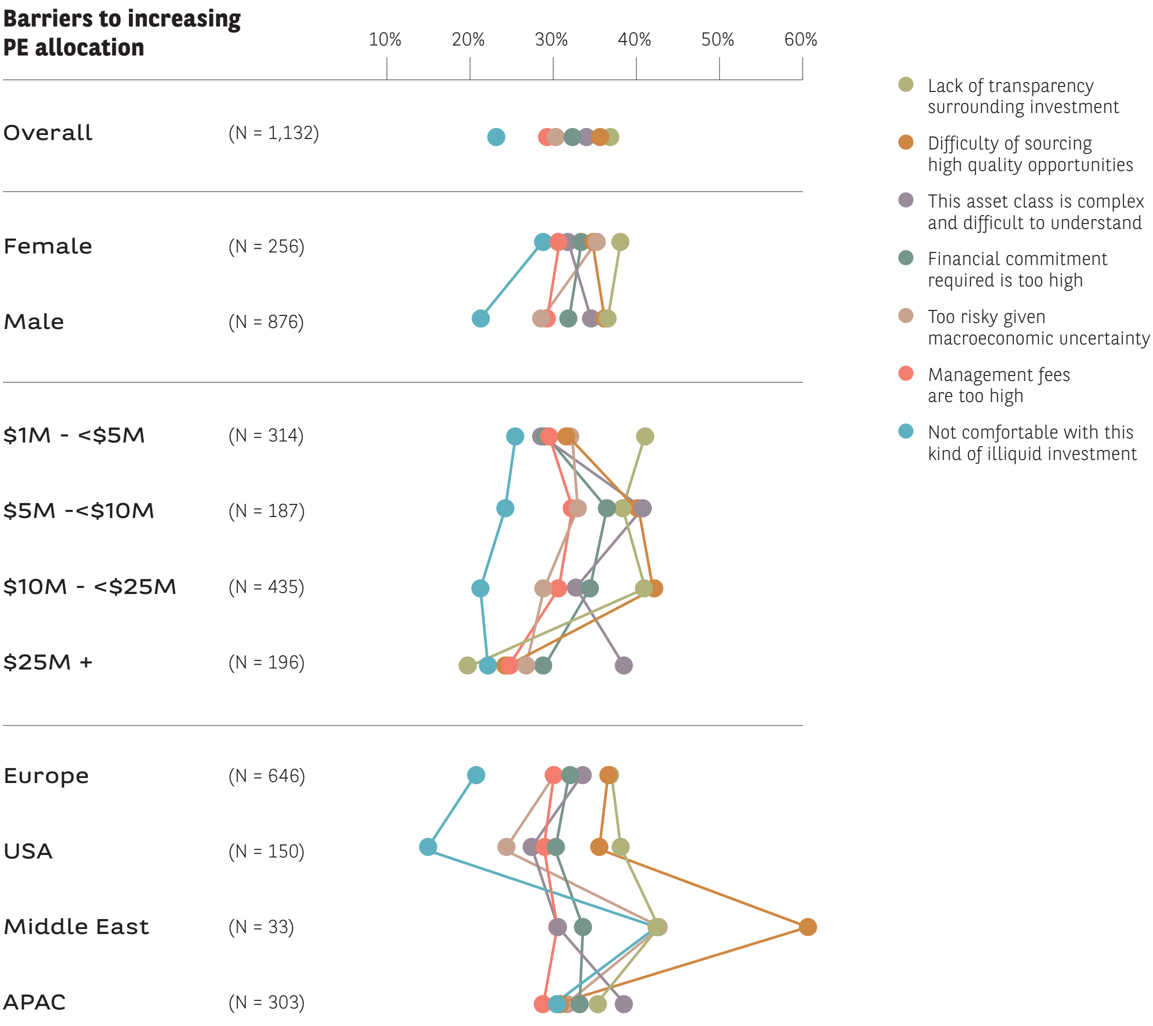
Ms Roborel de Climens sees this with her clients and believes clearer communication and better information are the way forward.

"We see some clients concerned about the high valuation environment for private companies – on average 11 times EBITDA pre Covid-19 crisis, but listed companies are even more expensive. For example, if you look at the S&P500, it is 13 times EBITDA pre Covid-19 crisis – which is not something they always recognise. When clients invest in a private company with a Private Equity fund, they get better governance, better decision-making process and better operational improvements, so we need to inform and highlight this to them. This hands-on approach is a real strength of PE firms in particular during downturns."

"Their other concern is around illiquidity, which is more of a 'structural' issue. We explain that to create value, businesses need time. It is an investment that requires patient capital, because it takes a company on average 3 to 6 years to transform. However, it is typically the first 5 years of the fund's life that are the real constraint because of the money calls, which in turn is rewarded with high returns. Once we clarify this to clients, they are more understanding and confident."

It is therefore encouraging to see that in spite of ongoing global economic and geopolitical uncertainty, entrepreneurs and their wealth managers feel there is plenty of reason to be optimistic about future opportunities. To continue to build client confidence, help entrepreneurs make informed decisions and manage downside risk, the industry will need to work hard to deconstruct the perceived complexity of Private Equity, and bring additional clarity and transparency to the asset class.

Are there any barriers currently that prevent you from increasing your allocations to PE?

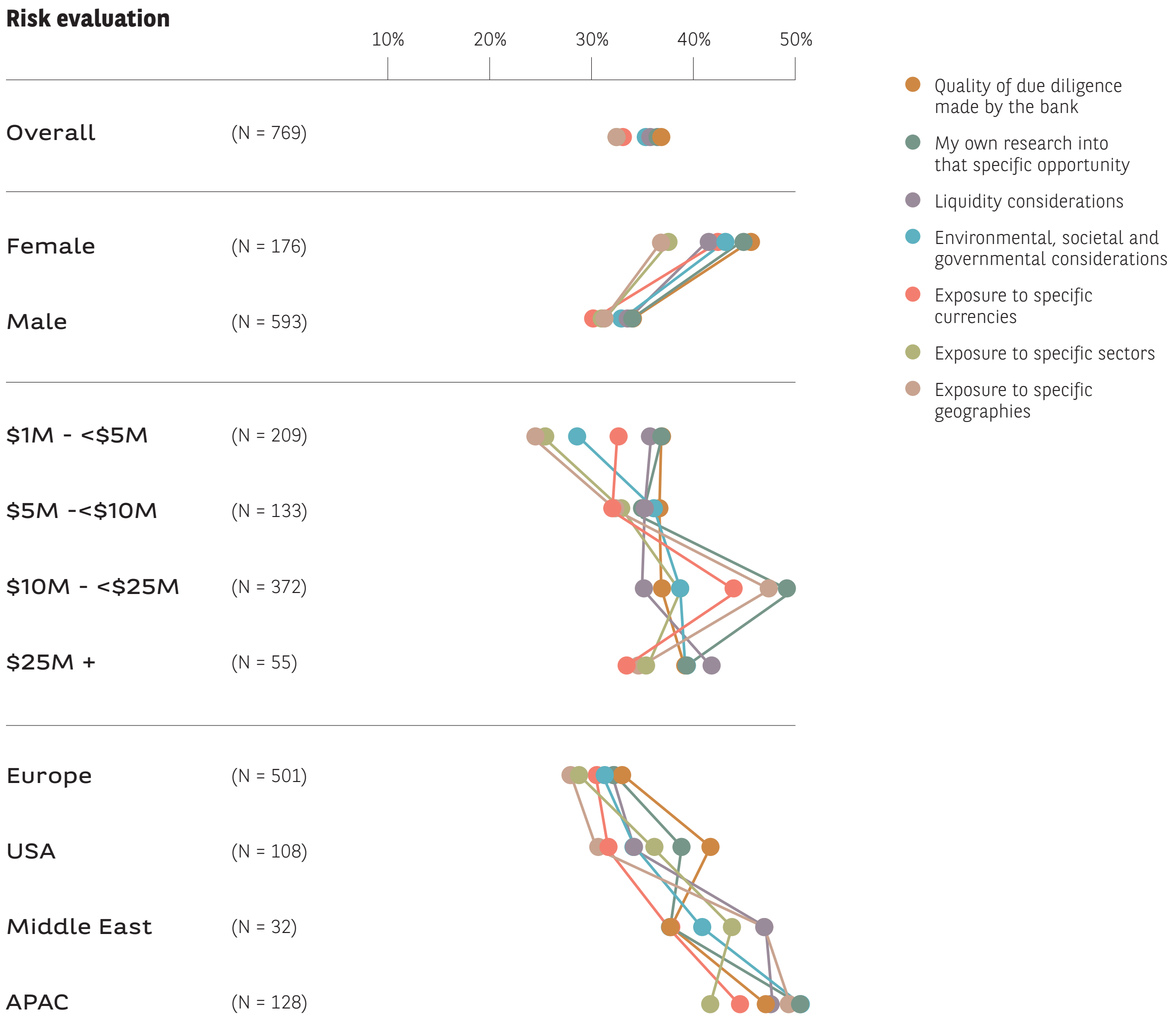


[FIGURE 4]

Entrepreneurs highlight lack of transparency as the main barrier to increasing allocations

N = 1,132 Source: 2020 BNP Paribas Global Entrepreneur Report

How do you evaluate the risk involved in your PE investments?



[FIGURE 4]

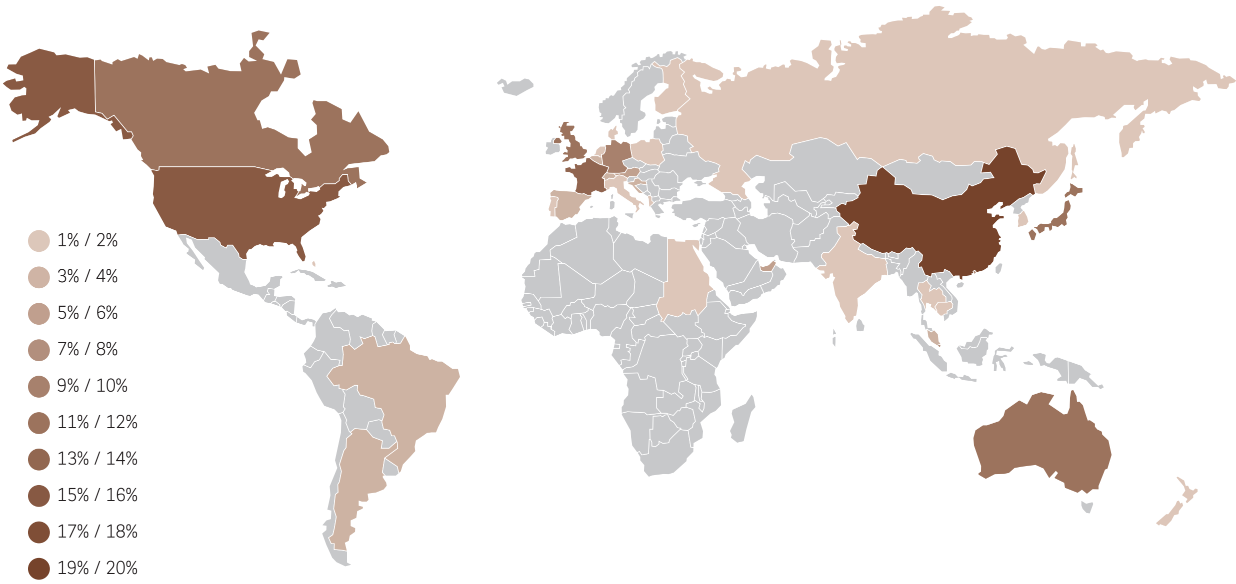
Entrepreneurs rely on high quality due diligence from the bank

N = 769 Source: 2020 BNP Paribas Global Entrepreneur Report

SECTION 2

PRIVATE REAL ESTATE

? I currently have private real estate investments in this market



[FIGURE 5]

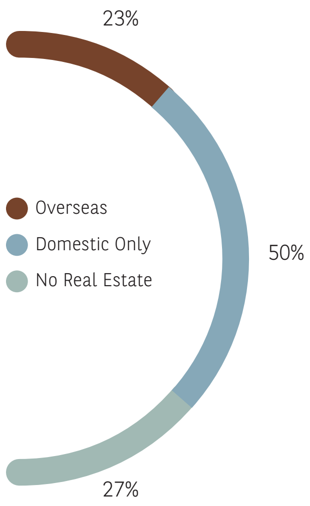
Three quarters of entrepreneurs are actively investing in private real estate

N = 250   Source: 2020 BNP Paribas Global Entrepreneur Report

The adage 'safe as houses' neatly summarises a commonly found sentiment that real estate is perceived to be a safe investment by global entrepreneurs. Across the world, more than half affirm they find cash and real estate to be "not that risky" in their financial portfolios.

Our research also finds that almost three-quarters (73%) are active investors in private real estate (PRE). Of these active real estate investors, almost a third (31%) have PRE investments overseas – with China, US and France the most popular markets **[Figure 5]**.

It is therefore perhaps unsurprising that strong real estate performance and appetite for greater exposure to yield-producing assets have driven the growth of the PRE market in recent years. Indeed, despite uncertainty surrounding a potential market correction – the



[FIGURE 5]

Over a fifth of entrepreneurs own private real estate overseas

N = 1,098

fundraising market has shown resilience and consistency, securing on average USD140 billion per year in the past six years.

In part, investors remain committed to private real estate because, at least on the surface, it is an asset class that is easy to understand with several attractive characteristics. For example, many real asset opportunities generate similar returns to equity markets, generally on a lower level of volatility and, importantly, with a low correlation to both equity and bond markets – making them useful for diversifying a portfolio.

Moreover, given that property yields – a metric used to estimate the investor's potential return on their real estate investment – are influenced by factors such as capital markets, macroeconomic variables and local property fundamentals – the expectation that interest rates will remain low for longer suggests that PRE as an asset class is likely to benefit overall.

> In Asia, there is a bias towards real estate because we've just come through a two-decade property boom" says **Mr Bhayani**. "There's been a big appreciation, we have a subset of UHNWs who've made their wealth in property and so they're comfortable with the asset class and gravitate towards it."

According to The Townsend Group (an Aon company), a leading alternative investment advisor, the low cost of debt – a result of low interest rates – offers investors attractive levered value-add opportunities, especially in markets like the US that are experiencing higher growth on a relative basis. Meanwhile in continental Europe, where leverage remains accretive i.e. increases current cash flow return, high single digit income yields can be generated with 50-60% leverage.

Many entrepreneurs therefore believe that private real estate is uniquely positioned in today's uncertain economic environment because it offers leverage in an improving economy and, at the same time, good income generation offers investors downside protection. Income generation has historically accounted for over 70% of the total return on real estate. Perhaps this is why global entrepreneurs anticipate almost doubling allocations to private real estate in the next 12 months, from an average of 10% to 18%.

A TANGIBLE ATTRACTION

Real assets, in addition to their stabilising effect on a portfolio, can help wealth managers achieve the need of many multi-generational clients through capital preservation and growth. Real assets are long-term investments that have strong links to the inflation in the real economy and give global entrepreneurs the opportunity to outperform the growth in the cost of living.

Across the world entrepreneurs have distinct reasons for investing in private real estate. For example, older and wealthier entrepreneurs favour private real estate because these are tangible investments and offer a good way to minimise risk **[Figure 6]**. Unlike Millennials (46%), these segments are least likely to invest in PRE with the view to pass these on to the next generation (17% and 16% respectively).

HNWs are attracted to private real estate for many different reasons," says **Ms Roborel de Climens.** "It's a tangible asset, a way for clients to maximise the risk-return profile of their portfolio and a way to receive regular income – which is not a feature of Private Equity. Moreover, private real estate is also perceived as a hedge against inflation, even if inflation is not the main concern today. And finally, clients see it as a good arbitrage against cash, bonds, or monetary investment in this low interest rate environment."

Mr Van Belleghem agrees:

These investments are perceived as less risky and as an alternative to cash, particularly in today's low interest rate environment. They can generate regular income, which is not possible through a Private Equity portfolio."

In the Gulf Cooperation Council, the asset allocation to PRE is projected to almost triple, from 9% to 24% in 12 months' time. In this region, property is seen as a straightforward and a long-term investment that is easy to understand and pass on to the next generation.

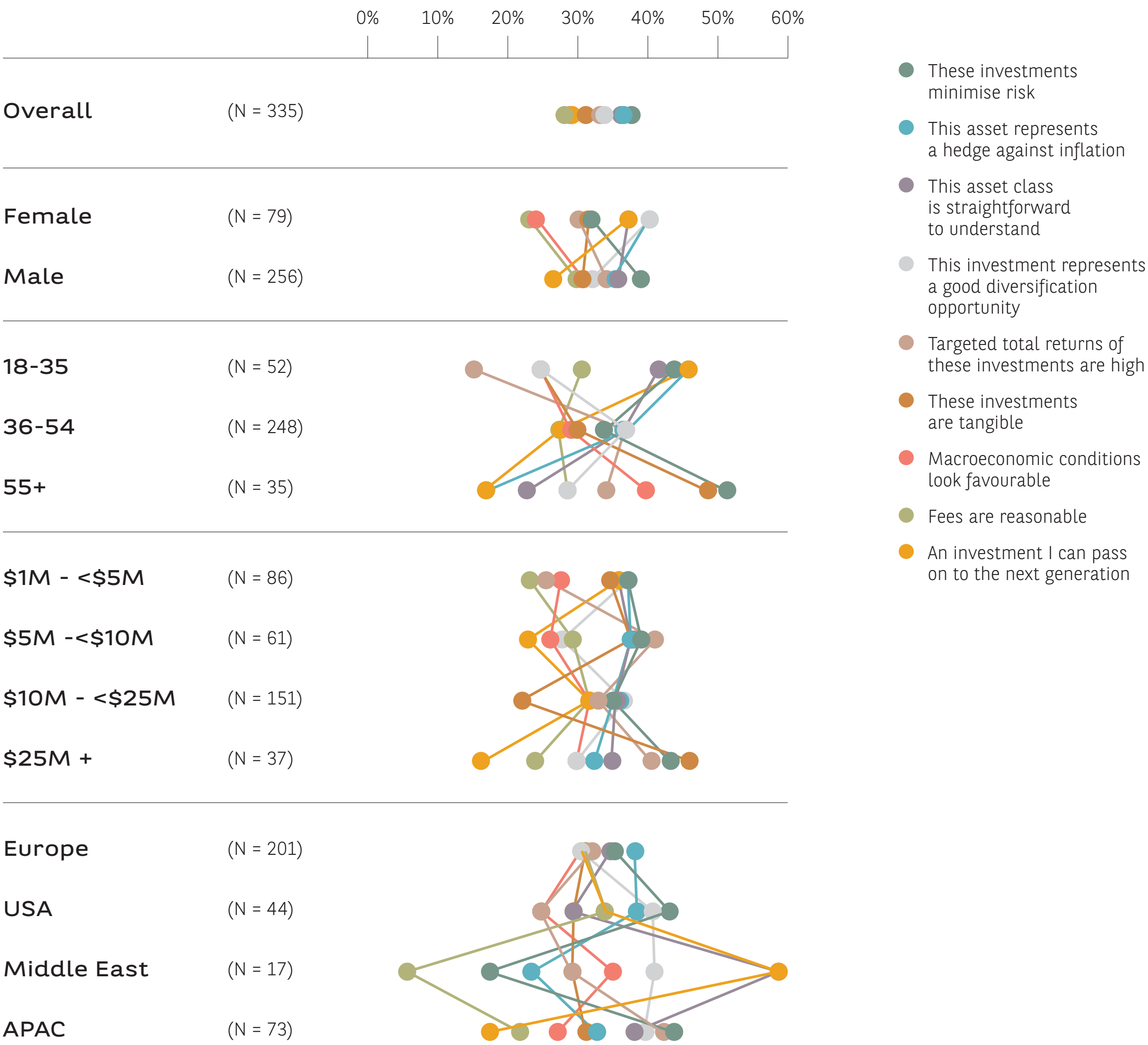
Interesting gender differences emerge when considering why entrepreneurs choose to invest in private real estate. For example, female entrepreneurs are, on average, most likely to increase allocation to PRE for the purposes of diversification (41%), hedging against inflation (41%) and next generation succession planning (38%). Male entrepreneurs forefront a desire to minimise risk (39%), take advantage of high total returns (34%) and believe the fees are reasonable (30%).

However, entrepreneurs' desire to minimise risk may be misplaced because private real estate is a cyclical market with a history of downturns.

Everyone believes they understand the real estate asset class because they own their primary residency," says **Ms Roborel de Climens** "but private real estate can be very risky so seeking expert advice is key. As with Private Equity, clients trust our fund selection process – we work with teams that have proven track records and adjusted risk-return strategies."

"To minimise the impact of cycles, we advise clients to invest regularly so funds are deployed over 4 to 5 years. Because of today's uncertain environment we favour regional and global funds. These funds offer the team flexibility to invest internationally, depending on what is happening in the world, and avoid clients being locked in a country-specific fund."

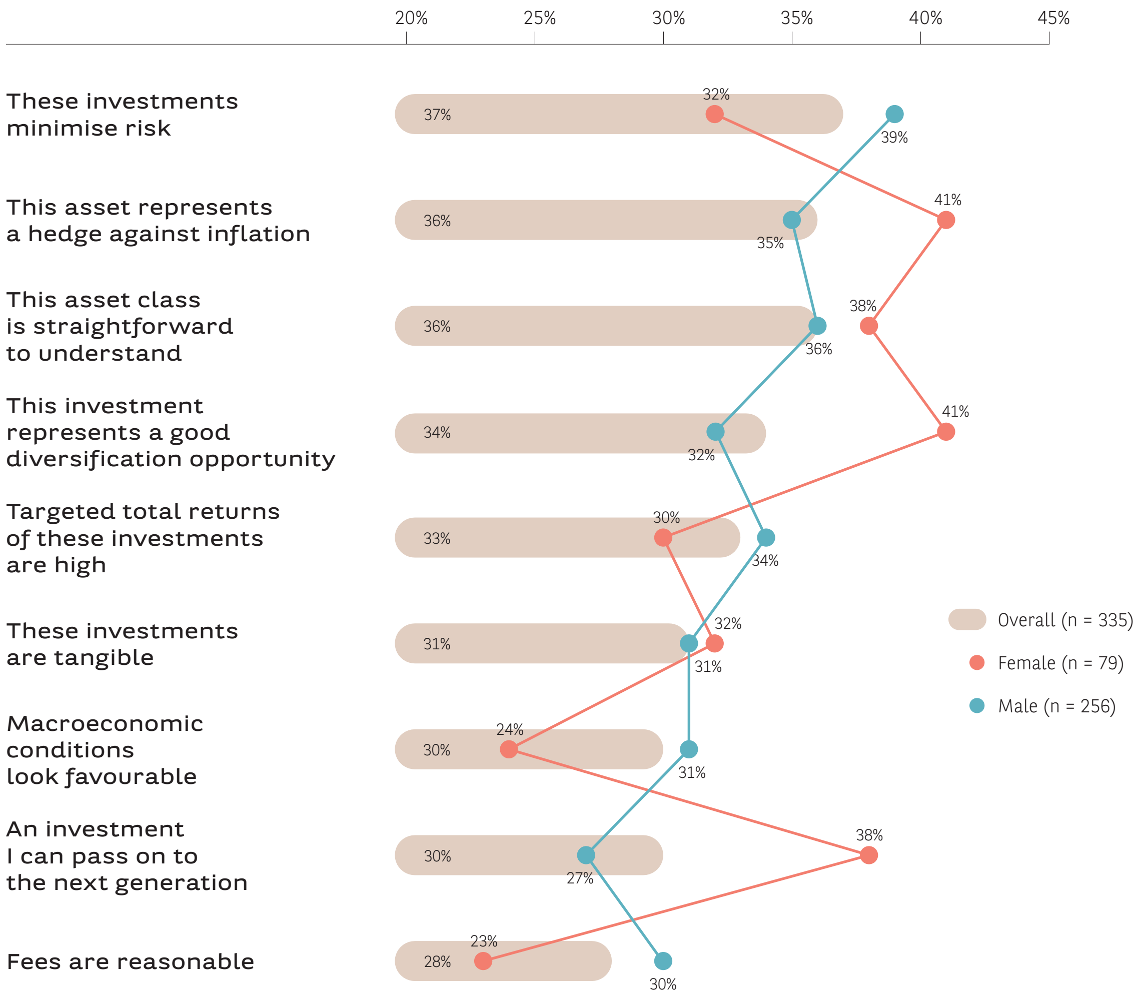
? You said you intend to increase your allocation to private real estate in the next 12 months. Why? (Top 3 reasons)



[FIGURE 6]

Entrepreneurs seek to beat inflation and minimise risk through PRE

N = 335 Source: 2020 BNP Paribas Global Entrepreneur Report


20%
25%
30%
35%
40%
45%
These investments minimise risk
37%
32%
39%
This asset represents a hedge against inflation
36%
41%
35%
This asset class is straightforward to understand
36%
38%
36%
This investment represents a good diversification opportunity
34%
41%
32%
Targeted total returns of these investments are high
33%
30%
34%
These investments are tangible
31%
32%
31%
Macroeconomic conditions look favourable
30%
24%
31%
An investment I can pass on to the next generation
30%
38%
27%
Fees are reasonable
28%
23%
30%
Overall (n = 335)
Female (n = 79)
Male (n = 256)

OPPORTUNITIES FOR THE TAKING

Myriad investment strategies are open to entrepreneurs seeking to invest in PRE, especially in the post-pandemic world where attractive deals can be found. Which strategy is pursued will depend on the entrepreneur's investment goals, timelines and desired returns.

Direct investments into property, for example, refers to the purchase of commercial, industrial, retail, residential or any other real estate investment. These can either be held directly or indirectly through collective ownership vehicles, such as managed property investments (funds, trusts, or syndicates).

Over the last two decades, direct property investment has grown dramatically and has become a core investment class for the growth of wealth through strong risk-adjusted returns, while also providing a stable source of income through regular distributions of underlying rental income.

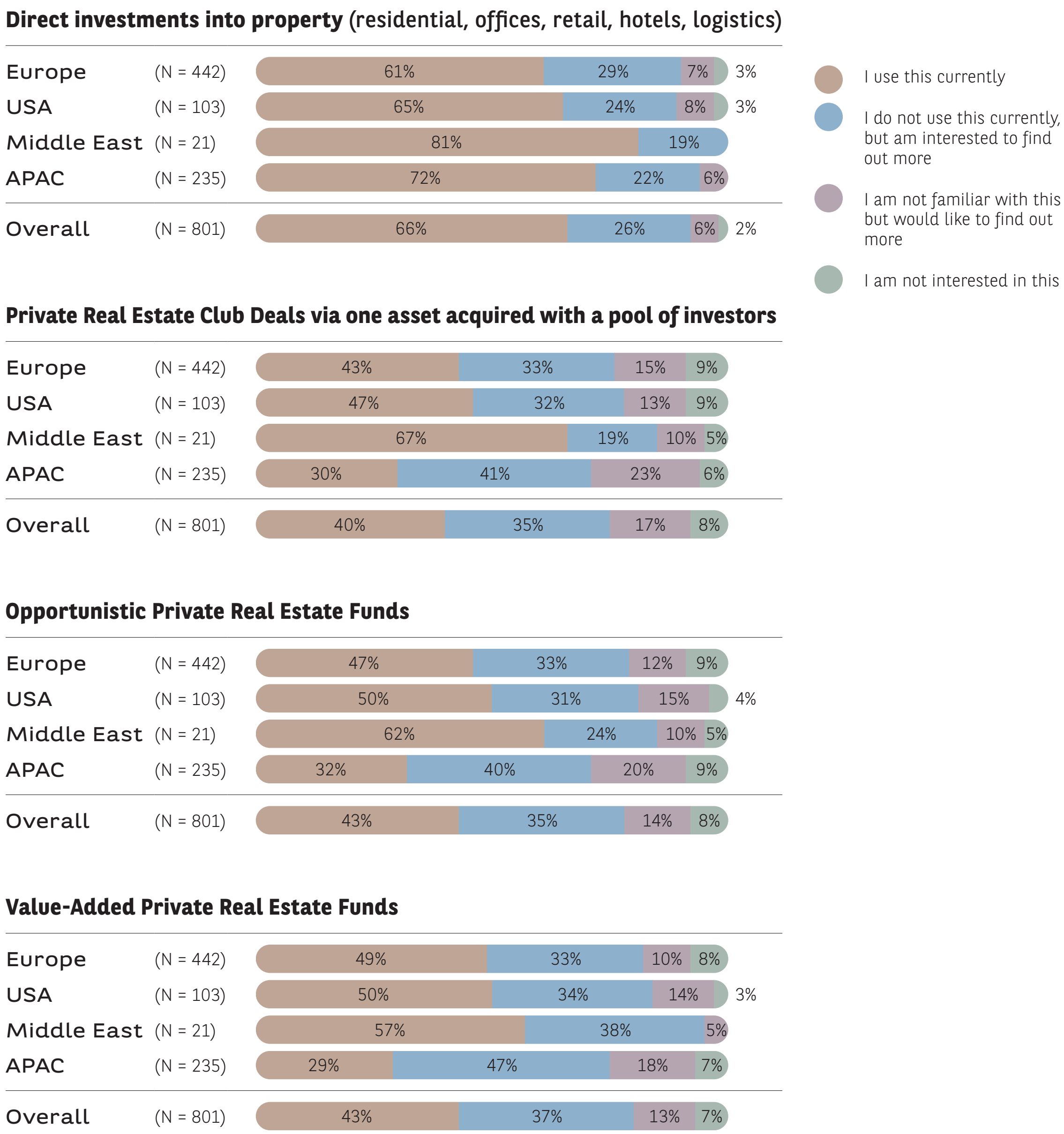
Direct investment is the most popular PRE strategy, used by two-thirds of entrepreneurs globally. Direct investments are particularly favoured by Boomerpreneurs and Ultrapreneurs, who invest approximately half of their private real estate allocation in this way. Nearly three-quarters of entrepreneurs in Asia (72%) and four in five (81%) in the GCC also use this strategy. Direct investments are especially popular in China (90%), Hong Kong (94%) and Singapore (94%) **[Figure 7]**.

Meanwhile in Europe, direct investments are popular in Belgium (68%), Switzerland (68%), France (70%) and the Netherlands (71%). Interestingly, even when entrepreneurs use multiple strategies for PRE, direct investment remains the most widely used way of accessing PRE.

"Private real estate is witnessing a similar trend to Private Equity," says **Ms Roborel de Climens**. "We see increasing appetite for private real estate through direct assets and through funds. Investing through funds is a relatively recent development for HNW clients because they typically invest directly. However, when acquiring a building, investing through direct assets requires high capital commitment, upwards of several million, so diversification issues arise."

Other popular strategies include PRE club deals, value add PRE funds and opportunistic PRE funds – all used by approximately two in five investors. Club deals refer to real estate buyouts, where several private investors pool their assets to acquire a property. These allow private investors to acquire expensive real estate they typically could not afford while spreading the risk. This strategy is popular in Belgium (77%), the Netherlands (71%) and the GCC (67%).

Which strategies do you use to gain access to private real estate investments?



[FIGURE 7]

Entrepreneurs favour direct investments into PRE

N = 801 Source: 2020 BNP Paribas Global Entrepreneur Report

In **Mr Van Belleghem's** experience, features such as greater control over investments and their tangibility drive clients' preference for direct investments and club deals.

If clients invest through PRE funds and opportunistic funds then the real estate investment becomes more like Private Equity or even a common listed investment," he says. "Whereas if clients invest through a club deal with people they know or through direct investment then the risk aspect, the tangibility and control aspects become more important."

"Clients that are investing through funds tend to be clients that have already integrated the real estate asset class in their global portfolios. This is something you see more in large families and family offices."

Value-add real estate investments typically target properties that have in-place cash flow but seek to increase that cash flow over time by making improvements to or repositioning the property. This strategy is most popular in the Netherlands (82%), Indonesia (74%) and Belgium (77%).

In light of Covid-19, **Mr Bhayani** feels bullish and believes that this is the time for bold and well thought out actions:

Down markets provide attractive valuations and a good entry point for investors so opportunistic real estate and distressed investing have the potential to come out strong... it all depends on the manager."

Opportunistic real estate investments follow the value add approach and take a step further on the risk spectrum because they typically need significant renovation to realise their potential. Again, these have found favour in emerging economies, such as in India (59%), Indonesia (57%), as well as smaller European markets like the Netherlands (75%).

Higher-risk strategies are becoming popular, particularly opportunistic funds, as investors search for higher returns. For example, we find more appetite in China (73%), Hong Kong (69%), Singapore (63%) and Taiwan (64%) for opportunistic PRE funds. With the low interest rate environment here to stay, entrepreneurs are naturally evaluating whether it is time to take on higher risk strategies that could generate better returns.

To keep a portfolio balanced, entrepreneurs seek to diversify their exposure within the real estate asset class. **Ms Roborel de Climens** says:

Many pursue core investments through direct assets and diversify with private real estate funds: We launched our real estate fund offering to cater to clients who can buy a building but can't play value-add strategies and need geographic and sector diversification but the barriers to buying buildings outside of their home market are prohibitively high."

To develop value-add or opportunistic strategies, investors often need local expertise in real estate and strong capabilities in asset management. "Even if investors are very wealthy, they are unable to execute the strategy independently because the investment requires a dedicated team of experts to achieve that. As a result, we see strong interest from clients and our fundraising rounds raise big tickets. For example, this year we distributed a global real estate fund and the highest ticket invested by one single client was 20 million."

Looking ahead, **Ms Roborel de Climens** sees interest in private real estate maintaining its momentum:

I don't see why interest or appetite for private real estate should decrease. Valuations are high and should remain high for prime assets, so we need to remain disciplined, selective, and only invest in funds that can continue to create value in this environment."

"There are some distressed sellers in core markets, which presents an opportunity to buy at attractive prices, but in general if you buy in London or Paris, prime real estate is expensive, with pre-Covid-19 crisis cap rate of 3% or less. It is a way to preserve your capital and achieve a regular income – but investors will not create capital gains with that. For value, opportunistic strategies are the main way forward, in particular in this pandemic crisis where opportunities can arise from distressed sellers or undermanaged assets with capital needs."

IN CONCLUSION

Winston Churchill first said, "never let a crisis go to waste", so in this second part of the **2020 BNP Paribas Global Entrepreneur Report**, we have focused on illiquid investments and how entrepreneurs are planning to rebalance portfolios to seize future opportunities.

Our research findings demonstrate the importance of, and desire for, professional advice throughout the Private Equity and private real estate investment process. While many entrepreneurs exude confidence in their knowledge of Private Equity and real estate markets – lack of transparency and the difficulty of sourcing quality opportunities themselves are a serious impediment to further increasing their allocations to PERE. Expert insight and guidance are therefore critical, especially in post-pandemic markets, to helping entrepreneurs understand and deconstruct the risks associated with such illiquid investments.

In Part III, we close the circle by returning to the theme of sustainable investing, which has risen in prominence since the start of the pandemic. We illustrate perceptions of the United Nations Sustainable Development Goals (UNSDGs), where they feel combating climate change and protecting the planet are the most important global challenges facing humanity. We pin-point some of the barriers entrepreneurs face to investing sustainably, which ultimately hinder the progress we make collectively to achieving a carbon-free future.

By seeking feedback directly from these entrepreneurial investors, our purpose is to identify the actions and information that our industry must bring forward to address their concerns directly.

Tasha Vashisht
Head of Thought Leadership,
Aon Client Insight

BNP PARIBAS WEALTH MANAGEMENT

In a world that is ever changing, entrepreneurs need to build their wealth strategy with a partner they trust.

Our experts create tailored solutions by drawing on our extensive network and specific expertise to help you build a bridge between your professional and personal wealth. We are here to advise you every step of the way. Backed by our global wealth management network, our business centers around the world and our Corporate and Investment Bank, you benefit from the services of a leading banking and financial institution.

With our support for entrepreneurs, your wealth has a voice. Let it be heard.

Our Wealth Management division with EUR359 billion of assets under management is a leading global private bank – number seven globally and number one in the Eurozone – with offices in three hubs in Europe, Asia and the USA and 7,000 professionals. Our knowledge of local investment climates and culture makes us the natural wealth management partner for clients wanting to manage, preserve and develop their wealth across borders over the long term. We have been recently recognized “Best Private Bank in the World”, “Best Private Bank in Europe”, “Best Private Bank in Hong Kong” and “Best Private in US West”.

wealthmanagement.bnpparibas

AON’S CLIENT INSIGHT PRACTICE

Data driven business intelligence and strategic advisory.

Our Client Insight team specialises in understanding ultra/high net worth individuals and the financial institutions with which they interact. Using quantitative and qualitative research methodologies, our solutions cover Client Experience, Brand Tracking, Thought Leadership, and Strategic Advisory and Research, all designed to help drive business growth and performance.

Together with our colleagues across Aon’s Human Capital Solutions Wealth Management practice, we use our market data and analytics to optimise the relationship between delivering value to your clients, employee rewards, and shareholder returns.

aon.com

CONNECT WITH US

Elite Entrepreneurs
@BNPP_Wealth

BNP Paribas Wealth Management

wealthmanagement.bnpparibas

AVAILABLE ON THE
"VOICE OF WEALTH" APP

MIX
Paper from
responsible sources
FSC® C120343
FSC
www.fsc.org

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world