

GLOBAL MARKETS FORUM

Join the conversation exclusively on
Refinitiv Messenger

@ReutersGMF #RefinitivMessenger



Q&A-PE funds can help finance upgrades to Germany's digital infra; Retail investors look to private markets for better returns: Steffen Pauls, Moonfare



As German's next government will look to significantly upgrade its aging digital infrastructure, private equity (PE) funds platform **Moonfare's chief executive Steffen Pauls** expected PE infrastructure funds to play a role in financing those upgrades, he told the Reuters Global Markets Forum on Friday, September 24.

Investments from PE funds based in Germany are still relatively low but investments by international PE funds into Germany were quite significant, he said.

"There is more growth capital coming to the country, which was lacking in the past. Good for the economy and investors."

Pauls, who was earlier the head of KKR Germany, said retail investors were beginning to embrace private markets to strengthen their portfolios, and that Moonfare was expanding its offerings to include strategies providing downside protection in volatile markets, such as distressed credit, secondaries, or infrastructure to cater to this shift.

Following are edited excerpts from the conversation:

Q: What is the private equity (PE) industry's outlook amid rich public equity valuations and a lot of dry powder piled up?

A: Dry powder is high, but so are the opportunities in private markets. The number of large private companies has been growing steadily over the years, while the number of public companies in developed markets is declining. There are many extremely attractive opportunities to deploy capital. Regarding valuations, the most successful managers are not the ones that buy companies cheaply, but those that are able to select companies with a great growth opportunity and then support them operationally to accelerate growth and value creation.

Q: What opportunities do you see at the moment?

A: Looking at Germany for example, there are many hidden champions in the Mittelstand (medium-sized businesses) in various sectors. Many of them are global technology leaders. For example, Otto Bock, which makes medical mobility technology (is a Swedish PE firm) EQT portfolio company.

Q: Why isn't PE activity as high in Germany as it is in some other countries, and what can be done to change that?

A: We need to differentiate between PE funds based in Germany and investments by international PE funds in Germany. The first is still relatively low, but the latter very significant. International funds also invest a lot in German start-ups. There is more growth capital coming to the country, which was lacking in the past. Good for the economy and investors.

Q: What can PE's role be in funding the improvement of Germany's digital infrastructure?

A: I see three major directions:

1. Funding investments into infrastructure, i.e., fibre networks, signal towers etc. An area where private equity infrastructure funds are very active.
2. Of course, providing venture and growth capital to digital start-ups, like my own business, Moonfare.
3. Many of the top-tier buyout funds have operational teams with digital experts, that help their portfolio companies with their digital transformations.

The latter is very important as many companies lack the knowledge and the ability to recruit the scarce talent to successfully develop their digital competencies.

Q: How is Moonfare broadening access to PE funds and by how much can this option add value to retail investors?

A: Top quartile private market funds in the past have consistently outperformed public equity markets. In a low-to-near-zero interest (rate) environment, investors are looking for yield and much-needed diversification from public markets. Also, the most successful technology companies are staying private for much longer, and most of the value is captured in private stages, before IPO (initial public offering). Hence, the huge interest in private market, also by private investors.

The problem in the past was that individual investors couldn't get access to the best funds. Moonfare is changing that, by offering access to curated top-tier private funds with minimums from 50,000 euros.

Q: What are some interesting trends among Moonfare's clients? Has their behaviour changed compared from a year ago?

A: Most of our clients, when they invest in alternatives for the first time, start with large-cap buyout funds. That is a good base for building a portfolio. Our clients are looking to build a portfolio over time that is diversified across geographies, vintages and strategies. As the second or third investment, they might add a U.S. tech or growth fund. Since the market turbulences last year, we also added strategies that provide downside protection in volatile markets, such as distressed credit, secondaries, or infrastructure.

Q: What is your view on the way private markets are going retail? How soon do you think the pace of this trend will quicken, and what are some unexpected areas where there has been retail interest?

A: We observe that many funds are deploying quite fast. Yes, the pace seems to be accelerating. Many funds were expecting some difficult times. Not (only due to) COVID-19, but the markets seemed very high 18 months ago already. Fund managers had learned from 2007-2008 when they were very conservative and in hindsight realised, they missed on many good opportunities. This time around they were prepared and ready to invest. The main insight is that private markets are embracing retail. Great opportunities for investors to strengthen their portfolios. Many are not yet aware of it.

About the Global Markets Forum

Moderated by experienced Reuters journalists, the Global Markets Forum (GMF) is an exclusive editorial community for financial market professionals [available for free on Refinitiv Messenger](#). The world's first macro, cross-asset class, cross-regional community, the forum surfaces the most critical market topics, the widest range of views, and hosts the most influential guest voices, in real-time. Hear peer opinion, take market temperature, and discover new connections: The GMF offers content, conversation, and networking all in one place.

Check out the up to date topics, events & LiveChat with our weekly featured guests: [GMF Week Ahead](#)

 [@ReutersGMF](#) Follow us on Twitter

Don't have access? Visit refinitiv.com/gmf

