

# Remapping Institutional Portfolios in Germany

**As ESG demands continue to rise in the low interest rate environment, digital transformation picks up the pace and investors in Germany are set to increase their allocations to alternatives, says BAI**

Private market investments have a key role to play in transitioning portfolios toward sustainable investments. The reevaluation of portfolios from an ESG perspective and changes in regulation have created unprecedented challenges for professional German investors and recognized worldwide providers of alternative investments products and services. Integrating ESG into the investment process is vital to the alternatives industry as asset managers react to the demands of investors. In fact, there is no topic of greater significance to the industry right now.

Alternative investments are no longer a niche; instead, they are well established in the portfolios of German institutional investors. BAI's yearly survey found investors plan to further diversify their portfolios with alternative assets, suggesting that the pandemic has not dampened the appeal of alternatives.

Furthermore, market risks will have to be priced differently than during the boom of the past decade. In the next economic downturn, alternative investments will take on an important role in investors' portfolios regarding minimizing tail risk, which was formerly done through bonds. Positive experiences in previous crises explain the increase in allocations and the expanded range of private market products. Uncorrelated yields will remain important.

All in all, we expect the average German institutional investor to increase its alternative investment portfolio allocation from 22% to 26% in the next 3-5 years. Unsurprisingly, real estate typically holds the biggest share in the portfolios of German investors, followed by corporate private equity and infrastructure equity.



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Post-COVID, infrastructure, private equity, and private debt in particular will profit from the ongoing low interest rate environment. The boom in corporate private debt will also continue; according to the BAI Investor Survey, no other asset class will attract more first-time investors in the next three years.

The market for alternative investments is shifting. Investors want to allocate along the entire capital structure to diversify their portfolios in the best way possible, meaning even traditional asset classes will have to be reassessed. As a result, innovative new investments strategies are emerging.

Digital transformation and the use of new technologies, particular distributed ledger technology, is creating a new dynamic in the alternative investment industry. In Germany, the electronic securities and cryptocurrency registers have forged a new path to developing technologies such as blockchain; they also provide a pragmatic and legally safe environment for markets, transactions, and users.

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