PineBridge Chief Plots Ambitious Alts Expansion

By Lisa Fu September 29, 2021 Comments (0)

PineBridge Investments CEO **Gregory Ehret** sees alternative investments playing a bigger role in the firm's future. While alts make up just 8% of PineBridge's current $141.4 billion in assets under management, Ehret targets growing that to 20% of the asset mix over the next five years.

"Looking for alternative sources of yield for our clients that are hungry for yield and looking for different return streams is really where we're focused," said Ehret.

The asset manager, which was forced to separate from insurer **AIG** in 2009, has spent the last 10 years stabilizing itself, Ehret said. In the split, PineBridge took all of the active management talent, alternative investment staff and the employees managing insurance assets on the surplus side of the balance sheet from AIG, said **Sergio Ramirez**, head of the global client group and head of Americas. The years following brought Ehret from **State Street Global Advisors** in 2016 to replace CEO **David Jiang**, a strong focus on cross selling, the buildout of a private credit team in 2017, and the acquisition of real estate investment firm **Benson Elliot** in 2020.

Today, the firm's alternative strategies include direct lending, senior loan financing, non-control junior capital, primary and secondary private funds and real estate. The firm, which hit its 10-year milestone as a pureplay asset manager last year, had approximately $10.3 billion in alternatives assets under management, $84.5 billion in fixed income assets, $37.8 billion in equities and $17.5 billion in multi-asset at the end of the second quarter.

"My goal is to try to continue to build upon our alternatives and capability in places where I think are interesting," said Ehret. "One of the things that attracted us to Benson Elliot was that we think we could build a real estate credit business."

To meet its alternative investment growth goals, the firm will continue to look for acquisition opportunities as well as "add-on" or "bolt-on" capabilities that can be done in-house such as building a real estate credit business, he said. Other areas of interest include alternative investments in the Asia markets that can be delivered to U.S. and European clients and infrastructure debt, he added.

PineBridge is hardly the only asset manager setting its sights on alternatives. **Wellington Management Company**'s CEO, **Jean Hynes**, named alternatives as a top priority just this month, as **reported.**

Mainstream managers are drawn by the prospect of higher fees and stickier client relationships. Alternative investments may account for nearly half of industry revenue by 2024, despite representing a smaller share of assets, **Boston Consulting Group** projected **last year**.

"Alternative assets have evolved from a small portion of the investment portfolios of some of the world's largest institutional investors into a core holding for most of these investors, as well as for high-net-worth individuals," said **Greggory Warren**, financial services sector strategist for **Morningstar**. In the 1990s, alternatives accounted for just 5% of institutional portfolios, but that number grew to 5% to 10% ahead of the 2008 financial crisis, according to Warren. Today, alternative assets account for more than 20% of some institutions' portfolios as many seek to counter "chronically low bond yields and sky-high stock valuations," he added.

While many asset managers are eager to push into the alternatives space, adding these capabilities and boosting assets can be challenging.

“Can alts and traditional co-exist under one roof,” Daniel Celeghin, a managing partner at management consultancy Indefi, asked. “Can this be a successful marriage? The reality is it’s been really tough.”

Many firms want to keep the investment teams separate but share client services, fundraising and business infrastructure because of the scale advantage, but there are challenges with building a reputation, training sales staff and establishing compensation structures, Celeghin said.

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“What we’ve seen time and again is sales professionals that are used to selling a long-only strategy… they have trouble pivoting to alternatives,” Celeghin said. “You’re talking to a different ecosystem on the buyer side, the metrics are different, what buyers focus on is different, the expectations around the technical expertise with the distribution or the reporting, it’s all different.”

Some asset managers are meeting this challenge by splitting the sales team into those that just cover alts or just cover traditional assets, while others are “beefing up the product specialist function” for the alternative investment products, Celeghin said. Those product specialists come from an alternatives background, have more technical knowledge and can carry the sales process all the way to “the finish line.”

PineBridge has also been shifting resources within distribution as part of its larger growth plan, said Ramirez. Institutional teams are now focused on corporate plans and public pension plans rather than trying to cover many different types of institutions, he said. Meanwhile, the team focused on insurers has grown to four members, up from just one employee four years ago.

“We are clearly looking at multinational insurance companies,” said Ehret. “The increasing outsourcing that insurance companies are doing of their asset management has been a great enabler of that strategy.”

The firm spent the last four years focusing on U.S. insurers but is now “in the midst of looking for insurance specialists in Europe to start thinking a little bit more clearly about solvency rules and how we can do a very similar thing for our clients in Europe,” Ehret said.

The idea of investing surplus capital for insurers has been an area of interest for the last three years and is growing in importance, he added.

“We’re not building an insurance solutions platform that caters to asset liability management,” Ramirez said. “Our competitors have that tremendous amount of investments, tremendous amount of resources that caters to the larger portion of the insurance company’s balance sheets, but it’s also lower fee. We are purely on the surplus side.”

Insurance outsourcing is a channel that seems attractive to many asset managers because the balances are “huge,” the number of clients is relatively small and “it feels like an undiscovered gem,” said Celeghin. However, the competition is also fierce, as mainstream managers will need to compete against specialist firms with more history, large asset managers with big brands and the insurers' own in-house teams. The reporting and accounting rules unique to insurance clients can also create complications, he added.

The opportunity for outside firms to manage surplus capital may also be limited, Warren noted. "Very few are in the position of say Berkshire, where they have a ton of capital that can be committed to investments that are not needed to cover the insurance operations," he said.

"It's an interesting channel for the right manager," Celeghin said. "But it's not for everyone."

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