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How Ares plans to capture the overseas private wealth opportunity

PEI caught up with global wealth management head Raj Dhanda and newly appointed head of Asia wealth management solutions Henry Lee to discuss its expansion into the region.

Private wealth is fast becoming a top priority for many of the world's largest alternative asset managers, and Asia is at the forefront of these efforts. Ares Management is among those building out in the region.

The private equity and credit giant last month appointed Henry Lee as head of Asia for its wealth management solutions business in Hong Kong. Lee was previously global head of discretionary portfolio management and alternative investments for HSBC in London.

The firm's wealth management offerings include a $257.6 million '40 Act fund', according to a May fact sheet. The Ares Private Markets Fund provides accredited investors and qualified clients exposure to buyout fund interests acquired through Landmark Partners, the secondaries unit it bought last year.

Ares' 100-strong private wealth unit has until now been purely US-focused. Private Equity International caught up with Lee and Raj Dhanda, the firm's global head of wealth management in Denver, to discuss its plans for overseas expansion.

Ares' Henry Lee and Raj Dhanda

Q Many institutional investors are struggling to find capacity for all the fundraises hitting their desks. Is this partly why firms are turning to private wealth?

Raj Dhanda: We've learned, as we partner with institutions globally, that they've sought and benefited from an allocation of 10 to 20 percent to the alternatives space, and for many reasons relating to product design and investment strategies, the individual investor hasn't had that opportunity and hasn't had the allocation to alternatives. So, an individual today globally has less than 5 percent of their investable assets allocated to alternatives, while the institutional investor generally has multiples of that allocation.

I think the high-net-worth individual globally has some catching up to do and we want to make sure we participate in that emerging growth. The way we think about the long-term addressable market, the high-net-worth individual globally could at some point represent as much as half of the fundraising for global alternatives firms like Ares, so being a solutions provider to them is certainly a priority.

Q How are you building out beyond the US?

RD: Henry coming on board to lead Ares Wealth Management Solutions in Asia is a key part of the commitment and the growth in the region – we expect to make a similar addition to the team in Europe this year. We believe that 40 percent of the addressable market for the wealth channel lies outside of the US. So, Europe and Asia have a very symbiotic partnership in that products originated in Europe might be first distributed in Asia or vice versa.

Henry Lee: Hong Kong is central for a lot of the private banks as well, especially given mainland Chinese and local Hong

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Kong investors, and the access into other parts of the region, like the Philippines. We will look to cover Southeast Asia through Singapore, because that is an important market, so we need to have a presence in both Hong Kong and Singapore. I'm the only one on the ground representing AWMS in the region today and my mandate is to go out and build a team to create a first-class service offering, which is a prerequisite to compete in this market.

Q Will you opt for inorganic growth?

HL: I don't envisage acquisitions on our side – I think we're going to start smaller and be nimble.

RD: That's right. And I would highlight that you need a different level of scale to distribute products in large wirehouse organisations in Asia and Europe versus the US. In Asia and Europe, you can be a little more nimble and leverage the internal distribution of private banks. We want to make sure we have strategic partnerships with distribution firms, and then we want to make sure we have a sales effort. I don't think inorganic growth is our focus. We were very thoughtful about finding someone with significant years of experience in private equity and alternatives in the region, so that we would have an established network of relationships to leverage.

Q Do you think private wealth appetites for alternatives will be helped or hindered by the inflation, interest rate hikes and supply chain issues we're going through?

RD: Globally, we're very thoughtful about the volatility and the rising interest rate and inflationary environment. But, I would say, unquestionably, it's times like this when the value of alternatives really bears out in client portfolios. However, that doesn't mean it's any easier to fundraise or to build a team – the portfolio construction for all clients, institutional or individuals, comes under a lot of scrutiny when there is volatility.

The ageing demographics globally and the retirement needs have driven tremendous demand for private credit and private real estate, principally because of the uncorrelated yield that they offer to the public markets. So, it's only in times like this where there is an opportunity to rise to the front and do well, but that also comes with some level of distraction that you have to manage through.