

The Future is Private

Unlocking the Art of Private Equity
in Wealth Management

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Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

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We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.



Founded in 2013 in New York City, iCapital* is the industry's leading global B2B financial technology firm—driving access, efficiency, and transparency in private markets.

iCapital has transformed the way wealth and asset management firms provide advisors and their private clients with access to a broad selection of institutional-quality private market investment opportunities suitable for individual investors—via an intuitive, scalable, and fully digital operational infrastructure that seamlessly connects the entire investment and service ecosystem, augmented by industry-leading investment analysis and research as well as product- and strategy-specific education.

iCapital services more than \$113 billion* in client assets, of which over \$25 billion* are from international (non-US) investors, across more than 940 funds.* Employing more than 750 people* globally, iCapital is headquartered in New York City and has offices in Zurich, London, Lisbon, Toronto, Hong Kong, and Singapore.

iCapital's success is supported by a consortium of renowned global strategic investors sharing the commitment to power the global alternative investment marketplace with multi-award-winning technology, including Apollo, BlackRock, Blackstone, Credit Suisse, Hamilton Lane, JPMorgan Chase, KKR, Temasek, The Carlyle Group, UBS, WestCap.

Figures as of January 31, 2022

* Institutional Capital Network, Inc. or its affiliates (together "iCapital").



Introduction

The wealth management and private equity* markets continue to grow. Assets under management in private equity globally, are expected to continue showcasing double-digit growth over the next several years more than doubling in size by 2025. This growth coincides with a continued decline in the number of publicly listed companies in Western economies.

These trends should signal a call to action for wealth managers and their private clients, who continue to have very low allocations to private equity. That limited exposure largely stems from how difficult it has been for individual investors* to participate in private equity. The obstacles they have faced include high investment minimums; difficulties in identifying and accessing top-tier asset managers; a cumbersome, historically paper-based investment process; a manual client servicing model with several administrative complexities; and a lack of insightful analysis and education for advisors and individual investors.

The enhanced risk-adjusted return and diversification benefits that private equity can potentially provide, relative to public markets, demonstrate how important it is for individual investors to increase their exposure to private equity. The growth trajectories for public markets are now much more limited. Today, companies stay private longer. With more companies going public much later in their life cycles, a significant portion of value creation takes place outside the public markets. In addition, a wider range of long-term growth investment themes, including promising technologies and health-care opportunities, as examples, are available primarily in private equity.

Given all these conditions, there is a significant opportunity for banks and wealth managers to make it much easier for individual investors to access private equity. In doing so, wealth managers will be meeting an important client need by helping investors more broadly diversify their portfolios and significantly enhance their return potential. Additionally, by expanding their services into private equity, both banks and wealth managers can alleviate much of the margin pressure they are experiencing.

Today, technology is available, often through partnership with fintech firms, that allows banks and wealth managers to seamlessly and cost-effectively integrate private equity investments into their platforms. The technological advances are also making it possible to bring new private offerings to market much more quickly. The banks and wealth managers who fully embrace today's technological solutions can offer their individual clients access to high-quality funds at accessible minimum investment levels and a simplified and fully digital experience at every stage of the investment life cycle.

Asset managers and private equity firms are also taking advantage of the benefits of technology platforms and solutions to efficiently access the wealth management channel and the growing pool of HNW investors. That is enabling private equity firms to diversify their fundraising, which has historically been almost exclusively reliant on institutional investors. In collaboration, BCG and iCapital have developed a systematic approach that wealth managers can leverage to scale up their client-service model successfully for private equity. As a first step, wealth managers must clearly define and prioritize their strategy for private equity investments. They will then have to strengthen their service model to properly address three critical private equity components: origination and access to investment opportunities; advisory and sales; and servicing and after-sales management.

To support and guide clients when they invest in this growing asset class, education is critical. Providing a seamless integration of private equity offerings, technology, and education will ensure that wealth management organizations can position private equity effectively in their clients' diversified portfolios. Clients will benefit and so, too, will wealth managers, given that their ability to deliver private equity investments successfully will serve as a key differentiator in a highly demanding marketplace.



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*For the purposes of this report, we use the term “private equity” as a proxy for private-markets, except for the section on market sizing; with “asset managers” we refer to GPs, i.e., private markets funds’ sponsors; an “individual investor” is a person who manages their own money for their own benefit in order to achieve personal financial goals; an institutional investor is a company or organization; all exhibits in this paper are for discussion purpose only.

Sources: Unless otherwise specified, all data in this paper are based on BCG Global Wealth Market Sizing 2021 and Preqin’s, *Future of Alternatives 2025*.



An aerial photograph of a paved plaza with several people walking. The people are small in the frame, and their shadows are cast on the ground. The plaza is made of large, light-colored tiles.

SIZE OF THE OPPORTUNITY

The wealth management market is rapidly growing, with increased interest in alternatives, especially private equity

Even with this considerable growth, portfolio allocation to alternatives is still limited

Global financial wealth continues to soar, rising more than 8.3% over the course of 2020 to reach an all-time high of \$250 trillion. The next five years may be stronger still. We see signs of an emerging economic recovery that could significantly expand prosperity and wealth between now and 2025—and, in turn, create extraordinary opportunities for wealth managers. Despite the high single-digit growth rate, we expect global financial wealth to fall short in comparison with the projected growth rate of alternative investments, especially with regard to private equity.

In 2020, total AuM for alternatives stood at \$13.5 trillion. Private markets, the main asset class, were at \$8.0 trillion followed by hedge funds at \$3.6 trillion and cryptocurrencies at \$1.9 trillion. Within private markets, private equity accounts for \$5.3 trillion followed by real estate at \$1.0 trillion, private debt at \$0.8 trillion, infrastructure at \$0.6 trillion, and natural resources at \$0.2 trillion. In terms of geographical allocation, North America accounts for the majority of global alternatives with 62% of total AuM, with Europe at 18%, Asia-Pacific (APAC) at 16%, and the rest of the world at 3%.

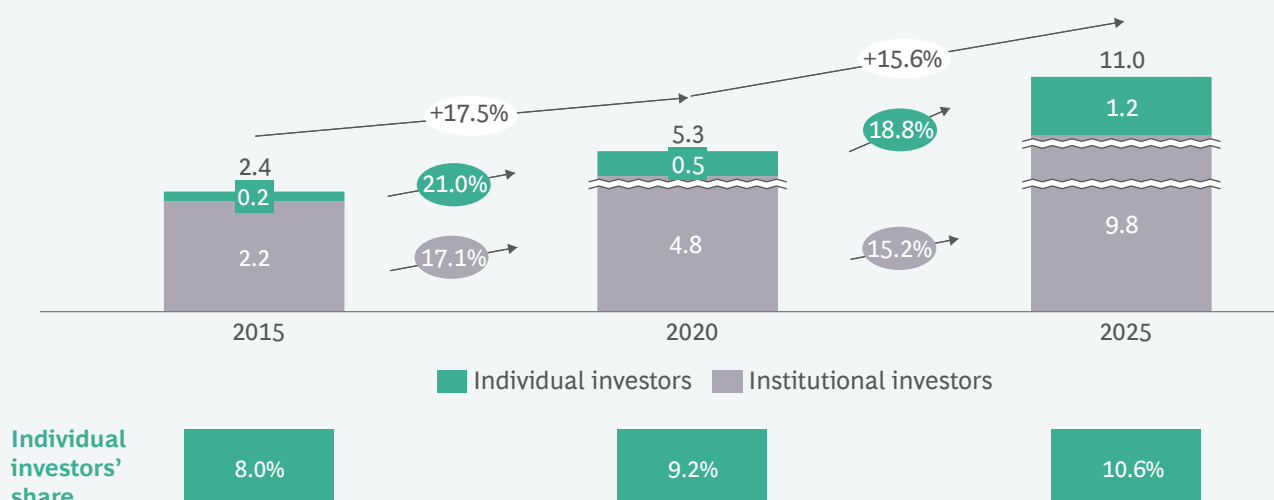
Within alternatives, private equity funds will experience strong momentum, having already grown from \$2.4 trillion AuM in 2015 to \$5.3 trillion in 2020, a CAGR of 17.5% for the period. The market outlook remains favorable, and private equity funds are expected to benefit strongly from an economic recovery, high liquidity levels, still relatively low interest rates, and solid performance of the asset class. By 2025, the global private equity market is expected to more than double in size.

Despite this positive momentum, the alternative investments market, particularly private equity, is currently largely held by institutional investors who account for 90.8% of raised capital and with limited contribution from individual investors (**see exhibit 1**).

Driven by high valuations of the global equity market, low interest rates on deposits, and low yields for bonds, we anticipate the global individual investors alternatives AuM to thrive in the future.

Exhibit 1 | Global private equity funds and individual investors' share

Total private equity fund market size split into institutional and individual investors
(\$trillions)



Ultra HNW: individuals holding USD >100 M in financial wealth; Upper HNW: individuals holding USD 20–100 M in financial wealth; Lower HNW: individuals holding USD 1–20 M in financial wealth; Affluent and Retail: individuals holding USD 0–1 M in financial wealth;
Source: BCG Global Wealth Market Sizing 2021; Preqin

Of course, differences by geographies will emerge with greater penetration in North America and far lower adoption in Asia-Pacific and Europe. Fifty-nine percent of individual investors, private equity assets originate from North America (in 2020, based on capital commitments), while APAC and Europe rank second and third with a total market share of 27% and 11%, respectively (**see exhibit 2**).

Relative penetration of private investors is higher in North America, where individuals account for 10.7% of all funds raised from local private equity funds—the balance coming from institutional investors; this is significantly above APAC with 8.8% and Europe with 7.4%.

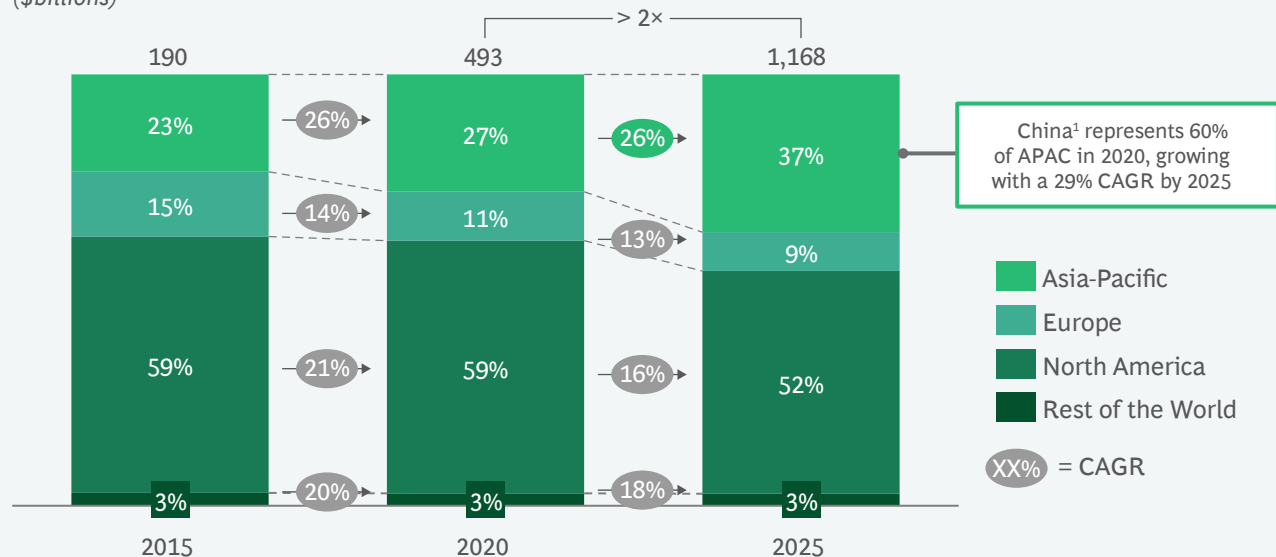
Ongoing strong interest from Asian individual investors will drive market dynamics and will be responsible for APAC continuing to close the gap with North America, increasing the APAC market share to 37% by 2025.

While Asian individual investors' share of private equity funds will grow the strongest, we anticipate individual investors' share to grow in all regions.

Individual investors are expected to increase their capital commitments to private equity funds at a CAGR of 18.8% by 2025 to an absolute number of \$1.2 trillion, significantly outpacing institutional growth. Due to this trend, we expect individual investors to become an increasingly strategic source of capital for private equity managers: In 2025, individual investors will account for a projected average of 10.6% of all capital raised by private equity funds, on the basis of broader demand and increased accessibility among all wealth segments (as per exhibit 1).

Exhibit 2 | Capital commitments to private equity funds by individual investors expected to significantly grow in all markets, most quickly in Asia-Pacific

Total private equity funds of individual investors by region
(\$billions)



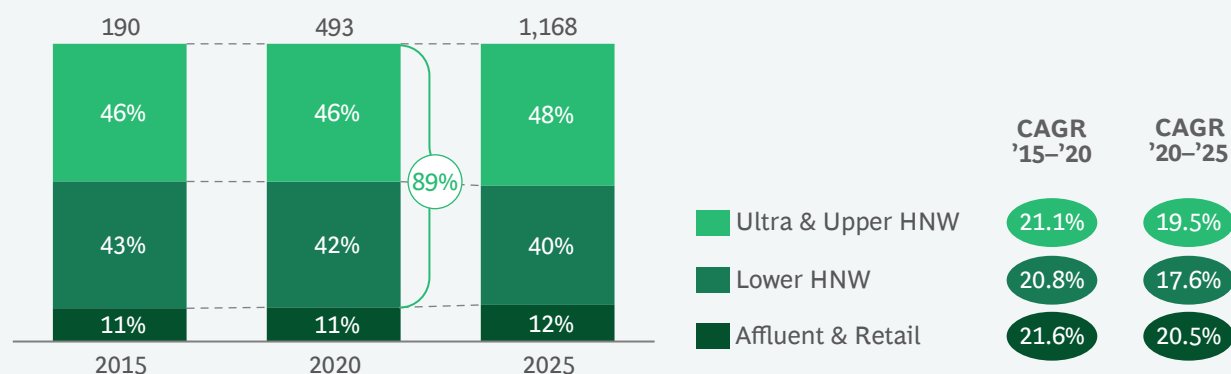
1. The data refers to mainland China without covering Hong Kong, Macao, or Taiwan

Source: BCG Global Wealth Market Sizing 2021.

Overall, by 2025 individuals will have 2.4 times more AuM in private equity funds (\$1.2 trillion) than they had in 2020, presenting a rapidly growing market opportunity for wealth managers. Among individual investors, the highest growth rates, although small in absolute terms, are anticipated with affluent and retail investors (partially driven by the democratization of this asset class by some players) and most absolute private equity wealth will continue to be sourced from the ultra and upper high-net-worth segment, which will add \$3.3 trillion in the next five years to the global private equity fund market (see exhibit 3).

Exhibit 3 | Individual investors' commitments to Private equity funds by wealth segment

Private equity funds by wealth segment
(\$billions)



Ultra & Upper HNW: adult individuals with financial wealth < \$20M; Lower HNW: adult individuals with financial wealth \$1M–\$20M; Affluent & Retail: adult individuals with financial wealth \$0–\$1M;

Totals might not add to 100% due to rounding

Source: BCG Global Wealth Market Sizing 2021



Given current market rates/returns, wealth management clients are willing to diversify investments from traditional asset classes, including illiquid/alternatives in their portfolio

Due to the still relatively low interest rate environment as well as overall market performance, wealth management clients are on the lookout for alternative sources of returns and portfolio diversification that offer more stable performance. To achieve these goals, individual investors are progressively willing to consider committing capital to illiquid assets (including private equity), as these can contribute to improving the overall risk-return profile of their portfolios through lower volatility, further diversification and lower correlation to more traditional asset classes.

Therefore, individual investors' allocations to alternatives are expected to increase 70% (an almost \$4 trillion increase) by 2025. More than 17% of this increase in alternatives will be allocated to private equity funds, which are expected to exhibit a growth rate of 18.8% by 2025, adding close to \$700 billion in financial assets.

Historically, alternative assets, especially private equity, have delivered solid returns over a longer time horizon and provided access to “value opportunities”

Investments in alternatives can add high-return potential to a portfolio. For example, on a net basis (after deducting all fees, including carried interest), private equity has outperformed major indices public market equivalents by 300 basis points (3%) or more over 5-15, and 20-year periods, according to the Cambridge Associates US Private Equity Index as of July 30, 2021.

Private equity funds generally have an initial fund term of 10 years,¹ which is agreed in the funds' LPA (the limited partnership agreement, i.e., the fund's governing rules)—most often in the form of a limited partnership or equivalent vehicle—giving them a longer timeline to implement their turnaround or growth strategy. Moreover, we have also seen in the market that companies are staying private longer (now on average of over 10 years) and going public at much higher valuations. Significant value generation happens at the stage when companies are still private, so accessing these deals represents a tremendous value creation opportunity for wealth management clients (see exhibit 4).

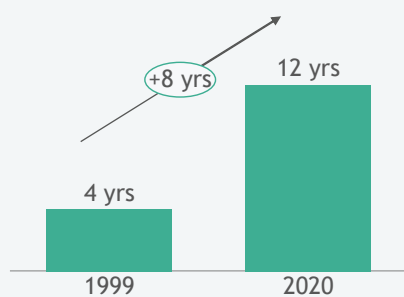
1. While private equity funds typically have an initial 10-year fund term, other private asset classes (such as private credit and infrastructure) can have different terms, spanning from a few years to 25 years.



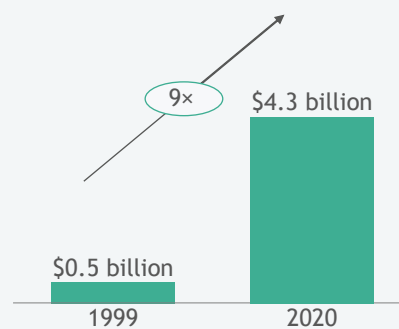
Exhibit 4 | The importance of private equity

Companies are staying private longer, and most growth and value creation is taking place outside public markets

Increasing lifetime pre-IPO¹



Higher valuations at IPO¹



1. Initial public offerings: *Median Age of IPOs Through 2020*. University of Florida. March 2021.

Within this context, selecting a high-quality manager is critical. We have seen wide discrepancies in private equity returns and consistency between the funds. Top quartile funds achieved about a 20% return over the past 15 years, while median funds delivered about 10% and the bottom quartile slightly below a 0% return.





MARKET ACTORS

Wealth managers must deal with more parties involved in the alternatives arena than in the traditional investments proposition

The alternatives arena is becoming increasingly more crowded. Wealth managers, private equity firms, asset managers, and tech platforms are the four major actors in delivering alternatives to private clients and fulfilling their ultimate goals.

Wealth managers: In search of new revenue streams and increased customer satisfaction

Wealth managers are facing not only a rise in clients' demand for portfolio diversification and alternative sources of returns but also an increase in margin pressure—and therefore a need for new sources of income. Delivering a broader and more compelling private equity offering can help wealth managers meet both needs. To succeed, they must aim at aligning clients' still very low actual allocations in private equity with their recommended target allocations.

In addition, as a side benefit, we have seen that higher shares of private equity in portfolios tend to increase the retention of both relationship managers and clients. Indeed, given the illiquid nature of such investments, it is more difficult for relationship managers to transfer portfolios to competition, reducing the incentive for churning. Moreover, private equity is an attractive tool to acquire new clients or expand the share of wallet from existing clients.

Finally, given that significant value creation takes place when companies are still private (i.e., before going public), this is not only a mere business opportunity but also a responsibility to wealth managers' clients. For that reason, private equity has moved from a CIO discussion topic to the CEO agenda. As CEOs fundamentally rethink how to service and deliver private equity investment products to their clients, they must also concentrate on their core competencies, such as origination and advising their clients.

Private equity firms and asset managers: On the lookout for diversification in fundraising

Institutional investors are expected to continue to provide the majority of capital raised by private equity funds over the next few years, confirming the relevance of the institutional market. At the same time, an even more significant growth pace is expected from the wealth management channel, with individual investors expected to increase their allocations to private equity at a CAGR of 18.8% in 2020–2025. Therefore, asset managers must not underestimate the potential of this new fundraising opportunity.

Of course, managing mandates from individual investors requires building different solutions than those typically developed for institutional professionals, such as moving from direct fund investments to feeder fund structures.

By embracing technology, asset managers have the opportunity to access the growing pool of individuals' wealth and diversify their fundraising activities across client segments while dramatically reducing their distribution efforts. At the same time, they can significantly reduce complexity and increase efficiency when dealing with private clients during the investment life cycle of their funds while reducing both operational costs and risks.

Tech platforms: On the rise to holistically support the entire private equity value chain

As demand for private equity investments has grown, the number of fintech companies entering the space has also increased significantly in recent years. Since 2017, the number of fintech platforms and other service providers in support of alternatives has almost doubled.

Via their state-of-the-art solutions, tech platforms help to reduce the barriers historically faced by the various players in the private equity value chain. At the same time, tech platforms seamlessly structure, orchestrate, and connect the entire marketplace, including clients, wealth managers, and asset managers. By embedding service providers, such as administrators, custodians, and transfer agents, they drive value chain efficiency. Tech platforms also provide individual investors—via either a B2B or B2C model—with the opportunity to invest in private equity at much lower investment minimums and with an intuitive, end-to-end digital experience.

Still, high-net-worth clients seek the advice of their trusted relationship managers, relying on their expertise and knowledge when it comes to investing in this highly complex asset class. Therefore, both wealth and asset managers are increasingly embracing such enablers in the form of B2B platforms to scale their distribution and fundraising efforts and to digitize and facilitate their operational and administrative processes.

Moreover, state-of-the-art tech platforms typically feature technological attributes that favor effective integration within wealth and asset management systems, granting the following:

- Highly scalable, fully digital, and cloud-based implementation, thus removing cumbersome paper-based processes and supporting ESG objectives
- Flexible ways to share data between ecosystem partners (e.g., via APIs or document sharing)
- Embedded strong data security (e.g., with HTTPS TLS v1.2 and fully encrypted client information)
- Proprietary, permission-based workflows

A VIEW ON THE PANORAMA OF TECH PLATFORMS ON ALTERNATIVES SOLUTIONS

Several emerging players—including fintech platforms—are looking to transform access to private equity and create ease of business. Some actors take an approach mostly aimed at connecting wealth managers and their high-net-worth clients to top-tier asset managers (a B2B approach), such as iCapital, Delio, Titanbay, and Goji. Others take a more focused approach toward B2C solutions, trying to provide direct access to private equity funds for individual investors, such as Moonfare, ADDX, Bite, and Xen Capital.

Below is a brief summary of four case studies on selected actors across geographies, underscoring the breadth and diversity of propositions that are accelerating change within the industry.

Case study #1: iCapital—a global B2B platform enabler seamlessly connecting asset managers to wealth managers and their high-net-worth clients, thus creating a unified and simplified ecosystem

iCapital's B2B technology platform and solutions provide the wealth and asset management industry—either via the firm's flagship platform or a customized white-label solution—with an integrated, fully digital investment experience, while facilitating access to private markets (e.g., private equity, private debt, and real assets) at much lower minimum investment levels.

Banks and wealth managers leverage iCapital's value proposition to scale their private markets business effectively and securely, enhance client servicing, and build sustainable and diversified private markets investment programs for their private clients. This enables banks and wealth managers to focus entirely on their core competence of client advisory.

Asset managers leverage iCapital's technology and solutions to scale and diversify their fundraising by accessing the growing pool of high-net-worth investors. iCapital's technology also enables asset managers to streamline their alternative investments, operational infrastructure and investor relations functions while concentrating on their core investment activities.

In its mission to power the world's alternative investment marketplace, iCapital relies on three pillars:

- **Access:** iCapital offers wealth managers and their high-net-worth clients access to a broad selection of quality alternative investments from industry-leading asset managers at accessible minimums, allowing them to position portfolios to potentially meet their return and diversification goals. iCapital provides expertise in setting up bespoke feeder fund structures that meet the regulatory requirements of various international jurisdictions. In addition to supporting fund origination efforts, iCapital's research and diligence team offers robust analysis alongside the firm's extensive suite of advisor education, compliance, portfolio management, and portfolio analytics tools and services.
- **Technology:** iCapital's end-to-end technology solutions ensure a simplified and fully digital experience throughout the entire investment life cycle by providing a digital subscription process, automated transaction processing (e.g., capital calls and distributions), transparent performance reporting, and a centralized and fully encrypted document repository.
- **Education:** To ensure advisors have all they need to best serve their clients and build diversified, sustainable private markets portfolios over time, iCapital provides industry-leading analysis, research, and investment education.

iCapital helps over 130* wealth and asset managers to efficiently grow their private markets business via a customized white-label solution.

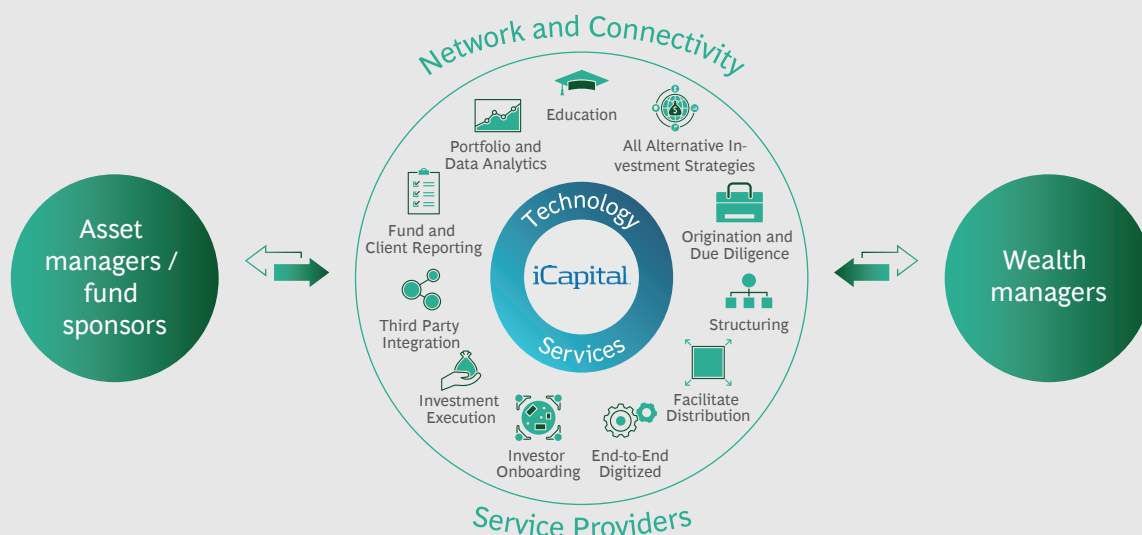
*As of January 31, 2022

TECH PLATFORMS

(continued)

Exhibit 5 | iCapital: A comprehensive alternative investment solution

iCapital is the leading global B2B alternative investments marketplace connecting asset managers and wealth managers and their clients



More information about iCapital: <https://www.icapitalnetwork.com/>

Case study #2: Delio— white-label, configurable software providing direct private market access to wealth management clients

Delio provides private banks, wealth managers, family offices, angel networks, and investment funds with white-label, configurable software that offers clients and advisors a compliant way to share and access direct, private market investment opportunities. Wealth managers can deliver full details of investments to their current and potential client base through Delio's powerful and intuitive portal, while the system also provides clients with a consolidated view of their investments.

More information about Delio: <https://www.deliogroup.com/>

Case study #3: Moonfare—platform that allows individuals and their advisors to invest in selected private equity funds with improved liquidity

Moonfare enables individual investors and their advisors to invest directly in selected private equity and venture capital funds at low minimums with a fast and easy-to-use digital experience. The platform adapts to different customer preferences and regulatory requirements. Live in over 20 countries, its private market fund platform transacts with individual investors directly and through family offices, banks, and other advisors. Moonfare's digital secondary market allows investors to sell their existing stakes, bringing liquidity to a traditionally illiquid asset class, and thereby removing a key obstacle for individual investors.

- **Top-tier fund offering:** Moonfare differentiates itself by its offering—its relationships with fund managers ensure quality and diversity in opportunities. Fit for purpose in different regions, the funds offered are evaluated by an investment team, consisting of professionals who were previously institutional private fund selectors.

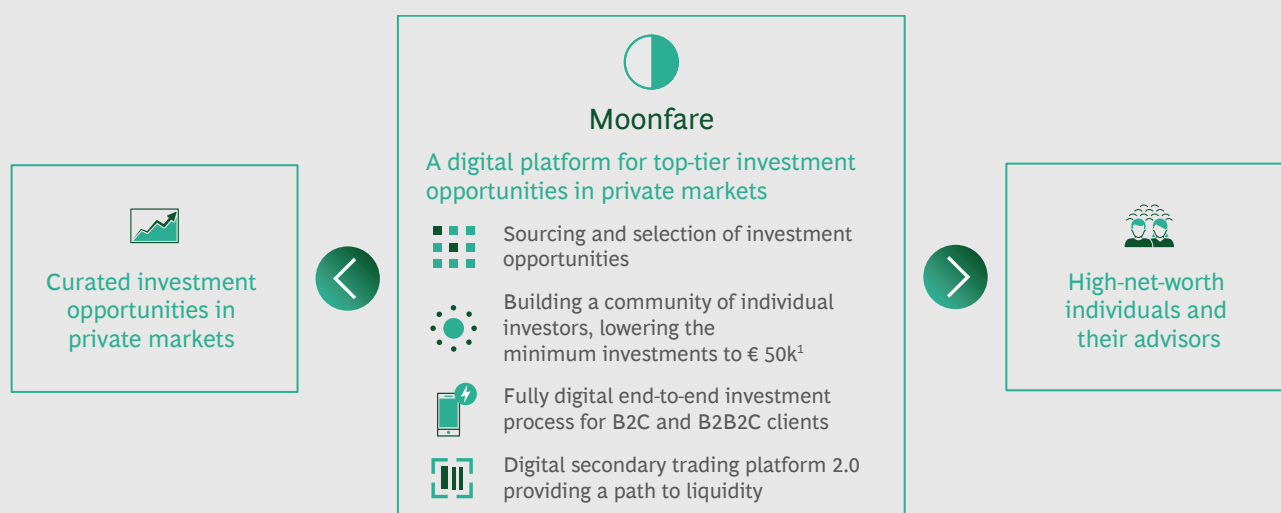
TECH PLATFORMS

(continued)

- **Product for partners:** With over 50 partnerships, including banks, wealth managers, and family offices, Moonfare provides differentiation to its partners with access to hypercurated private investment opportunities through a digital private markets platform. The white-labeled B2B offering includes a range of functionality and services that can be adapted to each partner's requirements.
- **Product for individuals:** Moonfare allows clients to register and invest in as little as 15 minutes and with minimums as low as \$60,000 through its fully digitized platform.

Exhibit 6 | Moonfare connects the dots with its digital value proposition

Moonfare is a digital marketplace connecting high-net-worth individuals and their advisors to a curated alternative investment offering



1. Subject to relevant regulatory requirements.

More information about Moonfare: <https://www.moonfare.com/>

Case study #4: ADDX—a B2C platform leveraging blockchain that lowers minimum ticket sizes

ADDX employs blockchain and smart contract technology to automate manual processes in the life cycle of securities across multiple asset classes, such as pre-IPO equity, hedge funds, private equity funds, and wholesale bonds. This allows ADDX to fractionalize investments, lowering minimum ticket sizes from \$1 million to \$20,000, so that more accredited individual investors can take part in previously out-of-reach opportunities. ADDX recently partnered with Partners Group to offer tokenized fund units, offered in fractional sizes and issued using blockchain technology to enable individual accredited investors to participate in the fund.

More information about ADDX: <https://addx.co/>



CAPTURING THE OPPORTUNITY

To fully seize it wealth managers must enhance their operating model with a comprehensive approach, including tech solutions

Accessing and dealing with private equity firms has historically involved several barriers that lowered the ease of business for individual investors

The offering and ongoing administration of private equity funds has often precluded wealth managers from granting access to high-net-worth clients. Key challenges include the following:

- **Limited access to high-quality funds:** Historically, access to top-tier private equity managers has been typically limited to large, sophisticated institutional investors with the resources to gain access to these managers and the significant assets required to invest with them. Considering the relationship-based nature of private equity, which typically sees investors re-underwriting (i.e., reinvesting) to a GP's successor vehicles, the best performing funds become hard to access and have limited capital available to allocate to new investors, such as wealth managers. Therefore, getting the chance to outmaneuver the competition represents a significant hurdle.

Additionally, high minimums for direct investments in private equity—often \$5 million to \$10 million—are far beyond the reach of most individual investors.

- **Cumbersome manual and paper-based subscriptions:** Subscribing to private equity funds entails considerable paperwork. Subscription documents and limited partnership agreements can run hundreds of pages, with multiple signatures required and detailed instructions to follow. The chance of errors in completing paperwork is high and can cause delays and higher legal fees.

Moreover, the traditional process for subscribing to private equity funds is time consuming, inefficient, and can be frustrating for clients. Multiply this process by hundreds or thousands of clients, and it becomes clear that the traditional private equity fund subscription processes do not scale well, are costly to administer, and are prone to human error.

- **Siloed advisory systems and tools:** At this point, private asset classes are currently not integrated into the client advisory process. Typically, wealth managers currently use advanced optimization tools for clients' portfolio

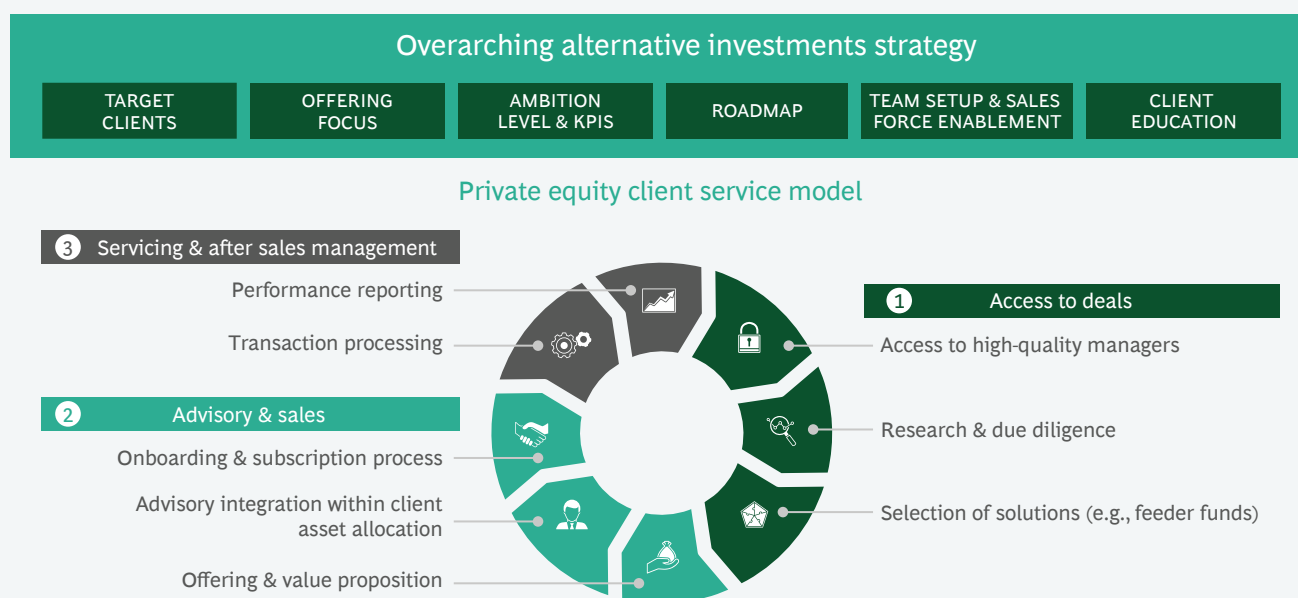
allocation of liquid assets. However, private assets require additional assumptions and different ways of calculating risk, as well as correlations with other asset classes and returns. This complexity is also traditionally not supported by relationship managers' advisory tools and systems.

- **Client-servicing challenges:** Servicing private equity funds also creates complexities over what is often a lengthy fund lifecycle. Private equity investments are significantly more complex than traditional investments from a client-servicing standpoint, particularly given multiple capital drawdowns and distribution notices, the extended time frame for performance reporting (typically available with a 45-90-day lag), and differences in tax treatment versus those of traditional investment funds.
- **Disconnect with service providers:** Financial firms operate with a tightly interwoven value chain of multiple administration, accounting and tax firms, transfer agents, reporting partners, and custodians. Ideally, all investment data is optimized to flow through to all parties within this value chain, seamlessly and securely. Trying to scale the administration of private equity funds without technology intervention can result in a disconnect between players in the value chain, creating inefficiencies, increasing costs, and introducing risks.
- **Fund-reporting challenges:** Private equity funds are often opaque with reporting that lags behind what high-net-worth investors are accustomed to from traditional equity and fixed-income investing. This lack of transparency makes it a challenge to offer robust performance analytics.

A comprehensive approach supported by a strong technology solution can remove those historical barriers

To better approach the alternatives offering and capture this growth opportunity, we believe wealth managers should act across a comprehensive framework. This requires first defining a broader alternative investment and wealth management strategy and then developing a dedicated client service model for private equity.

Exhibit 7 | BCG's Private equity framework for wealth managers



Start with an overarching alternative-investment wealth-management strategy

As a first step, wealth managers should define a broader strategy for alternative investments.

This requires assessing the current wealth management client base and its composition to understand the

potential need and fit for an alternatives offering. For example, detailed segmental analysis by wealth band, client personas matched with portfolio allocation, and current performance should provide a view of the opportunity to capture and the target clients to address. At the same time, it's important to set priorities in terms of product offering, from the type of assets to the breadth of solutions. For example, wealth managers can focus on selected verticals within private equity, creating a distinct competitive advantage on offering, or adopt a broader portfolio offering approach across alternative investment classes, from private equity to real assets.

For wealth managers, these first steps are essential to defining goals and targets, the key strategy to implement, and the roadmap to achieve it (e.g., niche players/scale private equity provider, product focus/full spectrum). In addition to building a credible strategy, the salesforce must be set up and trained to offer high-quality alternative investment opportunities, along with the depth of capabilities needed.

To ensure client engagement, a crucial step in the overall alternative journey of wealth managers is then educating client advisors to ensure key content capabilities about the specificities of alternatives investments.

Wealth managers must focus on salesforce upskilling around the private equity offering, including:

- Private equity overview and specific trends/opportunities
- Investment categories (direct, co-invest, primary, secondary) and investment layers, including their relative associated fees (e.g., fund of funds have a double layer of fees: the fund of fund sponsor, and the underlying funds)
- Private equity funds strategies, structures, and historic performance
- Portfolio construction, monitoring, and optimization including alternative investments (e.g., leveraging scenario simulations with downside view, cashflow movements, J-curve, and capital raising needs over time)
- Lock-ins and solutions for redemptions (opportunities in the secondary market)
- Legal and fiscal, and regulatory implications for private equity investments
- Specific education on the product level

To complement the salesforce proposition, wealth managers must also ensure that their clients embark on a learning journey regarding alternative investments like private equity to fully understand this complex asset class. The more knowledge clients have about private equity, the more they will be willing to discuss and potentially invest in such asset classes.

This should arise in typical client/relationship manager discussions and online resources, but banks should also envisage ad hoc solutions to provide opportunities for a deep dive into some topics, such as boot camps or one-day informative sessions. By doing so, clients will better understand the benefits and risk trade-offs of such illiquid investments and will build trust in properly including alternative investments in their portfolio.

Develop a dedicated client service model for private equity

After defining a holistic alternatives strategy, wealth managers must develop a dedicated client service model around the key elements of the value chain to successfully deliver private equity solutions—and to overcome the historical barriers that previously limited wealth management individuals' access to private equity in a democratized way.

Create a strong pipeline to access high-end deals and funds

Difficulty in accessing top-tier managers and high investment minimums have historically limited private equity access to institutional investors having such capabilities. Wealth managers need to place themselves in a privileged position to gain access to high-quality deals.

Traditionally, wealth managers with relevant scale strongly invest in relationships with global investment companies that have offer multiple products across various private asset classes (e.g., Apollo, Blackstone, Carlyle,

EQT or KKR); these wealth managers usually have dedicated fund research teams and minimum demand targets from their clients to justify the diligence, structuring, and subscription process to an underlying private equity fund. For smaller wealth managers with lower standalone access opportunities, two main strategies were traditionally adopted in the market: (i) set up alliances with other wealth managers to get a ticket into the investment vehicles of some of the largest fund managers or (ii) concentrate their clients' commitments on a narrow set of highly selected strategies.

Today, fintech platforms are providing access to multiple opportunities for deal flows through single point of entrance and streamlined processes—and they are becoming key partners to wealth managers in providing their clients with efficient and streamlined access to private investment opportunities. This will not only ensure positive impact for wealth management but also unlock opportunities on the private equity side. Accustomed to large-ticket institutional investors, private equity funds do not typically have the back-office resources to handle the complex operational requirements of servicing many smaller individual investors. We expect asset managers to become more open to sharing opportunities with tech-enabled wealth managers, as these can efficiently aggregate their clients and represent single access points in fund sponsors' relationships with individual investors.

On top of ensuring proper access to opportunities, wealth managers will need to create research and due diligence capabilities that enable their teams to select deals and funds in a consistent way and to best advise their clients during the sales process. For wealth managers, this is highly reliant on the quality and ease of data accessibility, especially given that private equity's illiquid investments have less standardized forms of accessible information.

Finally, wealth managers can choose from different solutions for their clients to invest in private equity.

One example is feeder funds, which pool investor capital to make investments in underlying private equity funds and are becoming more common, as some fintech platforms now offer fund origination and digital transaction and administration services. These fund structures offer a more accessible entry point for professional investors, often significantly lowering investment minimums.

At the same time, recent EU regulations enabling European Long-term investment funds (ELTIFs) have lowered the minimum ticket threshold for entry in alternative investments and have broadened distribution beyond professional investors to nonprofessional individual investors. Indeed, in such funds the initial minimum amount invested could be lowered to €10,000, which is becoming more appealing to individuals from the retail investors segment.

Some emerging solutions also provide increased liquidity for private equity investments. The most frequent mechanism is on the secondary market, in which interests in limited partnerships (i.e., shares in underlying funds) can be sold to generate liquidity. In this case, buyers are typically dedicated secondaries fund managers such as AlpInvest, Ardian, Collier Capital, HarbourVest, Landmark and Lexington. This has worked well for institutional investors in the past, because they are often selling more than one position at a time. For individual investors and wealth managers, doing so at scale would require support from a tech platform leveraging their scale and access. Of course, there is a price tag behind these solutions; in fact, selling positions on the secondary market often requires investors to exit at a discount to NAV (net asset value), leaving part of the deal returns for the liquidity option on the table.

Build a transparent and simplified private equity advisory and sales model

Focusing on transparency and simplification is the key to building a successful private equity advisory and sales model for wealth management. Indeed, this will establish the trust and willingness required for clients to invest in one of the more complex asset classes, as it is private equity. To do so, wealth managers should focus on three levers.

Creating a clear private equity proposition

- The commercial proposition should be clearly defined with transparent pricing, historical track record showing returns for similar investments previously executed, and an associated risk and timing profile. The ability of wealth managers to design an offering that could be easily proposed by the advisor to clients

would markedly a boost for the commercial effectiveness of the private equity proposition. Additionally, to differentiate from competition, we observe that some wealth managers are offering opportunities for their high-net-worth clients to invest in unique tangible opportunities with an “emotional link.” For example, we have seen club deals in real estate opportunities on landmark buildings in the country where clients are located, making the investments much more personal than in a generalist private equity fund that will independently choose its targets.

- Of course, client education is a key component of success the effectively proposing such products. Some fintechs not only offer wealth managers comprehensive technology solutions, they also identify the need to provide best-in-class advisor and client education to support the responsible use of this complex asset class.

Integrating the private equity offering into the overall advisory journey

- The private equity proposition should not be a disconnected investment process. To avoid having a siloed view of the private equity portfolio, it is essential to integrate the private equity offering into the overall client advisory journey. This will require wealth managers to consider private equity among the asset classes when building the strategic asset allocation of the client portfolio and to make a bold upgrade to advisory platforms. Fintech platforms can offer technology-based solutions to support advisors and wealth managers in portfolio constructions-considerations; for example by using quantitative models and analytics tools that assess and analyze factor-based risk and the performance of alternative investments.

Building the right client onboarding and subscription process

- The traditional process of delivering private equity investments at scale is typically a bottleneck. For example, an illiquid product offering requires massive amounts of paperwork (e.g., for subscription documents and limited partnership agreements) with multiple sections to be completed and signatures required. This represents a clear pain point for advisors who will spend hours in administrative activities with a high risk of error and a lack of commercial time to push the offering to a multitude of customers in their portfolio. Similarly, the poor experience is reflected in the customer journey, especially for “noninstitutional” profiles.

However, client onboarding for private equity investments is now simpler, more scalable, and more cost effective through fintech and technology platforms. They reduce the friction inherent in the traditional private equity fund offering and administration process, providing wealth managers with the ability to do the following:

- **Create and store client profiles digitally.** Digital client profiles enable advisors to sign up clients for an investment once, then store the information in a customer relationship management (CRM) system. Once a client profile is created, an advisor can create subscription documents for any investment with just a few clicks and send them to the client for review.
- **Digitize and track fund marketing.** Moving the alternative investments marketing process to a fully digital experience enables all materials to be viewed and distributed online. This can create a more convenient, dynamic experience for advisors and investors that may include videos and podcasts, for example, in addition to traditional offering documents.
- **Provide tailored support.** Intelligent platforms can limit advisor visibility to authorized products only as well as serve up targeted, just-in-time educational content to help ensure advisors have a sufficient knowledge base before starting the investment process.
- **Enhance sales transparency.** Moving the fund marketing process online also enables an enhanced view into the sales cycle for banks, who gain transparency into the advisors and clients considering an investment.
- **Digitize all subscription paperwork and signatures.** Alternative investment platforms enable the digitization of every document and signature and can guide clients through the subscription process to reduce confusion and errors, resulting in a lower NIGO (“not in good order”) rate. Verification can take place digitally as well.

- **Facilitate subscription workflows.** Alternative investments platforms enable wealth managers and asset managers to immediately view who owns the next step in the subscription process. These systems can also flag errors and designate the right party to fix them. They may also offer enhanced privacy protection, enabling document visibility only to the parties who require the information. When there are backlogs in the subscription process, these systems can make it clear where they exist and identify next steps.
- **Include a centralized, accessible, secure document repository.** A truly digital archive—with clean data that can move seamlessly between systems—becomes increasingly valuable to wealth managers as it grows over time.

Scale up the servicing and after-sales management capabilities to make it effective for clients and advisory teams

One of the biggest differences between liquid and illiquid investments is that the servicing and after-sales component of the private equity offering is as relevant as the subscription piece. More importantly, it requires interaction between the client and the advisory team for the length of the investment time horizon.

For example, several capital drawdowns must be managed at different points in time, reporting is not standardized or aligned to listed real-time markets, and the fiscal implications for the overall client portfolio require ad hoc analysis.

Managing all these activities manually one-by-one is a key challenge for wealth managers. Fintech platforms can play a role in automating and standardizing key servicing steps, document handling, and automated notification for capital calls. They can also help to lower the administrative burden on the client advisors and front team and to scale up servicing capabilities.

In practice, wealth managers should leverage fintech platforms in after sales for the following:

- **Document requests:** A centralized, online document repository that enables advisors to log in to a single portal, find any documents pertaining to clients' private investments, and then deliver them to clients or other interested parties within seconds.
- **Client communications and shareholder records:** Fintech platforms can consolidate and streamline communications to avoid having advisors receive notifications each time documents post for each client serviced on the platform.
- **Capital calls and transaction processing:** Technology can automate the creation, notification, and tracking of capital activity, while allowing operations teams for wealth managers and asset managers to focus on exceptions, such as late payers.
- **Reporting:** Holistically connecting the alternative investment value chain via a technology platform can lay the necessary groundwork to provide greater data visibility and hence more transparent reporting. With clean data optimized to move seamlessly between partners, advisors are better positioned to demonstrate to clients how private equity funds fit into their overall portfolio strategy, quantify the upcoming benefits of these investments, and report the current investment performance.

As seen above, technology solutions can strongly support the full spectrum of the client service model for the private equity offering. Within this context, wealth managers can play a technological role in developing in-house platforms or evaluating the adoption of an existing market solution. Typically, in-house solutions can be managed by higher scale wealth managers who have the ability to navigate the complexity of internal systems developing and managing systems internally.

However, the development of a tech solution is typically a noncore activity for wealth managers, as these projects are not only time- and cost-intensive but also resource-intensive. Thus, we observe that wealth managers are more willing than ever to work with emerging fintech companies and tech platforms to not only achieve scale efficiencies and cost reductions but also quickly and securely expand their offerings to private equity. At the same time, they can enhance the customer experience with a new and differentiated value proposition in an increasingly sophisticated market. This also allows wealth managers to focus their efforts on their core business of client advisory and offering proposition.

TECHNOLOGY EVOLUTION HAS CREATED OPPORTUNITIES FOR PRIVATE EQUITY IN THE WEALTH MANAGEMENT SPACE: THE NORTH AMERICAN PERSPECTIVE

Technological advancements have not only opened the door for private equity to raise capital through the wealth management channel, they have also unlocked a new set of investable themes and opportunities in the wealth management space itself.

Consider the strategy of consolidating registered investment advisors (RIAs) and/or independent financial advisors. The approach itself is not new, and numerous entrants have successfully aggregated different segments of the RIA market over the last 15 years. But the continued evolution of the technological landscape has created a more recent paradigm shift, ushering in a wave of private capital in the process.

Wire houses have historically built and retained wealth management teams by providing three critical functions, each of which represents a barrier for advisors that ultimately wish to leave for greener pastures: (i) a technological platform, (ii) access to investment products, and (iii) customer acquisition capabilities to foster organic growth. In recent years, technological advancements have greatly weakened the first two barriers. The rise of lower-cost point solutions and the emergence of turnkey asset management programs (TAMPs)—coupled with broader penetration into the space by investment managers—have made it much more feasible for RIAs to break away. And private equity took notice.

Investment firms such as Focus Financial, Hightower Advisors, and Rockefeller Capital Management have all executed private equity-backed RIA roll-up strategies that target the “breakaway” universe, providing capital to accelerate acquisitions and support in building out of technological platforms that meet the end-to-end operational and investment needs of RIA targets. The presence of integrated platform solutions is especially important for aggregators targeting a specific subset of breakaways: mid-sized, growth-minded RIAs that see clear value in outsourcing investment and/or operational capabilities but lack the scale required to build in-house solutions.

For private equity sponsors, rolling up RIAs within this segment has been attractive for several reasons. First, when a breakaway advisor is acquired, a large portion of their AuM often migrates with them. In effect, the aggregator buys the advisor, the clients, and the distribution in one transaction, making the investment revenue-generative in year one. This is a favorable return proposition for a sponsor investing out of a closed-end fund with a 3–7-year holding period. Second, clients of mid-sized advisors are often mass affluent versus high-net-worth, which tends to be the least price-sensitive segment of wealth management. Thus, much of the technological expense can be passed through to the RIA and ultimately to the client, preserving the margin for the aggregator. Third, the convenience of the tech platform for mid-sized RIAs, along with the cost-prohibitive nature of building it in-house, tethers them to the platform and makes future revenue streams more predictable for the aggregator.

This approach has worked well for aggregators (and their private equity sponsors) to date, but there is still one more barrier to break, as customer acquisition support remains a key differentiator for wire houses. RIAs and aggregators across the board are still relatively weak in this area, with breakaways seeking simply to maintain rather than grow their existing book of business due to insufficient lead generation capabilities. Investment in lead generation software and infrastructure for RIAs and aggregators alike should lead to competitive advantages. This is especially appealing for aggregators, who can drive down the marginal cost of their investment with scale while making their platform the preferred destination for growth-minded breakaways, potentially leading to outsized returns for investors.

Conclusion

As we have seen, the wealth management private equity opportunity is there—and it requires the key market actors to act boldly to catch the upside. Wealth managers must not only clearly define their strategy but also ensure a smooth and transparent client service model. On the other side, to capture the capital at stake, private equity funds should collaborate as much as possible with wealth managers, educating them and sharing data to empower their new partners. Both sides will also benefit from the increasing presence of tech platforms and, as much as possible, should leverage those new actors.

APPENDIX

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About Our Methodology

Global Wealth Market Sizing follows the “System of national accounts standard 2008” to distribute the financial wealth of households into broad asset class categories, such as currency and deposits, equities, and life insurance and pensions. These asset classes are further distributed into sub-asset classes, such as listed shares and investment funds shares.

GlobalData conducts an annual survey and publishes the asset allocation for high-net-worth clients around the globe covering 26 major markets, including the United States, China, India, the United Kingdom, and Germany.

The survey covers all the broad investment product categories, such as alternatives, property, commodities, and equities.

Global Wealth Market Sizing focuses on all wealth segments, including high-net worth, and ultra-high-net-worth.

We adjusted the survey data using the well-established Lorenz curve approach to perform dynamic asset allocation for different types of investor groups.

We gave special attention to the exclusivity of individual sub-asset classes; for instance, private equity funds are exclusively available to high-net-worth and ultra-high-net-worth clients. Our distribution methodology make sure that the share of retail segment for such types of products is negligible while ensuring the individual market specifics; for example, affluent in the United States is a high-net-worth client in India.

Following these criteria, we redistributed the equities, bonds, financial derivatives, and other receivables into investment products, such as private equity funds, exchange-traded funds, commodity funds, REITs, and hedge funds. We validated our results with global publications from various official and renowned sources, such as Preqin, S&P Capital IQ, ETF.com, the Federal Reserve Board, and the European Investment Fund.

Glossary

- **Alternative funds:** Alternative funds invest in a variety of strategies and/or asset classes to provide risk and return profiles that are distinct from traditional asset classes (such as equities, fixed income, and/or cash).
- **Asset class:** A grouping of investments that exhibit similar characteristics and are subject to the same laws and regulation. Public equities, bonds, private equity, real estate are examples of major asset classes.
- **Asset manager:** For the purposes of this paper, an asset manager is a fund manager that manages capital on behalf of a third-party investor, with the goal of growing the value of the assets.
- **Cambridge Associates US Private Equity Index:** Cambridge Associates derives its US private equity benchmark from the financial information contained in its proprietary database of private equity funds. As of June 30, 2021, the database included 1,297 US buyouts and growth equity funds formed from 1986 to 2021, with a value of \$1.2 trillion.
- **Cryptocurrencies:** Cryptocurrencies are a collection of binary data designed to work as a medium of exchange wherein individual coin ownership records are stored in a computerized database using strong cryptography to secure transaction records, control the creation of additional coins, and verify the transfer of coin ownership.
- **Fund term:** In the context of private markets, the fund term is the time frame for the life of the fund. Most private equity funds come to market with a 10-year term with up to two one-year extensions at the discretion of the manager.
- **General partner (“GP”):** In the context of private markets, the general partner, or GP, refers to the fund’s sponsor, i.e., the firm that manages a private markets fund.
- **Hedge funds:** Hedge funds are actively managed investment pools whose managers use a wide range of strategies, often including buying with borrowed money and trading esoteric assets, to beat average investment returns for their clients. Considered risky alternative investment choices, they require a high minimum investment or net worth, excluding all but wealthy clients.
- **Harvesting period:** The harvesting period follows the investment period, and sees the manager focusing on helping portfolio companies grow and exiting their investments; it lasts till the last company is sold.
- **Individual investor:** An individual investor is a person who manages their own money for their own benefit in order to achieve personal financial goals.
- **Institutional investor:** A company or organization that has a fiduciary duty to invest money on behalf of clients or members.
- **Investment period:** In the context of private markets, the investment period is the most active time frame in a fund’s life during which the GP invests in its core portfolio companies. Most private equity funds have a five year investment period.
- **Private equity funds:** Private equity funds are pools of capital to be invested in private, i.e., nonpublic, companies that represent an opportunity for a high rate of return.
- **Structured products:** Structured products are prepackaged investments that normally include assets linked to interest plus one or more derivatives.

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