CERULLI ASSOCIATES

WHITE PAPER

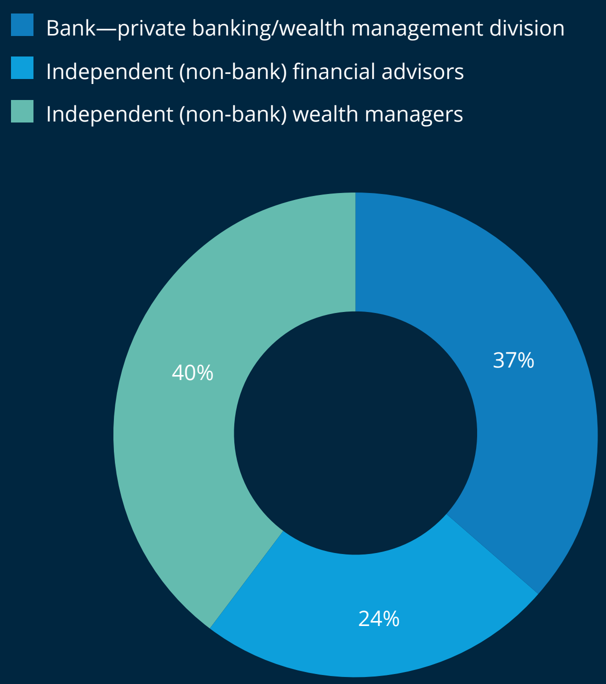
The Future of Private Assets in Retail Investors’ Portfolios

June 2023

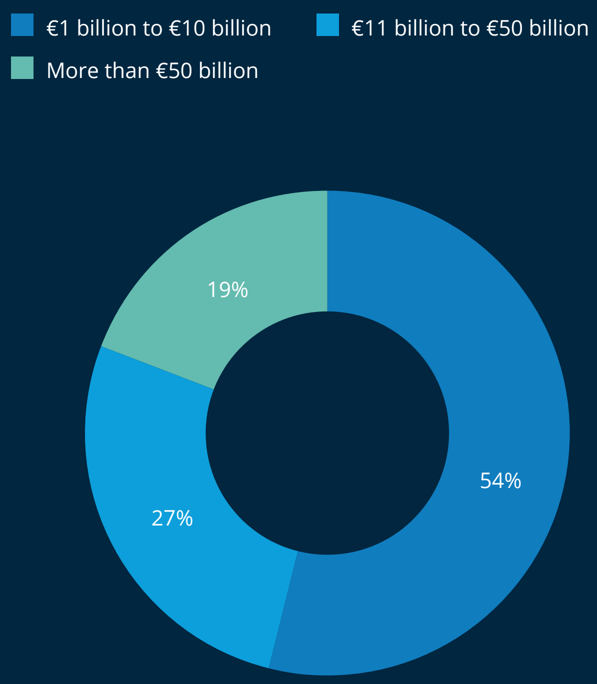
About the Research

A total of 153 private banks and wealth managers across five markets (the UK, Switzerland, Germany, Italy, and France) completed our European private bank and wealth manager survey, conducted in January 2023. Of those respondents, 40% were independent (non-bank) wealth managers, 37% were private banking and wealth management divisions, and the remaining 24% were independent (non-bank) financial advisors. In addition, 19% were large private banks and wealth managers operating across multiple European markets with more than €50 billion (US$53.4 billion) assets under management (AUM) or assets under advisement (AUA).

Respondents by Type



Respondents by AUA/AUM



Asset managers headquartered in Europe saw their private market assets continue to grow in 2022, albeit more slowly than in previous years, and their total assets under management (AUM) exceeded €2.3 trillion (US$2.4 billion) by the end of the year. Institutional investors remain the region's major allocators to private assets—European high-net-worth (HNW) and ultra-high-net-worth (UHNW) investors are still underexposed to private asset classes, although that is set to change. However, this is expected to change. Our survey of private banks and wealth managers indicated that HNW and UHNW investors' allocations to private assets will grow faster than those of traditional investors such as family offices over the next three to five years, representing a significant new revenue opportunity for asset managers. Even a few percentage point increases in HNW and UHNW investors' allocations to private assets will lead to a significant increase in the asset pool available for private investment managers.

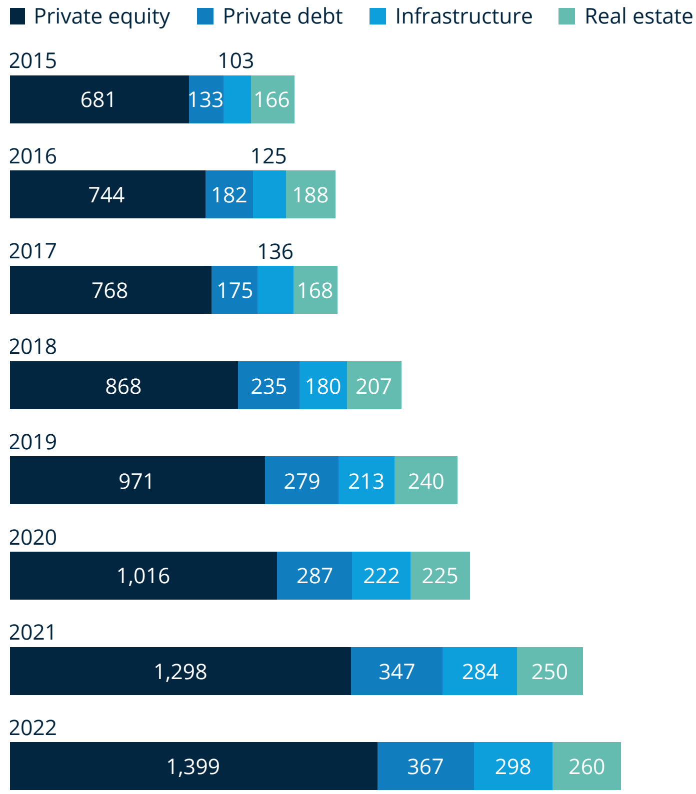
Despite HNW and UHNW investors' growing appetite for private assets, several challenges need to be addressed to speed up the democratization of private assets. Nearly half of the private banks and wealth managers Cerulli surveyed said that lack of liquidity, high fees, and clients' risk aversion are the top concerns preventing them increasing private investments within their clients' portfolios. Although none of these concerns will go away anytime soon, Cerulli believes that product innovation, more permissive regulation, client education, tech-driven distribution platforms, and tokenization of funds will help to address some of these concerns.

Rising allocations to private market assets

Private wealth allocations to private assets will continue to rise, despite some macro headwinds, although the increase will be uneven across different wealth groups. Family offices have historically had considerably higher allocations to private assets than HNW and UHNW investors. Around 45% of the private banks and wealth managers Cerulli surveyed said that family offices typically hold more than 5% of their portfolios in real estate and around 40% said that family offices invest more than 5% into private equity. However, family offices' allocations to private debt and infrastructure tend to be more limited—typically between 1% and 5% of their portfolios.

Because family offices tend to have higher allocations to private assets, they have been impacted more by the "denominator effect." Some have had to recalibrate their portfolios, reviewing their strategic asset allocations, and downsizing their commitments by selling some of their private equity funds on the secondary markets. According to France Invest data, family offices' share of total private capital raised decreased from 17% in 2Q 2021 to 12% in 2Q 2022.

Exhibit 1 | European Private Investment Assets Under Management, 2015–2022 (€ billions)

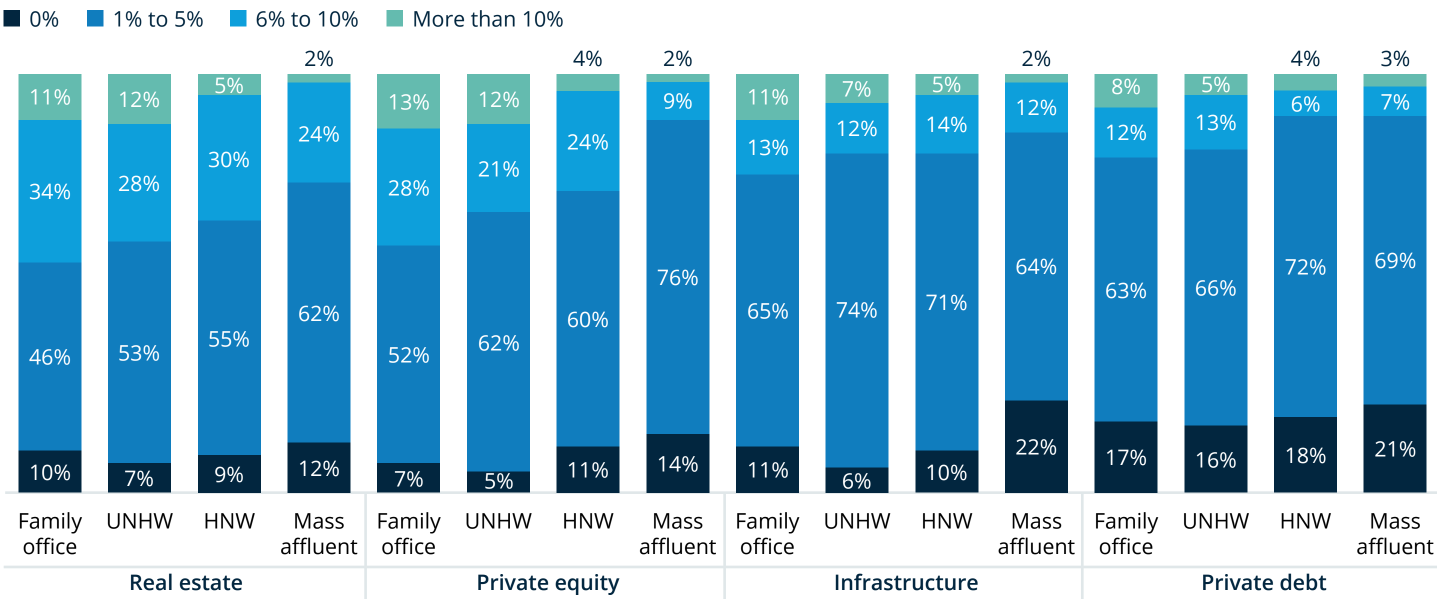


Source: PitchBook | Analyst Note: Data refers to European-headquartered asset managers' assets.

Nonetheless, most family offices will continue to seek new investment opportunities, but they will become pickier and more thematic when committing new capital. Our research shows that sector-specific funds such as healthcare, impact, and biodiversity strategies will be of most interest to these investors over the coming years.

UHNW investors generally remain well underallocated to private assets, so their allocations to private assets are expected to increase the most. They are set to increase their allocations to private assets more significantly than some family offices over the next 12 to 24 months. Private equity and infrastructure will be the asset classes most sought by UHNW investors over the next three to five years, our survey of private banks and wealth managers found. Around 45% of respondents said their UHNW clients' allocations to private equity and infrastructure will increase; only 31% expect their UHNW clients' allocations to real estate and private debt to increase (see Exhibit 2). Private debt will remain the least attractive asset class for these investors.

Exhibit 2 | Private Banks and Wealth Managers: Current Allocations to Private Assets, 2023

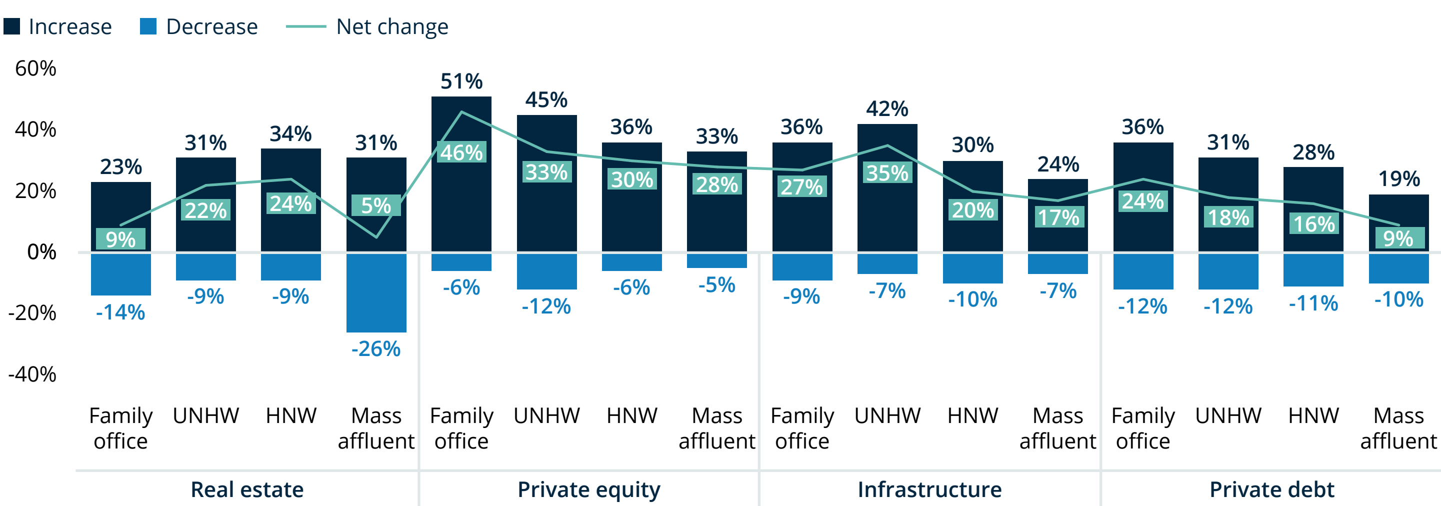


Source: PitchBook | Analyst Note: Data refers to European-headquartered asset managers' assets.

Despite the limited interest in private debt among wealth managers and their clients, we still see some pockets of opportunities for private debt asset managers—mostly in Italy and France. In these two markets, more than 30% of the private banks we surveyed plan to increase their recommended allocations to private debt for clients with moderate risk tolerance over the next 12 to 24 months.

Cerulli's research also shows significant differences across Europe. In France, real estate will be most sought after by HNW and UHNW investors. Around 45% of the French private banks and wealth managers we surveyed said that their HNW and UHNW investors' allocations to real estate will increase over the next one to three years, whereas only 5% said that family offices' allocations to real estate will increase. In Italy, in contrast, HNW and UHNW investors are expected to increase their allocations to infrastructure more than family offices. Around two-fifths (42%) of Italian private banks and wealth managers said that their UHNW clients' allocations to infrastructure will increase over the next one to three years and 50% said that HNW investors' allocations to infrastructure will increase.

Exhibit 3 | Private Banks and Wealth Managers: Anticipated Asset Allocation Changes Over the Next 12–24 Months, 2023



Source: Cerulli Associates

Overall, our research indicates that private equity managers will find most opportunities in the Swiss, UK, and German markets by targeting family offices. Private debt managers will find more success by focusing on family offices in Germany and HNW and UHNW investors in France. Real estate managers will see the fewest opportunities across all markets.

Shifting focus

Private banks and wealth managers remain bullish on private equity. Given the downturn in the market, it is not surprising that investors are chasing growth and are keen to invest in funds that offer higher-risk, higher-growth opportunities. Overall, 37% of private banks and wealth managers' survey by Cerulli plan to increase their allocation to private equity growth strategies over the next 12 to 24 months. The demand for growth strategies will be even stronger in Germany and Switzerland. Half of the German and around 40% of the Swiss and UK private banks and wealth managers Cerulli surveyed plan to increase their allocations to private equity growth strategies over the next 12 to 24 months.

Traditional buyout funds will attract a lot of interest from private banks and their clients too. Buyout managers will find most success targeting private banks and their clients in Italy, France, and Switzerland. For instance, more than 40% of the private banks and wealth managers we surveyed in Switzerland and Italy plan to increase their allocations to buyout funds.

Infrastructure is also on private banks' and wealth managers' radars. However, Cerulli's survey of private banks and wealth managers found more interest in infrastructure equity than infrastructure debt strategies over the next 12 to 24 months.

With uncertainty in public markets and increasing inflation, private debt's appeal is increasing, although demand for private debt strategies from private banks and their clients remains lower than demand for other private asset classes. Cerulli's research indicates that within the private debt space, direct lending and private placement will be the most sought-after sub-asset classes.

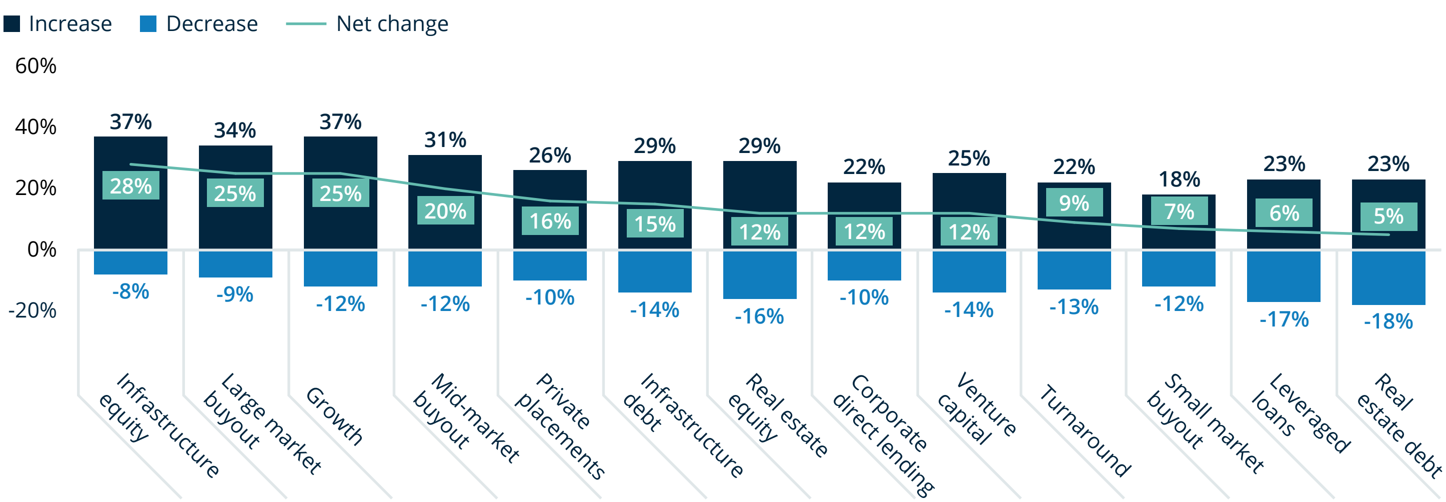
Conversely, private banks and wealth managers are least confident in venture capital funds, leveraged loans, turnaround, and real estate debt strategies over the next 12 to 24 months.

Product innovation

Many different investment vehicles provide exposure to private assets, but most product innovation is happening in the semi-liquid and ELTIF space. Semi-liquid funds typically provide some liquidity through multiple tools, including credit facilities or cash balances to fund capital calls. They are becoming more popular among wealth managers and individual investors, especially HNW and UHNW investors in the UK, Switzerland, and Italy. Half of the UK wealth managers Cerulli surveyed favor semi-liquid funds when investing in private markets. Demand for semi-liquid funds is also high in Italy and Switzerland, with around 40% of private bank and wealth manager respondents in these markets showing a strong preference for semi-liquid structures.

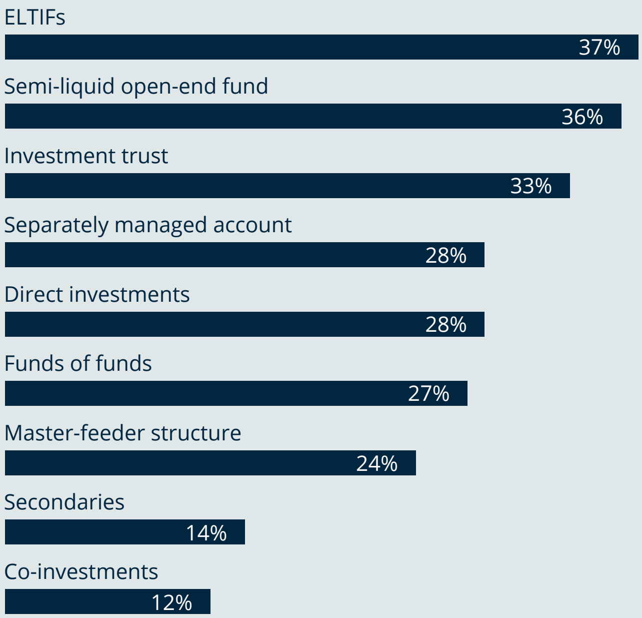
The ELTIF is another area that represents significant opportunities for asset managers targeting private wealth channels. ELTIFs are attracting increasing interest from private banks and wealth managers in France, Switzerland, and Italy. Two-thirds (67%) of the French private banks

Exhibit 4 | Private Banks and Wealth Managers: Expected Changes in Allocations to Different Private Investment Strategies Over the Next 12 Months, 2023



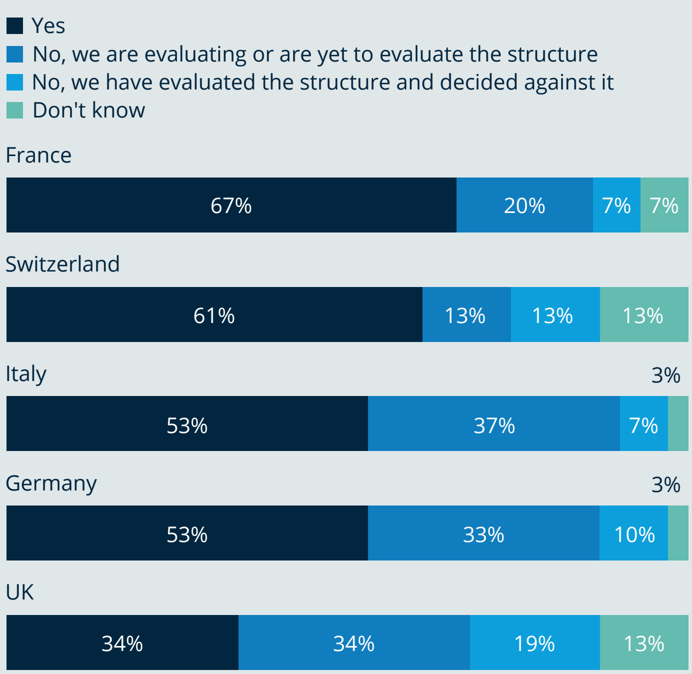
Source: Cerulli Associates | Analyst Note: Respondents were asked how they plan to change their allocations to selected private investment strategies over the next 12 months.

Exhibit 5 | Private Banks and Wealth Managers: Approaches to Accessing Private Assets for Discretionary Mandates, 2023



Source: Cerulli Associates

Exhibit 6 | Private Banks and Wealth Managers: Views on Investing in or Offering ELTIFs, 2023



Source: Cerulli Associates | Analyst Note: Respondents were asked if their firms invest in or plan to offer ELTIFs to their clients.

and wealth managers Cerulli surveyed already invest in ELTIFs, the highest proportion in Europe (see Exhibit 5). In contrast, private banks and wealth managers in the UK show less appetite for ELTIFs, with only 34% of UK respondents investing in or offering to invest in ELTIFs for their clients; they tend to favor semi-liquid funds and investment funds.

Cerulli believes that ELTIF 2.0 will offer significant market opportunities for asset managers targeting private wealth channels. Managers that have a track record in this space are set to capture most opportunities in the longer term. The revised regulation will allow ELTIFs to invest in fund-of-funds and master-feeder structures and will remove the minimum-net-worth requirement, as well as the €10,000 entry ticket. The updated regulation is expected to apply from 1Q 2024 and will be a catalyst for the launch of many more ELTIFs over the next 12 to 24 months.

The future of platforms

Although lower-wealth investors such as HNWs offer significant opportunities for private banks and wealth managers, servicing such clients and adapting products to address their needs creates certain operational challenges. Partnering with technology-driven distribution platforms could be a way to overcome these challenges. More than a quarter (27%) of the private banks and wealth managers Cerulli surveyed said that partnering with distribution platforms is a high priority for them for the next one to two years.

In addition, Cerulli's survey of private banks and wealth managers found that French and Swiss respondents are more likely to work with distribution platforms than UK-based private banks and wealth managers. Two-thirds (67%) of the French private banks and wealth managers we surveyed are likely to work with platforms, compared to only 25% of UK respondents (see Exhibit 7).

Cerulli believes that private banks' and wealth managers' increasing use of distribution platforms will provide more opportunities for asset managers to access private wealth channels. Targeting private wealth channels requires significant effort, but by using such platforms, managers could reduce operational costs as well as distribution effort and resources. Recent years have seen a rapid increase in the number of new distribution platforms launched in Europe, including PM Alpha and Mara Invest in 2021 and S64 in 2022, so managers will need to decide which platforms to partner with in the long term and which will be most trusted by private banks and their clients.

Although some platforms are new to the market, they have ambitious goals with regard to capital raising in the coming years. Some of the platforms that Cerulli spoke with plan to double or even triple their capital raised over the next 12 to

24 months. The next couple of years will be crucial for such platforms to build their brand awareness and grow their business. Our research indicates that private banks and wealth managers do not yet have any preference in terms of which platform to partner with, although some may be more hesitant to work with those that are not entirely B2B platforms.

The future of tokenized assets

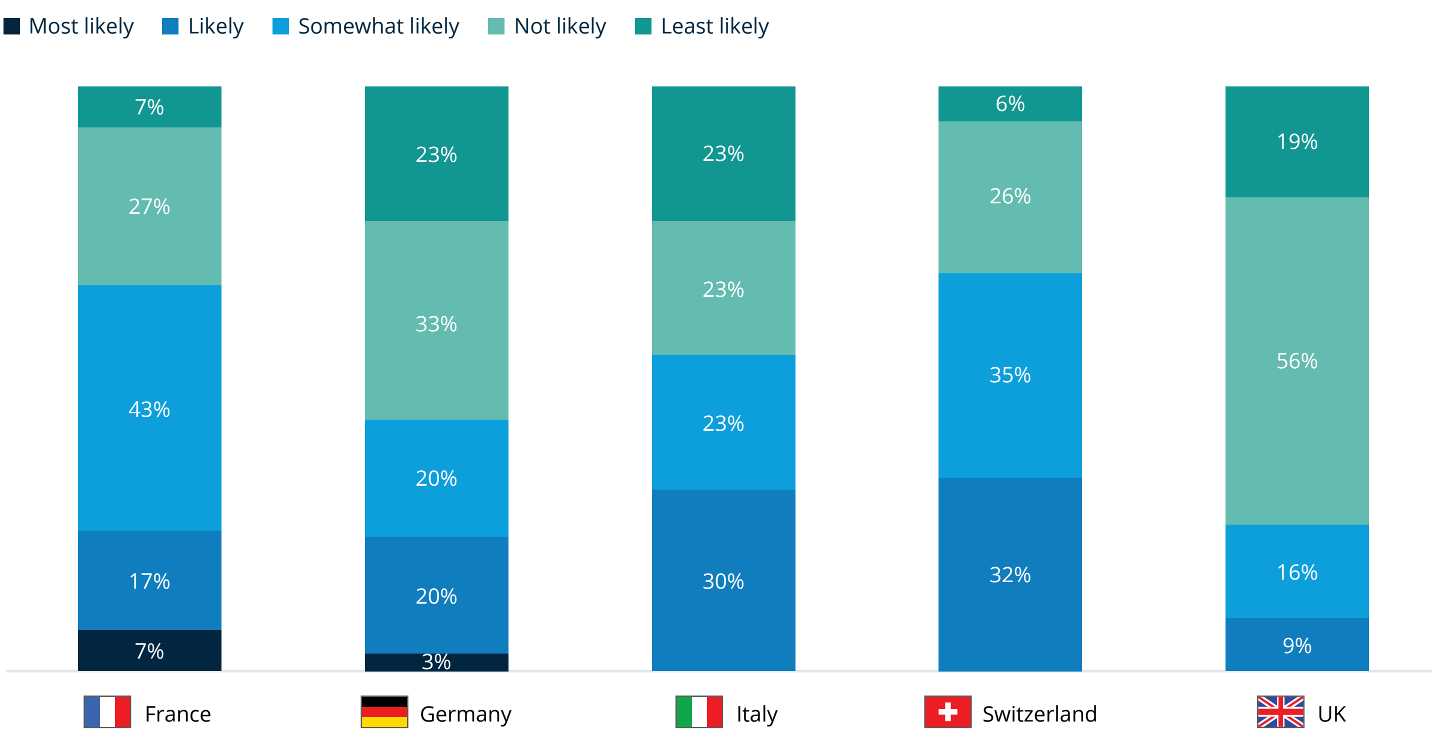
Tokenization, the process of converting private asset holdings into tradable digital securities, is a highly promising development in the market and it should help to speed up the democratization of private markets. It will allow private wealth and mass affluent investors to access private assets at significantly lower minimums; it will also open secondary market opportunities for these investors once an investment has been made. However, a lot of challenges need to be addressed to scale up blockchain-based asset tokenization. Increasing regulatory scrutiny and huge differences in regulation across key markets are among the major challenges in this area.

Asia is leading the way when it comes to private market tokenization. The ADDX platform in Singapore has already tokenized multiple funds, most recently a private equity fund of funds from Singapore-based Fullerton Fund Management. Accredited individual investors on ADDX can access the Fullerton fund at a minimum size of US$10,000, instead of the US$250,000 required through traditional, non-tokenized channels. Partners Group and Hamilton Lane are the other managers that have partnered with ADDX to offer tokenized access to their funds.

In the US, Apollo Global Management partnered with Figure Technologies to collaborate on a series of blockchain-enabled initiatives in 2021. A year later, KKR and Hamilton Lane partnered with Securitize to tokenize some their funds. However, Europe is lagging: no private asset funds have yet been tokenized in the region, but Cerulli believes it will not be long until we will see the first funds tokenized in Europe. One asset manager we spoke with said that it is looking into different tokenization platforms, however most managers will take wait-and-see approach before announcing their efforts to make their funds available on the blockchain.

However, it is not enough to have tokenized funds—it is important to find private banks and wealth managers that can onboard their clients. Currently large multinational banks remain hesitant to introduce tokenized assets to their clients, many of whom are between 50 and 60 years old and are not really interested in “innovative” solutions. In contrast, some local private banks are more open for new ideas and more likely to be interested in tokenized funds, although there are not many such banks. Overall, it may take some time to convince private banks and wealth managers in Europe that tokenized funds are a great way to access private assets at lower investment tickets.

Exhibit 7 | Private Banks and Wealth Managers: Use of Technology Platforms to Access Private Markets, 2023



Source: Cerulli Associates | Analyst Note: Respondents were asked how likely they are to use fintech platforms such as Moonfare to access private markets.

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