KEYNOTE INTERVIEW

# Taking private assets to the masses

*Product innovation and a regulatory overhaul meant 2023 was a big year for the democratisation of private markets, says Tanja von Ehrlich, head of wholesale, Real Estate & Private Markets (REPM), UBS Asset Management*

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**Q The democratisation of private equity continues to be a hot-button issue. What were the biggest developments over the last 12 months?**
Continued product innovation in 2023 resulted in many additional opportunities catering to the specific needs of private investors.

Most notably, we saw a proliferation of semi-liquid structures. These structures tend to be highly regulated alternative investment funds that offer liquidity after the initial lock-up period in more frequent increments than would have been possible in the past. We expect this trend to continue in 2024.

The regulatory regime surrounding European Long-Term Investment Funds also continued to evolve in 2023: we saw triple the number of fund launches than in the previous year.

Additionally, the ELTIF regime has been overhauled, effective from the start of 2024, and we expect to see further acceleration as a result. Industry participants were able to feed back on how the regime has been structured to date, and that has resulted in what we believe is a very sensible and investor-friendly format.

Finally, people have invested a lot of time and energy into understanding how the administrative and operational process around alternatives actually works. That isn't a straightforward process.

As a result, a lot of positive developments have taken place over the course of the last year, giving investors a more seamless experience.

**Is now the right time for individual investors to start building up private equity exposure? How are market dislocations likely to affect portfolio construction?**

It's a nuanced picture. There are pockets of alternatives that private investors may want to stay clear of right now, but there are also pockets where the timing is probably better than it has been at any point in the past decade.

We believe that private equity secondaries offers the most attractive opportunity today. High-quality LP portfolios are changing hands at compelling discounts where the existing owner either wants to sell, or has to sell, often because they are simply overallocated to the asset class. Meanwhile, GPs are turning to the secondaries market because traditional exit routes are currently challenging. GP-led secondaries transactions can help create liquidity options for LPs and are creating interesting opportunities for secondaries investors.

**The illiquid nature of private equity is a common concern for many individual investors. How can this issue be overcome?**

There is a big premium to be placed on experience. If an institution has a track record of managing semi-liquid instruments through the cycles, then that should definitely be deemed an advantage.

Investors also need to consider how liquidity is being produced within the fund. Under normal market conditions, secondaries investments, for example, produce around 10-20 percent of liquidity per annum. That is a great contribution to the liquidity buffer that is required to manage a semi-liquid vehicle. If you have an asset allocation that consists primarily of comparatively liquid private equity assets, you are not required to hold as much cash on your balance sheet as you would if you are investing in a lot of primaries or directs. Double-clicking on the precise nature of the asset allocation in these semi-liquid structures is another way in which investors can help mitigate or manage the risk they are taking.

**How do you account for the vast differences in wealth between the distinct types of individual investors, as well as their differing investment needs?**

There are a number of different approaches, each with its own merits. We choose to approach the question of asset allocation from an outcomes perspective. We start with a conversation around what the private investor is trying to achieve with their private asset allocation, be that capital preservation, yield generation or capital appreciation. Depending on those objectives, a different mix of private assets will be required. For example, if an investor

**How can market participants ensure private investors are properly educated on the risks of private markets?**

Education is absolutely key and, in particular, liquidity cannot and should not be oversold. It is important to clearly state that even with semi-liquid structures, liquidity is idiosyncratic and not systemic. In other words, investors can fall back on those liquidity mechanisms if individual circumstances require them to withdraw capital but never in times of market downturns. During a downturn, the gates of these funds will come down and investors may not be able to get all – or, indeed, any – of their money back.

People must understand that these funds are not ATMs. Private investors should think about the liquidity of semi-liquid private markets funds in the same way they would think about the liquidity of a holiday house or a vintage car – something that can be sold, but probably shouldn't be sold under duress.

Something else that private investors commonly fail to appreciate is the diversification potential of private assets. They tend to look at return expectations and liquidity terms but disregard the effect the investment can have in terms of diversifying their portfolio. As a result, there is a lot of education required around portfolio construction. Following this, it is simply a case of repeating and repeating these messages until they become as native as other investment instruments.

is looking for capital appreciation, it might be wise to hold more private equity; if they are looking for yield, more emphasis should be placed on private credit and real assets.

Having established objectives, you can then move onto rightsizing the appropriate share of alternatives compared to traditional investments. That is a function of the liquidity preference of clients, as well as risk appetite. Investors may choose to be overweight to semi-liquid structures during the build-up of their portfolio, as those funds tend to be fully paid in and so allow the investor to build exposure more quickly. They may then move parts of their allocation into illiquid funds, particularly if we are talking about intergenerational wealth.

It is important to equip private investors with the tools they need to execute on this type of structured process, starting with outcomes and then rightsizing the investment. We also believe that a multi-manager approach is crucial, enabling investors to build up market exposure in a diversified way.

### Q Why is a multi-manager approach so advantageous for private investors?

Private markets are a skilled-based asset class. The dispersion of outcomes in the top quartile of managers versus the bottom quartile is very significant indeed. Betting on the right horse at all times is extremely challenging, however, and so investors may choose to play it safe by only selecting household names. That will inevitably mean missing out on hidden gems, new managers and emerging industries that could offer outsized returns potential.

This is where multi-manager platforms can add significant value, because they monitor the universe very closely and are able to take calculated bets that can add a bit of spice to a portfolio.

Meanwhile, even if a private investor does feel equipped to take on the task of selecting the right managers, ticket size might be a limiting factor in achieving a diversified portfolio. Semi-liquid structures tend to have a minimum investment size of somewhere between €25,000 and €250,000.

By contrast, single managers typically have entry tickets of €5 million and above. Additionally, single-manager funds don't offer the same level of diversification that a multi-manager solution – which invests in between five and 20 underlying funds – is able to.

In addition, private investors working with multi-manager platforms benefit from their purchasing power and reputation. Many of the most sought-after funds are access-constrained or even completely closed to new investors. However, multi-manager platforms that have a reputation as a loyal LP are able to provide exposure to these otherwise inaccessible investments.

> *"One of the most common concerns around multi-manager platforms is that they can be costly… However, this can be a misconception"*

One of the most common concerns around multi-manager platforms is that they can be costly because you are not only paying their management fees, but also the management fees of the underlying funds – however, this can be a misconception. Multi-manager platforms not only offer significant value-add in terms of diversification, selection and access, they can also negotiate fee savings due to their commitment size. These savings can be passed on to investors.

In addition, they may benefit from access to co-investment on a no-fee, no-carry basis, further blending down fees. The cost argument therefore doesn't necessarily hold, and in our view is more than offset by the significant benefits that a multi-manager approach can bring.

### Q What is the 'right' allocation to private equity for a private investor?

If you follow the structured process that I have discussed, then anything between 10 and 40 percent can make sense. We often hear that the right number is around 20 to 25 percent for a client with moderate risk appetite. However, it is a highly individualised decision, so it can be hard to generalise.

We certainly see some ultra-high-net-worth and family office investors with allocations that are significantly higher – in the range of 30 to 40 percent.

However, in the affluent and high-net-worth space, allocations still tend to be in the single digits. If these investors could move towards the 20 percent mark, that would certainly represent a step in the right direction in terms of diversifying their portfolios. ■