

Ignites Europe - Retail investors in private assets 'next growth driver'

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By Dom Lawson

Alternative products for retail investors including private assets are becoming one of the most important growth drivers for the fund industry, with assets under management in Europe expected to double in the next three years, according to Indefi.

Research from the fund industry adviser forecasts that the assets under management of European retail alternative funds through third-party distribution will increase from €360bn in 2020 to €680bn in 2025.

The research also estimates that retail investors in alternatives will provide €16.5bn towards the revenue opportunity of European asset managers, an increase of €3.5bn from 2020 to 2025.

Christel Tarneaud, senior engagement manager at Indefi, says retail alternative funds are one of the key future growth drivers for the asset management industry.

"Europe is starting to see the shift that has already happened in the US, where key players like Blackstone, KKR and Apollo are looking to retail investors as the next growth driver," she says. "There was a shift from institutional investors to private wealth, then to retail."

Indefi says in its research report that retail alternative funds "are now facing a reckoning" due to regulators opening the door to private markets investments by individuals, which is also encouraged by the low-rate environment.

It points to the introduction of the European Long-Term Investment Fund and the UK's Long-Term Asset Fund as examples of these regulatory developments.

"This places asset managers at the crossroads of two promising business opportunities: private asset investments and private wealth investors," the firm says.

It adds that global private asset platforms with established US wealth distribution are turning their eyes to Europe, while an increasing number of local firms are also looking at retail alternative funds.

To capitalise on this opportunity, Ms Tarneaud says asset managers will need to address retail clients in different ways.

"Institutional clients are very sophisticated, whereas retail investors are going to look at the investment story and the marketing material," she says.

Indefi says the rise of retail alternative funds "will spell a reset for alternative managers," as a successful institutional footprint may be difficult to replicate due to the nature of the retail

market, the role of financial intermediaries and the idiosyncrasies of local demand.

“Paradoxically, new market entrants – global asset managers, wealth managers, digital platforms – may find that a blank slate could be the ideal launching pad for an ambitious, disruptive strategic push,” the firm says.

The report recommends that asset managers build an investor-centric offering, curating successful private wealth products for individual clients rather than copying institutional strategies.

It says they should design a scalable distribution strategy by either taking a pan-European approach, a deep retail approach, building in-house capabilities or relying on partnerships.

Indefi also encourages asset managers to harness the power of digital.

“Retail investors have taken centre stage in the past few months and underlined the huge disruption potential that still exists in the asset management industry,” it says.

The firm says investor-oriented digital platforms are becoming mainstream, while the recent rise of direct-to consumer players is proving disruptive to the asset management industry.

It adds that new technology, such as blockchain and tokenisation, “could prove to be the key to overthrow the status quo and redefine asset managers’ entire business model”.