

PERSPECTIVES

RETAIL ALTS: READY FOR PRIME TIME

The rise of retail investor demand for private market exposure

Long reserved for institutional investors, the gates of private markets have cracked open for individual clients. For asset managers, this uncharted territory lies at the crossroads of two of the greatest business opportunities of this decade: private asset investments and private wealth investors. In Europe, the early flurry of activity has caught the attention of providers of all shapes and sizes. But more than any other, retail alts are a high stakes play. Asset managers keen to throw their hat in the ring not only need a strong hand; they will need to play it right.

The rise of retail alts

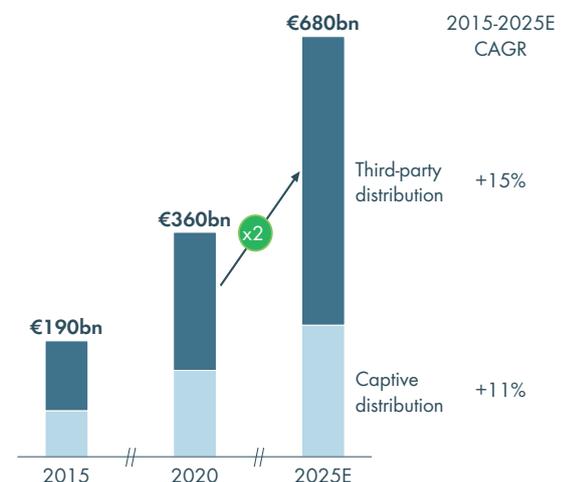
Retail alts are not a new market. Private banks across Europe have long secured access to institutional-grade private asset strategies for their high-net-worth clients. Mass-affluent investors, meanwhile, can gain exposure to real estate through domestic fund structures adapted to retail investors' risk appetite.

In terms of pure size, the market is substantial. But it remains constrained, highly local, deeply fragmented, burdened by stringent regulations intended to protect individual investors.

Retail alts are now facing a reckoning. Galvanized by the persistent low-rate environment, regulators have opened the door to private market investments by individuals. Adapted fund formats were introduced to facilitate pan-European distribution (ELTIF, 2015) and accelerate the inclusion of private assets in long-term retail savings vehicles (LTAF, 2021).

Third-party Retail Alts AuM will double by 2025

Growth of European Retail Alts AuM



Scope: Western Europe (incl. UK). Source: Indefi analysis.

Providers across the value chain have been quick to seize the opportunity. DC pension funds, faced with demographic pressure and a challenging investment environment, are all too keen to rebalance their allocations towards sources of enhanced yields. Distributors see in private assets a way to enrich their offering with exclusive, high margin products. Finally, insurers are actively encouraging product innovation, in the hope that artfully crafted offerings could serve as a long-awaited substitute to the guaranteed products weighing on their balance sheets.

Asset managers are rising to the challenge. Across Europe, institutional-oriented private asset managers are turning to the retail market to diversify their client base and access new growth drivers. Global private asset platforms with established US wealth distribution are setting their eyes on Europe, swayed by the scale potential allowed by regulation and booming demand. And a growing number of local incumbents are gearing up to deliver private market exposure to their captive networks.

What it takes: winning in this new market

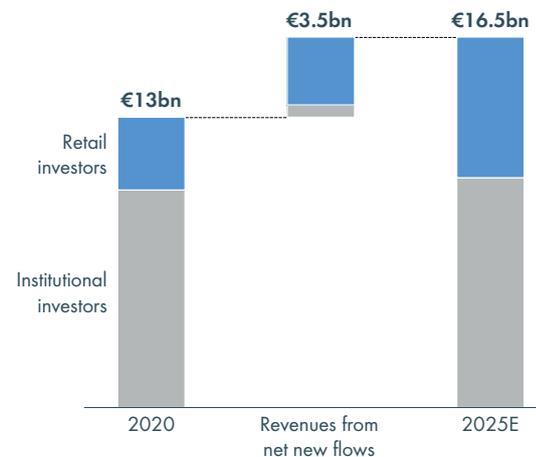
The rise of retail alts will spell a reset for alternative managers. Those that are betting on their established institutional footprint to give them a leg up in the retail market will find that success will not be easily replicated. The nature of the retail market, the pivotal role of financial intermediaries and the idiosyncrasies of local demand advocate for a retail-specific approach that can hardly be cast in an institutional mold. 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.

For asset managers seeking to play in one of Europe's most promising new markets, there is no silver bullet. However, winners will follow the three following principles:

- **Build an investor-centric offering:** copycats of institutional strategies won't cut it. Successful products in the private wealth space will be curated for individual clients across the full value chain: investment strategy, fund structure and labels, ESG proposition, marketing, reporting, client delivery... Multiple recent launches of multi-private asset products and liquid-illiquid hybrid funds provide telling examples of the success with which such strategies can meet.
- **Design a scalable distribution strategy:** Europe is by nature a fragmented market; this is all the truer in the retail space. Building distribution scale can be done in several ways: going broad (pan-European) or going deep ('deep retail'); building in-house capabilities or relying on partnerships. For asset managers, understanding the intricacies of European markets to weigh available options and select the one that best plays to their strengths is the surest way to maximize fundraising potential. Incorporating the distribution element early on in the product design phase is also key to ensure access to local growth accelerators (e.g. unit-linked insurance).
- **Harness the power of digital:** Retail investors have taken center stage in the past few months and underlined the huge disruption potential that still exists in the asset management industry. In the retail alts space, this will take many forms. Investor-oriented digital platforms (product information, investor education, marketing, reporting) are long overdue and quickly mainstreaming as US best practices make their way across the ocean. More disruptive to the industry is the recent rise of D2C players: while many are still positioned as financial intermediaries, new technology (blockchain / tokenization) could prove to be the key to overthrow the status quo and redefine asset managers' entire business model.

The revenue opportunity for asset managers will be driven by retail investors

Private assets revenue opportunity*



(*) Annual revenue pool for asset managers on third-party private asset investments - net of rebates and performance fees.
Source: Indefi analysis.

Indefi, with headquarters in Paris and New York, is a leading strategy advisor for the global investment management business. Established in 2007, Indefi helps asset managers shape their business strategies and build a sustainable competitive advantage. The firm's expertise spans public and private markets, including infrastructure, private credit and equity, and real estate. A pioneer in advising asset managers on ESG development and integration strategies, Indefi is a PRI signatory. For more information, please visit www.indefi.com.