NEXTWEALTH

Private Market Assets

Opportunities and barriers in traditional investment decision-making

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Foreword from our sponsors

AVIVA INVESTORS

As an international multi-asset solutions house with reputable real asset expertise and firm level commitment to sustainability, we are constantly innovating to meet customer needs. Given the recent challenging market environments, we are seeing increased interest in private market exposure within client portfolios. This report highlights a significant disparity between the UK and global markets in terms of private market asset allocation, with only 2% of UK advised client assets invested in this sector compared to 15% globally. This gap underscores the need for greater awareness and access for the intermediated market.

We believe our private market strategies offer unique opportunities for diversification, income generation, and risk management, particularly in an environment where public market options may be more limited and the economic environment is more challenging. The report's findings highlight the growth of private market assets, making a compelling case for their inclusion in investment portfolios.

However, the report also identifies several barriers to the adoption of private market assets, including regulatory and client suitability concerns, liquidity issues, and a lack of familiarity among advisers and clients. Addressing these challenges is essential to unlocking the full potential of private market investments. We are actively working with the government on various initiatives, such as the Mansion House compact and the Long-Term Asset Fund (LTAF), to be at the forefront of supporting and expanding access to private market strategies. Our firm level focus on sustainability issues is also integral to these efforts, to align with broader environmental and social goals.

Our interest in supporting this report stems from a belief of providing clients with more information on the range of innovative solutions and the significant potential diversification benefits that private market assets has to offer. By fostering a deeper understanding of these investment strategies, we strive to help clients achieve their desired investment outcomes. This report is a step towards that goal, providing valuable insights and practical recommendations for overcoming the barriers to private market investing.

FRANKLIN TEMPLETON

Investing in Private Markets is a subject that appears with increasingly regularity across the wealth and adviser market within the UK, and at Franklin Templeton, we are convinced in the importance of the role private assets can play within client portfolios. However, as this report discovers, less than 2% of advised clients within the UK currently have private markets exposure, way below the global average. Almost two thirds of advisers asked never raise private market investing with clients, but why, and how can we as an industry address this?

Franklin Templeton is delighted to be a key sponsor of this report, which aims to outline the key benefits of private markets exposure (diversification, performance, hedging, income generation etc). Indeed, as public markets continue to shrink in size, the case for private market investing is only amplified.

The report then goes on to highlight, through in depth client engagement, the key barriers to entry that advisors face when allocating to this area of the market. Whether Liquidity concerns, structural barriers through platform availability, a lack of end client understanding, price burdens and limited risk ratings available, all these are areas that we feel the industry needs to understand and tackle, to allow our end clients to have a better understanding and access to this key asset class.

The benefits of private asset investing are too stark to ignore.

Schroders capital

This report highlights important findings on UK advised client allocations to private markets, which are significantly lower than global averages. This has been attributed to a number of barriers, which are often cited, but are now being broken down via FCA rule changes, new UK authorised private markets fund structures, such as Long Term Asset Funds (LTAFs), and technology, which are turning the tide on private market accessibility for advised retail investors.

For UK advisors, the investment case is clear, private markets can offer a number of potential advantages to portfolios, from return enhancement, to income, to reduced risk, to diversification via differentiated drivers of returns. Investors focussed solely on public markets risk missing out, particularly when accounting for trends such as the declining number of companies on listed stock markets and businesses staying private for longer. Alongside investment benefits, we believe, where suitable, private markets can be a valuable proposition enhancement for UK advice firms, allowing for differentiation in order to both retain and compete for higher net worth and/or more sophisticated clients, who are demonstrating a growing appetite for investing in private assets.

Away from VCT/EIS/SEIS investments, we appreciate that many advisory firms we speak to are at the start of their journey into private markets, and as such, Schroders is committed to partnering with UK Advisory firms to help their clients access this growing part of the investable universe.

Executive summary

Advised client allocation to private market assets

One fifth of financial advisers have clients with investments in private market assets.

Of these, 17% of the client portfolio is invested in private market assets.

When averaged across all advised clients the share of assets allocated to private market assets falls to 1.8% - far lower than the 15% global average.

Availability and applicability of product wrappers is seen as a hygiene factor when selecting suitable investment products.

Financial advisers including private market assets in client portfolios typically do so via multi-asset funds and holdings in off-platform private equity.

The case for investing in private market assets

A decrease in the number of publicly traded companies has narrowed the range of public market investment opportunities, while prompting more companies to seek capital in private market assets.

Performance trends in the asset class.

Private equity has shown strong historical returns compared to public markets over the long-term. This is due to the ability to invest in younger companies that remain private for longer periods, maximising growth before going public. This has contributed to the consistent outperformance of private equity.

Diversification is critical to helping clients achieve their financial goals. Financial advisers say diversification of investment portfolios is core to the value they offer clients.

Structural changes in capital markets mean that there is a shrinking pool of listed businesses and companies are listing later. This has the potential to reducing the availability of the underlying asset pool, increasing investment risk. As a result, there is a case to be made that access to a great number of private market assets will be increasingly important in order to achieve true diversification.

Financial advisers increasingly rely on outsourced investment expertise, in the form of DFMs or multi-asset managers. There is an assumption among many financial advisers that investment solutions are already properly diversified. Providers of private market assets must work closely with solution providers to position the benefits of private market assets within a fully diversified portfolio to cut through well-established assumptions.

Barriers to including private market assets in client portfolios

57% of financial advisers perceive the most limiting barrier to private market assets is an increased regulatory and compliance burden. While investment performance is important to clients, advised clients are also fairly risk averse. This has inhibited demand among advised clients of private market assets.

There are three further groups of nuanced barriers that can impact the likelihood of financial adviser uptake: investment, structural and client-related barriers.

Investment barriers: Liquidity concerns (clients not being able to access investments easily); price sensitivity (client challenges to their adviser about the charges linked to specific products); and uncertainty of how to value private market assets within the portfolio,

Structural barriers: Product providers point to a lack of platform functionality to support private market assets. However our research suggests that most financial advisers are happy for platforms to remain the domain of liquid assets. Private market assets can make up a component of a multi-asset fund on platform or a private equity fund held off-platform. Many providers suggested that if the capability existed to allow for period dealing, such as through an LTAF that this would support take-up.

A structural barrier that was raised consistently was the dominance of risk ratings agencies in building a CIP and client portfolio – as one financial adviser said: “it is just a lot harder to assess the risk of a non-public investment”

Client related barriers: A lack of education and familiarity with private market asset investing among financial advisers, means that the asset class is missed or overlooked. Another barrier to uptake is the typical target market for clients of financial advisers. Many see the asset class as too risky for clients in decumulation whilst younger clients with a longer investing time-horizon are typically not the target market for financial advice firms.

Lack of pro-active adviser-client discussions of private market asset investment options, with nearly two thirds (64%) of financial advisers not raising private market investing with clients compared to just 2% who always discuss it.

Contents

Introduction

Only 2% of UK advised client assets are invested in private market assets. That compares to 15% globally. Why the difference? This paper sets out to explore attitudes and approaches among UK financial advisers when it comes to private market investing and establishes the investment case at a high level.

Private market investing is attracting headlines. Governments are looking at ways to unlock capital to fund growth initiatives, and investors are looking to minimise risk through diversification while maximising investment returns. In the UK, though, take-up of private market investing is lower among clients of financial advisers than in other markets.

This purpose of this paper, kindly supported by Aviva Investors, Franklin Templeton and Schroders, is two-fold:

- Identify the barriers to investing in private market assets and what needs to be done to overcome them; and
- Raise awareness among financial advice and wealth management firms of the investment case for private market assets.

This report does not seek to advocate for private market assets, but is meant to be of value in gauging the potential for the asset class. NextWealth's aim is to provide insight into financial advice firm behaviours and preference. We report on investment propositions and the factors influencing choice. This report shines a light on the reasons why financial advisers recommend private market assets and the reasons they don't. Firms can use this report to gauge whether to include private market assets in their investment proposition and factors to consider when recommending them to clients.

It is important that we start by defining terms.

Private market assets

The investment of capital in unlisted, privately owned, companies. This includes private equity and private credit. We consider private market assets to be a sub-class of alternatives which would also include infrastructure, property, commodities and currency.

Hypothesis and critical questions

At NextWealth, we take a hypothesis-driven approach to report writing. Our hypothesis, when embarking on this research, was that private market assets will form a larger part of retail investor portfolios in the medium to long-term, particularly for high and ultra-high net worth individuals.

The following are the critical questions we seek to answer in the report:

1. What are the main factors influencing the investment solution choice by CIOs of advice businesses in relation to a CIP?
2. What are the main barriers to including private market assets in UK growth client portfolios?
3. Do the main benefits of private market investing resonate with financial advisers and wealth managers?
4. What can providers do to help support advice businesses and discretionary/wealth managers looking to recommend private market assets?

Methodology

The analysis in this report draws on NextWealth's on-going research in retail wealth.

We also undertook dedicated research on this topic, including:

- Survey of 100 financial advisers in July 2024.
- In-depth interviews with 10 investment decisions-makers at financial advice firms.
- Roundtable with a mix of representatives from across the value-chain including representatives from DFMs, financial advice firms, asset managers and financial advice investment committee members.
- Analysis of Investment Association data.

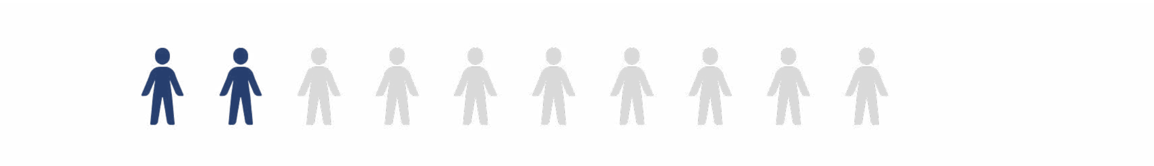
1. Advised client allocation to private market assets

This section estimates financial adviser use of private market assets, drawing comparisons to global averages. The report then projects future growth of private market asset markets.

1.1 Current market size and expected future allocation to private market assets

One fifth of UK financial advisers have clients with investments in private market assets. Among these financial advisers, 9% of their clients have an allocation to private market assets, which on average makes up 17% of those clients' portfolios. This equates to less than two percent of advised clients with an allocation to private market assets.

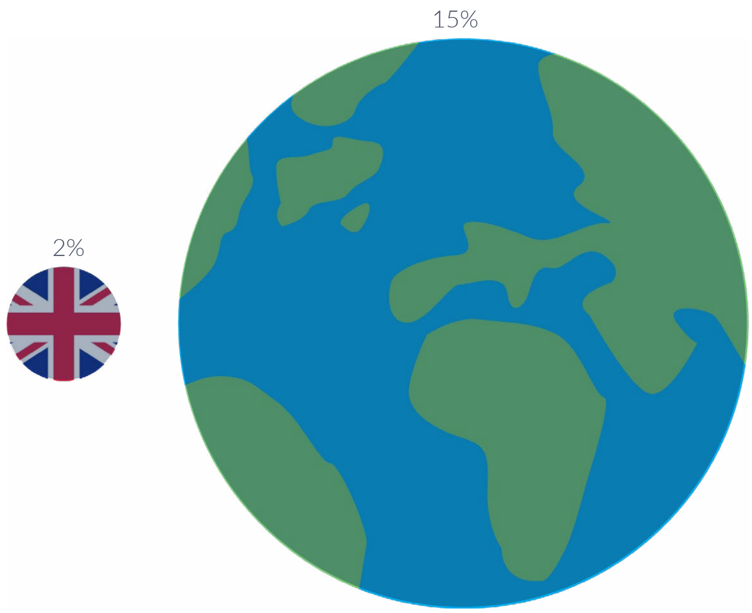
Figure 1: 20% of financial advisers have clients invested in private market assets



Financial advisers working in larger firms, with more than 10 financial advisers and more than £500m in AUA, are more likely to have clients invested in private market assets. From other on-going NextWealth research, we know that larger firms are also more likely to have education programmes for financial advisers that support a wider investment proposition, and they are also more likely to have central resources for research and portfolio building. Education and awareness are key to uptake and so we are therefore not surprised that uptake is higher in these larger firms.

Of those that do allocate to private market assets, an average of 17% of the client portfolio is invested in these. This roughly matches the global average of 15% according to CapGemini's 2024 World Wealth report[1]. This suggests that those investing in private market assets have an allocation in line with global averages. But, averaged across all advised clients, the share of assets allocated to private market assets falls to 1.8% - far lower than the 15% global average, suggesting that UK advised clients are underexposed relative to global benchmarks.

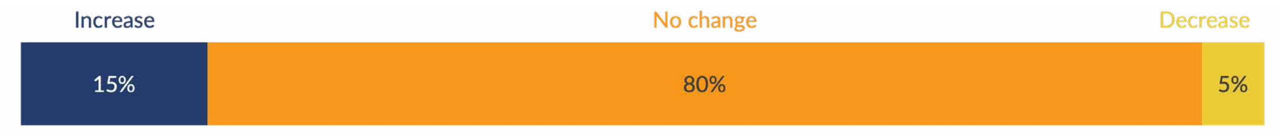
Figure 2: UK advised clients allocation to private market assets is dwarfed by the global average



[1] *CapGemini's 2024 World Wealth report. June 2024 (https://www.capgemini.com/insights/research-library/world-wealth-report/)*

Most financial advisers say that client allocation to private market assets has not changed in the past 12 months. Looking ahead, 15% expect it to increase.

Figure 3: 15% of financial advisers expect to increase client allocation to private market assets in the next 12 months



This report aims to explain the reasons UK clients allocate less capital to private market assets than their global peers and sets out the investment case for private market assets.

1.2 Product wrappers for private market assets

In our interviews and roundtable discussion we explored the hierarchy of factors that shapes whether or not private market assets are selected as part of the client's investment portfolio. Product wrapper availability is seen as a hygiene factor.

The most common wrappers used to access the asset class were pension wrappers and standalone products using multi-asset funds and off-platform private equity. One of our interviewees mentioned investment trusts as an established and accepted mechanism for accessing private market assets.

"I can see a role for private assets in portfolios for clients accumulating wealth. They have long time horizons and so don't need daily dealing. I could see that sitting well inside a multi-asset fund."

– CIO, large financial advice firm, >£8bn AUM

"If you look at some of the multi-asset strategies, you can access some investments in a conventional way that invest in non-conventional non-listed investments. People tend to do that, because they want non-correlated returns. Particularly with the lower growth expectations of public markets, there is a potential for growing demand for private assets that are going to behave in a slightly different way."

– COO, large financial advice firm, >£10bn AUM

"I think as people have recognised that probably the next macro period is going to be one of lower growth, suddenly those private market returns, particularly around private equity, look more interesting. And investment trusts provide an accepted median that advisors have been using for years to access those vehicles."

– Chief Product Officer, financial advice business, >£10bn AUM

"We run a preferred list of stocks and bonds but there is no exposure to private market assets at present. We do hold infrastructure and some other alternative assets, but this is all either publicly listed or via a fund."

– Investment manager

2. The case for investing in private market assets

In recent years, the landscape of capital markets has shifted significantly. One of the clearest trends is the declining number of public listings, with fewer companies choosing to go public compared to previous decades.

75% decrease
Companies listed on the LSE from 1960s to the end of 2022

20%
Fewer companies listed on the LSE in the past decade

£120 billion
Net reduction in public UK equities this year, third consecutive year of decline

Source: World Economic Forum, April 2024 (https://www.weforum.org/agenda/2024/04/equities-stock-market-health-investing/)

This decline in public listings has not only reduced the investment opportunities available on public markets but has also pushed an increasing number of companies to seek capital in private markets. As a result, private markets—including private equity and private credit—have emerged as new avenues to explore for long-term investors who are seeking greater portfolio diversification and higher returns.

2.1 Benefits of private market investing

This section explores the benefits of investing in private market assets.

Benefit 1:

Superior historical returns

Private equity has consistently outperformed public markets over the long-term. The chart below illustrates the strong historical returns generated by private equity investments relative to public market indices. By investing in private market assets, clients of financial advisers can tap into the growth potential of early-stage companies, many of which stay private for longer and experience significant value growth before considering public listings. Past performance is of course not indicative of future returns, and a return of a higher interest rate environment may impact on this performance record, but private equity has outperformed over a sustained period of time.

Figure 4: 20-year private equity returns consistently higher compared to public market

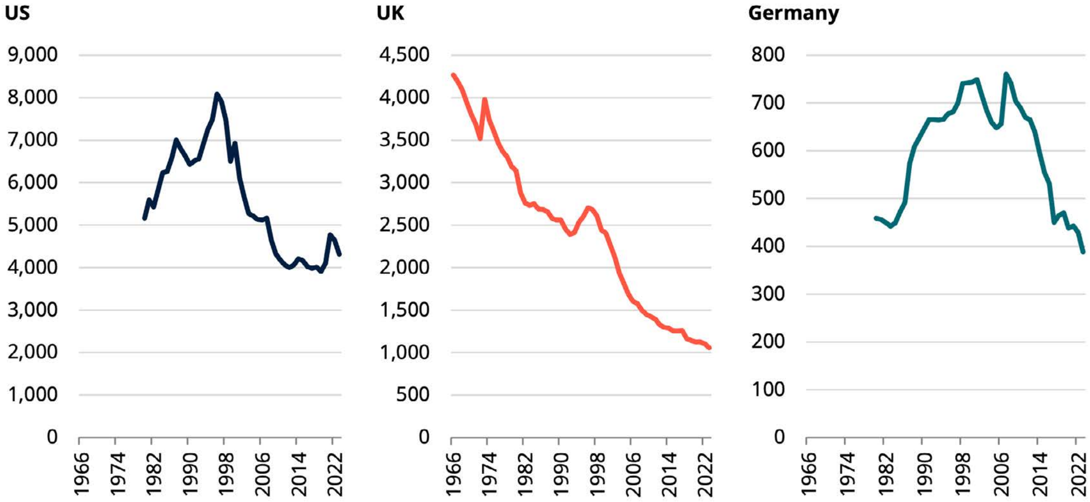
Source: Hamilton Lane Data, Bloomberg (July 2024) (https://www.hamiltonlane.com/en-us/education/chart-of-the-week)

Benefit 2: Diversification

Diversification is critical to helping clients achieve their financial goals. In our Financial Advice Business Benchmarks study, it ranked as the most important component of advice to clients.

There is a growing body of research suggesting that in order to achieve a truly diversified portfolio, investors should have the option to invest in private market assets. Part of the reason is the structural change in capital markets with fewer listed businesses. According to analysis from Schroders, in 1996 there were more than 2,700 companies listed on the main market of the London Stock Exchange. By the end of 2022, this number had dropped dramatically to just 1,100, representing a 60% decline. A shrinking pool of listed companies may lead to a lack of diversification and increased investment risk.

Figure 5: Fewer companies are listed on major stock markets than in the past



Source: LSEG Datastream, Schroders, World Bank Development Indicators, and World Federation of Exchange. Adding return and lowering risk with private assets September 2024. UK data is for main market of the London Stock Exchange only. December 2023.

As a result, there is a strong case to be made that access to private market assets will be increasingly important to deliver proper diversification. However, there is a case to be made that due to an increase in financial advisers outsourcing the investment decision-making, many believe that their client assets are already properly diversified: 51% are very confident and 49% are quite confident that client assets are properly diversified. This presents a challenge to providers of private market assets, around how they communicate the benefits and inclusion of these within composite solutions to ensure they cut through the current inertia of uptake. Communications must also work harder to motivate consideration of the asset class against the entrenched confidence of current solutions.

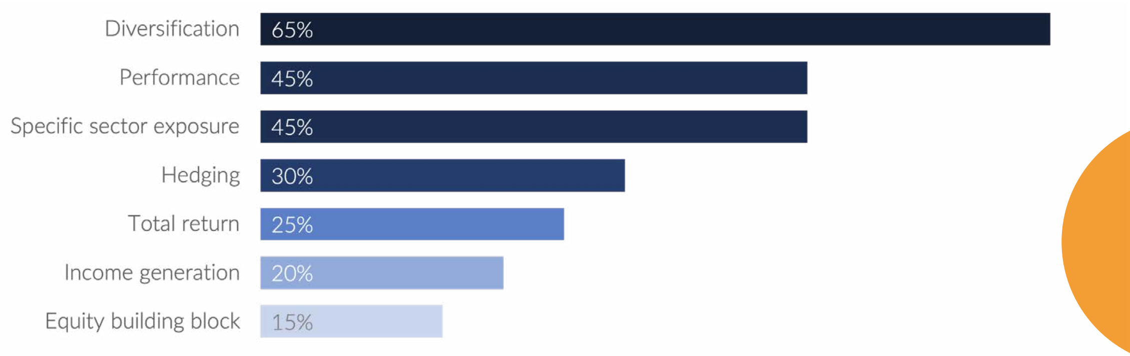
Figure 6: Confidence that client portfolios are properly diversified

Providers of private market asset products will also need to bring the solutions providers on board. Many DFMs are launching multi-asset funds, a wrapper that will allow them to hold private market assets without dealing with the complexities of daily liquidity.

2.2 Financial adviser reasons for private market assets inclusion in client portfolios

We asked the 20% of financial advisers who do include private market assets in client portfolios for their top three reasons why. The results were clear – diversification, performance and sector exposure. This demonstrates that financial advisers who understand the rationale align closely with the arguments for investing in private market assets established in section 2.1.

Figure 7: Top financial adviser reasons for including private market assets in client portfolios, n=20



We saw earlier that financial advisers overwhelmingly believe that client portfolios are well diversified. There is a tension between that view and the perspective of financial advisers using private market assets, who say the #1 reason is diversification. Financial advisers typically outsource investment research and choice to a DFM or multi-asset provider. We would argue that most won't understand 'what's in the bag' of funds because they are mostly concerned with achieving client goals rather than the underlying composition of how that is achieved.

In our interviews, financial advisers suggested that more sophisticated or wealthier investors might be open to investment in private market assets, particularly for tax management and longer-term time horizons.

> *"The target market is niche clients who genuinely want something very high risk for investment purposes rather than tax purposes. Conventionally, if you think about it as a standalone product or investment case, then it would be a more sophisticated, wealthier investor that understood some of the risks."*
>
> -CIO, Financial advice business

Several also recognised the investment argument, that there may be potential for higher returns from private market assets.

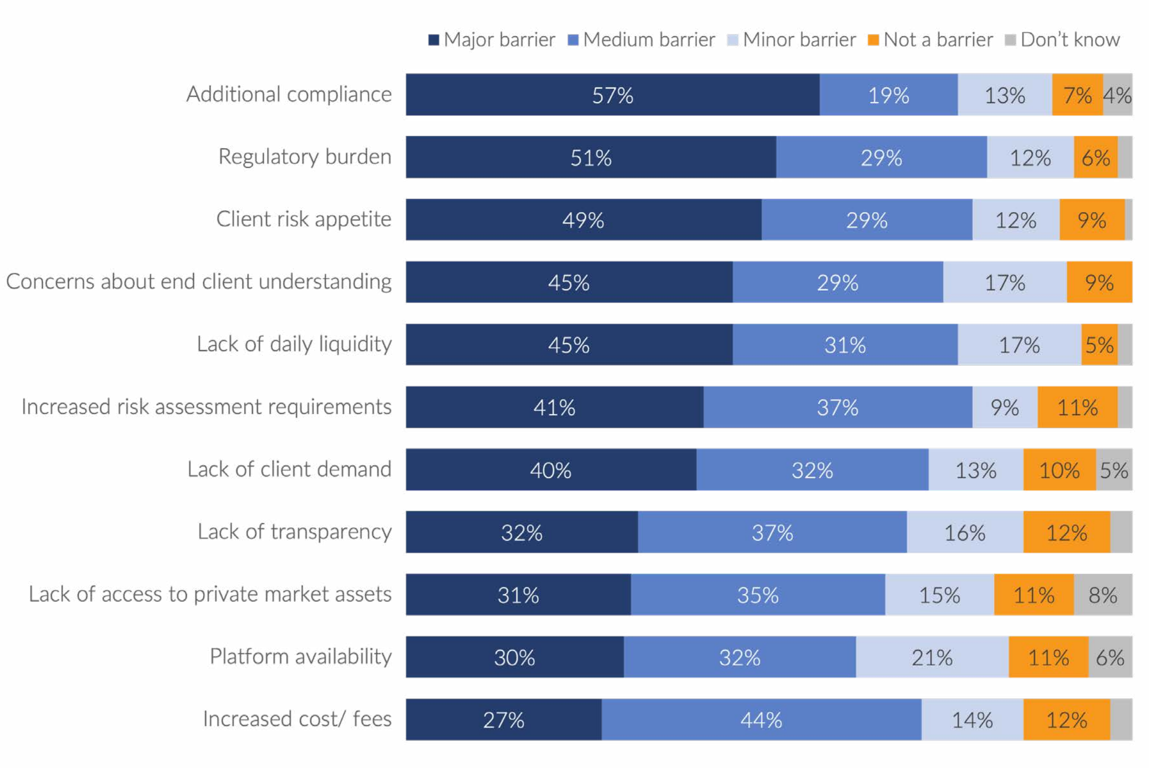
> *"Advisers want non-correlated returns. And I think that, particularly with the lower growth expectations of public markets, will possibly lead to a potential for growing demand for private assets that are going to behave in a slightly different way."*
>
> -Financial adviser
>
> *"Whilst there are numerous and wide-ranging factors to take into account for any investment that we would hold in our portfolios, liquidity and diversification being key amongst these, the potential risk-adjusted returns are usually the most potent. Using risk in the most efficient way possible is essential to creating diverse portfolios that contain minimal excess risk factors."*
>
> -Investment manager

3. Barriers to including private market assets in client portfolios

Through our research we identified a number of key barriers to financial advisers including private market assets in client portfolios.

In our survey with financial advisers, we provided a list of barriers and asked the significance of each. The list, illustrated in Figure 8, illustrates the concern that recommending private market assets to clients will result in additional work for regulatory and compliance reasons. The next most common reason is the client risk profile – with few advised clients seeking higher returns through greater risk taking. Client understanding is another concern that also came up in our interviews, likely heightened by new requirements under Consumer Duty.

Figure 8: Compliance and regulatory work are the top perceived barriers among financial advisers



Platform availability is often cited by providers as a key barrier to uptake of private market assets. This factor ranks among the least important barrier among financial advisers a sentiment echoed by our interviews. If private market assets remain invested in multi-asset funds or in off-platform private equity funds, the daily dealing requirement of most platforms is not an issue. If portfolio managers and financial advisers seek to access instruments with periodic liquidity such as long-term asset funds (LTAF), platforms will need to add additional functionality to support that.

We explored barriers to recommending private market assets in our in-depth interviews and roundtable discussion for this paper. We have grouped these into three categories: investment, structural and client-related. We explore each in turn.

3.1 Investment-related barriers

Liquidity

Investment need

Daily liquidity is not needed for most, but clients require confidence in being able to easily access their investments when they need to to feel in control and reassured.

Barrier

Financial advisers tend to work with retired clients or clients nearing retirement. They say they need to re-assure clients that the money will be available as and when it is needed.

Implication

Appeal is diminished among financial advisers who perceive illiquidity and value conveying 'control' to clients.

"None of our clients want to get into something they can't easily get out of. So, yes, liquidity matters to them an awful lot."

-Financial adviser

"My clients remember the global financial crisis when they couldn't get money out of property funds. I can't let that happen again."

–Head of Intermediaries, DFM

"Liquidity is the biggest obstacle. If I couldn't sell an investment immediately, that is what a client would fire me for."

- Investment manager

Price Sensitivity

Investment need

Clients want to know what they are paying for is value for money even when investments are outperforming.

Barrier

Clients are sensitive about product charges especially for unfamiliar/niche investment solutions.

Implication

Financial advisers perceive private market assets as more expensive and are wary of client challenges on price.

"We work with a number external parties to come up with a strategic asset allocation. And then at the moment, it is this very traditional model of then going and trying to get the best elements of that as cheaply as possible."

- CIO, financial advice business

"Clients challenge our charges and go through it line by line. Anything that seems out of line – regardless of performance – will get called out".

– CIO, large advice firm, >£8bn AUM

Valuations

Investment need

Financial advisers require an easily understandable process of investment valuation in order to illustrate performance and value to clients.

Barrier

Financial advisers lack understanding about how private market asset valuations are constructed and tested.

Implication

Financial advisers require communications from providers which clarify the source of valuations and the expected maturity of investments.

"But the specific challenge for private assets is who's doing the valuation? How does that work?"

- Financial adviser

"Most private equity, capitalisation events were through either a trade sale, or through an IPO if they were big enough. Now more transactions happen between PE firms, and those valuations are hard to test....it becomes an issue when you can't demonstrate growth".

- COO, large advice firm, >10bn AUM

3.2 Structural barriers

	Compliance concerns	Risk ratings
Structural requirements	Financial advisers need to evidence client understanding of private market assets and the risk of foreseeable harm should client circumstances change.	Risk rating agencies will need to adopt methodologies to support assessing risk of private market assets.
Barrier	Private market investing adds complexity and therefore adds to the risk that clients will not understand the additional investment risk and liquidity risk.	The current approach to risk profiling and the subsequent influence on fund selection makes it hard for financial advisers to select private market assets that are not typically risk rated.
Implication	Financial advisers need support to educate clients on the risks implications of investing in less liquid assets.	Providers need to work with risk rating agencies to incorporate private market assets into the current advice workflow.

"So long as the advisor is satisfied that this is a restricted mass market instrument, and is suitable for my client, then that's one tick in one little box. But if there's a life-changing event and the investor requires access to those monies, and there's a minimum notice period of three months. To what extent have you facilitated potentially foreseeable harm?"

-CIO, DFM

"With Consumer Duty, and thinking about client understanding, if it's within a fund, how deep do you need to penetrate into that fund to ensure client understanding? You have to work out where that line is for you as a firm. If you put stuff in there and the regulator says clearly the client can't understand that, then you've got Consumer Duty challenges."

–COO, large advice firm, >£10m AUM

"Because of the way that risk rating companies are starting to dominate the advice process and the way that people build central investment propositions and panels, it is just a lot harder to assess the risk of a non-public investment. To make them more mainstream, it will either be someone who's brave enough to say actually, I'm not going to bind to this traditional risk approach and treat it in a different way. Or it will take one of the big agencies, like Defaqto or Distribution Technology to come and say actually, we've got a methodology that works and can treat private assets in this environment."

- Chief Product Officer, large financial advice firm, >£10bn AUM

3.3 Client-related barriers

Several of our interviewees commented that the case for private market assets is strong for some investors, but not for their core target market. Financial advisers tend to work with people who are nearing retirement or in retirement. Figure 8 earlier shows that client risk appetite was the 3rd highest barrier to adoption of private market asset investing with 78% of financial advisers citing it as a barrier.

NextWealth data show that advised clients tend to be older (average age 53) and most are seeking retirement planning advice.

53 Average age of advised client

37% of advised clients are fully retired and a further 21% are phasing into retirement

In our interviews and roundtable discussion for this report, it was evident that while many financial advisers see the case for private market investing, they question the applicability for typical advised clients. Several felt that advised customers aren't sophisticated or wealthy enough to understand and accept the risk.

"If you think about private assets as a standalone product or investment case, then it would be for a more sophisticated, wealthier investor that understood some of the risks, and will be willing to ride that out."

– Chief Product Officer, financial advice firm, >£10bn AUM

"Less than 1% of our customer base has ever shown any interest in certifying as professional investors, and they'd normally in the course of doing their own job and wanting to buy into the fund that they're going to seed anyway and stuff like that."

– Head of Product, adviser platform

One of our interviewees passionately believes that private market assets can play an important role in portfolios for younger investors. He said this for both for the potential investment upside but also for the longer-term focus. Unfortunately, these younger investors are focussed on accumulating and growing wealth and are not often the target market for financial advice firms.

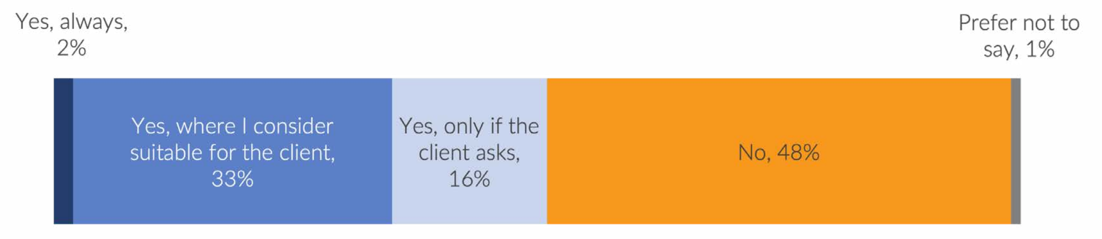
"My big thing is that young people don't take enough risk, particularly within pension investments where they literally cannot touch for 30 to 40 years. They should just go fire and brimstone and then not look at a valuation for a decade. But most people don't behave like that. The great thing about private assets is it actually makes it easier to get people to hold longer-term investments, because they're not seeing market fluctuations."

– Chief Product Officer, financial advice firm, >£10bn AUM

The other client-related challenge that our research exposed is that financial advisers don't raise the topic of private market investing with clients.

Almost half of financial advisers say they do not discuss investing in private market assets with clients. A further 16% only discuss it reactively if the client raises it. This means that nearly two thirds (64%) of financial advisers are not raising private market investing with clients compared to 2% who always discuss it.

Figure 9: Two thirds of financial advisers don't raise private market investing with clients



An important factor in this is whether financial advisers feel comfortable enough to discuss private market assets with clients. Awareness and understanding remains low among financial advisers and many view it as high risk. They therefore avoid raising the topic with clients. Education programmes will be important to raise awareness and drive uptake.

We must acknowledge that accessing investment opportunities is lower down the priority list for many advised clients – our 2024 Financial Advice Business Benchmarks report ranks 'accessing investment opportunities' seventh among nine components of advice in the order of importance to clients. Nonetheless, if markets continue to develop as we discussed in Section 2, financial advisers may need to give private market assets another look to ensure proper diversification.

4. Conclusion
The future for private market asset distribution - solutions and opportunities

The purpose of this paper was two-fold:

1. Identify the barriers to investing in private market assets and what needs to be done to overcome them; and
2. Raise awareness among financial advice and wealth management firms of the investment case for private market assets

The following summarises these barriers and opportunities, as covered in this paper.

Barriers

Liquidity Financial advisers say that most of their clients prefer liquid investments.

Price Clients and financial advisers are very price sensitive, particularly on product charges. Private market asset investing tends to cost more than investing in public markets.

Valuations There is some concern of the method and validity of valuing private market assets.

Compliance Financial advisers are already overwhelmed by the cost and work of compliance. There is a concern that private market investing comes with additional hurdles to evidence customer understanding and to prevent foreseeable harm.

Risk ratings Risk ratings and mapping are deeply embedded in the advice process. Some believe that a change from the risk rating providers will be needed to support use of private market assets.

Target market Financial advisers tend to work with older clients who are phasing into retirement or who are already retired. These clients tend to be more risk averse and the focus is predominantly on financial planning rather than the investment solution.

Opportunities

Potential for higher returns Historic data suggest that private market investing yields higher returns over time.

Diversification This is the most important component of advice to clients. Some argue that changes to capital markets mean that to achieve proper diversification, clients should consider investing in private market assets.

Lower risk Proper diversification is essential to lowering investment risk.

Income generation Private credit can offer attractive options for generating income outside of traditional bonds.

This paper is a step in the journey to help educate financial advisers and wealth managers about private market investing.

NEXTWEALTH

At NextWealth, we work with firms in retail wealth management to adapt to what's next in wealth. We help technology providers, fund and asset managers, discretionary managers and providers harness the emerging trends for competitive advantage.

We offer research, consultancy, thought leadership content and we also host events.

Our interests include financial adviser business models, the changes in technology powering wealth management and the investment proposition and factors influencing investment choice among financial advice firms.

We track assets in discretionary MPS, adoption and functionality of wealth tech, approaches to retirement advice and approaches to sustainable investing.

At NextWealth, we are able to draw on insights from across the market to help our clients thrive amid disruption.

Get in touch | enquiries@nextwealth.co.uk

AVIVA INVESTORS

Aviva Investors is a global asset manager that combines insurance heritage, investment capabilities and sustainability expertise with the aim of delivering wealth and retirement outcomes that matter most to investors. We manage £235bn* of AUM across fixed income, equity, multi-asset and private markets in 12 countries. Our clients can benefit not only from our significant local knowledge and experience, but also from the extensive global investment resources at our disposal. Responsibility is incorporated at all levels of our organization: understanding the factors, risks and opportunities in ESG helps us to be better investors and delivering the investment results our clients expect.

As one of Europe's largest investment managers in private assets, with over £40 billion* in assets under management and 140 professionals across four locations, we have the scale to access the full depth and breadth of private market investment opportunities across real estate, infrastructure, private debt, multi-asset real assets, natural capital, and venture and strategic capital.

The value of an investment is subject to increases and decreases. Investors may not recover the amount originally invested.

*As at 30 June 2024

FRANKLIN TEMPLETON

Alternative investing has traditionally been confined by high minimum investment levels, operational complexities, and strict asset and income threshold requirements, limiting access to institutions and high net-worth individuals.

At Franklin Templeton, we're committed to breaking down these barriers with a clear mission to democratise alternative investing, transforming it into an accessible and essential source of returns for all.

Investors need solutions and that means delivering capabilities to financial advisors using a consultative approach and a total portfolio outcome mindset.

Whether Real Estate & Infrastructure (Clarion Partners & Franklin Real Asset Advisors), Private Credit (BSP Alcentra) or Private Equity (Lexington Partners), Franklin Templeton's broad asset class coverage and near $250bn of assets in private assets, means we have both the flexibility and expertise to follow the conversation wherever the client needs lead us. The growing trend towards semi-liquid, wealth aligned strategies is a major focus for the business and we are taking focused steps towards bringing these strategies to the wealth markets.

Please visit: Alternatives by Franklin Templeton | Franklin Templeton to see details of our Private Markets capabilities, and access our 'Knowledge Hub' to learn more about Private Market investing.

Schroders capital

Schroders Capital provides investors with access to a broad range of private market investment opportunities, portfolio building blocks and customised private market strategies. Its team focuses on delivering best-in-class, risk-adjusted returns and executing investments through a combination of direct investment capabilities and broader solutions in all private market asset classes, through comingled funds and customised private market mandates.

The team aims to achieve sustainable returns through a rigorous approach and in alignment with a culture characterised by performance, collaboration and integrity.

With $97.3 billion (£77.0 billion; €90.8 billion)* assets under management, Schroders Capital offers a diversified range of investment strategies, including real estate, private equity, secondaries, venture capital, infrastructure, securitised products and asset-based finance, private debt, insurance-linked securities and BlueOrchard (Impact Specialists).

*Assets under management as at 30 June 2024 (including non-fee earning dry powder and in-house cross holdings)

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