

THE PRIVATE MARKET REPUBLIC?

How Collaboration and Technology Are Enabling a Trillion Dollar Opportunity



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Private market funds, such as private equity, private credit, real estate and infrastructure, have traditionally been sold to institutional investors.

That's starting to change as institutional flows into private investments plateau, pushing private market funds toward a fresh source of investment: high-net-worth investors.

In the US alone, the affluent and mass affluent segments control more than \$16 trillion investable assets.¹ If private markets capture just 5-10 percent of those assets, it would represent between \$800 billion and \$1.6 trillion in assets under management.

Recognizing the opportunity, private fund managers and large asset managers are beginning to strategically tap into this universe through wealth management channels.

Regulators are also taking an active interest. In an April 2019 interview at the U.S. Chamber of Commerce, SEC Chairman Jay Clayton spoke about his desire to give retirement investors greater access to private funds.

Two months later in June, the SEC put out a call for ideas to 'simplify, harmonize and improve' regulations surrounding the sale

of non-public investments. This potentially transformative initiative could result in amended rules, greater access to products and more secondary sale options.

The Individual Investor Opportunity

Increased access to private market funds comes at an opportune time for individual investors. The public markets are shrinking. Between 1996 and today, the universe of listed companies in the US stock market declined by roughly 50 percent².

The entry of abundant new capital in the late-stage venture market has helped organizations stay private longer. It is likely that many of the unicorns (private companies with \$1 billion+ valuations) going public today are already further along their growth trajectory than similar companies that went public a decade or two ago.

Gaining a clear entry path to the private markets will position individual investors to access companies' strong pre-IPO growth potential.

The private markets are likely to appeal to individual investors looking for products with a higher steady yield than what fixed income currently offers, a better risk-adjusted return than public equities, and diversification from the ups and downs of

public markets. With the right education, purchasing private market products can be simple and convenient. And with the right technology platform, investors can access their account and statements in an intuitive way that's similar to mutual funds and public securities.

The Hurdles of a Democratized Private Market

Better education and a stronger understanding of private market products will be critical so that investors can make informed decisions and investment advisors are prepared to advocate for their clients, and so that both groups have the opportunity to build their command of unfamiliar terminology and concepts.

Investors, advisors and managers also need reliable tools to model complex portfolios that include alternatives to demonstrate how certain asset classes can shift a portfolio's risk and return profile.

What's more, fund sponsors and wealth managers face challenges in alternative investment fundraising, including the administrative burden of managing small-dollar investments, as well as a complicated and error-prone subscription process. In addition, there is limited visibility into the book-building process, as well as privacy and data security concerns.

It will also be important for managers to accurately estimate operational hurdles that can occur as they trade high volumes but smaller tickets. Collaboration and technology will be critical to connecting the private market ecosystems and improving the flow of information.

Scalable and flexible solutions will help remediate a fragmented market driven by disparate players and a lack of standardized distribution processes.

Unlocking the Registered Investment Advisor Market

Extending the availability of private funds has the potential to be a win-win, offering managers access to fresh capital and giving investors an opportunity to add new asset classes to their portfolios.

Yet the market is struggling due to a lack of agreed-upon standards for documents, terms and structures, and poor connectivity between investors and service providers. In a sense, today the private funds space is where the mutual fund industry was 25 years ago.

Much like mutual funds, standardizing client onboarding and creating a more transparent distribution process will add significant value.

That's why State Street and iCapital Network (iCapital) have teamed up to provide solutions for private market sponsors distributing registered products through wealth management and other distribution channels.

State Street offers specialist fund administration and registered transfer agency services to private market fund managers who are actively launching new products and distribution channels.

iCapital brings an end-to-end solution to manage alternative investments that helps advisors simplify operations and improve the investor experience. Together, we support partici-

pants — managers, distributors and investors — throughout the investment ecosystem by offering a modular solution to help clients better understand alternative investment fundamentals, market trends and opportunities.

This partnership can accelerate the launch of a registered product for a private fund manager whose infrastructure is built for institutional investors by simplifying the launch process and vendor due diligence.

With a centralized view that offers full transparency along the fundraising continuum, managers can see investments at every stage of the process and can analyze data by fund or advisor. The benefit to the end investor is an end-to-end digital way to monitor the lifecycle of their investments.

By streamlining the on-boarding, qualification, servicing and reporting of the high-net-worth advisor and investor market, fund managers and investors can diversify their business in a way that is scalable, transparent and secure.

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This material contains certain statements that may be deemed forward-looking statements.

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¹ Cerulli US Alternative Products and Strategies

² iCapital Network, "The Private Equity Market in 2019," Nick Veronis and Tatiana Esipovich, January 2019.

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