WORLD ECONOMIC FORUM

FUTURE OF CAPITAL MARKETS INITIATIVE

Broadening Access to Private Markets

Contents

A paper in collaboration with Accenture, Lazard, Apollo, AXA, Motive Partners, BMO Financial Group, Carta and Moonfare.

Other contributing organizations include Broadridge, BNY Mellon, Deutsche Bank, Edward Jones, Grayscale, JP Morgan, Julius Baer, Lord Abbett, New York Stock Exchange, Partners Group and Robinhood.

Foreword

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The World Economic Forum's 2022 report, *The Democratization of Retail Investing*, found that retail investors are participating in global capital markets in greater numbers and through new channels. We also noted a growing interest in private markets by retail investors. Drivers of increased interest in private markets included the resilience of private asset classes, potential diversification benefits or historical outperformance versus public market equivalents. Fast forward to 2023, some fintechs and other platforms have begun to venture into private markets to meet this growing interest, but significant hurdles must be overcome for this to become mainstream for suitable retail investors.

The latest report, *Broadening Access to Private Markets*, presents 10 months of work that explored ways industry participants and policy-makers can broaden access to private markets while ensuring proper guardrails and creating potential diversification and other performance benefits to retail portfolios. Through the course of this work, which included input from an esteemed group of industry experts, we have explained why investing in alternatives should be something that retail investors consider – it can potentially have significant opportunities when done responsibly. We also consider the risks and unintended consequences if not done responsibly, as well as the market architecture changes that would need to take place to enable broadened access.

Consistent with the World Economic Forum's multistakeholder approach, partnering with Accenture and Lazard, the Forum brought together a diverse group of stakeholders to provide insights for this report. We would like to take this opportunity to thank all those who have contributed their expertise and shaped the insights presented in this report. We would like to particularly thank the organizations that took a lead role in shaping our hypotheses, including BMO Financial Group, AXA, Carta, Apollo, Moonfare and Motive Partners.

Investing in alternatives is no longer an alternative – it can potentially have significant economic opportunities for suitable retail investors

Institutional investors have long enjoyed the return and diversification benefits provided by alternative investments – how can retail investors, or individuals, share in these benefits?

Investing plays a crucial role in building wealth and ensuring long-term financial security. Broadening access to private investments can have significant economic opportunities for suitable retail investors with positive economic spillovers, when done responsibly.

How can industry and policy-makers broaden private market access in a way that is safe and ensure it is a reliable source of diversification in retail portfolios?

To explore how private assets can be made available to retail investors, or individual investors, the World Economic Forum's Future of Capital Markets initiative[1] has researched how stakeholders can craft a responsible private market investing ecosystem for retail.

This white paper is intended for industry peers, policy-makers and regulators. It aims to answer:

- What do recent trends tell us about retail investor appetite for private assets?
- What are the opportunities and challenges with broadened access to private markets for investors, industry and society?
- What conclusions can be drawn on retail investor suitability for private assets?
- What are the supply-side and demand-side changes needed to broaden access to private markets for retail?
- What next steps should industry, policy-makers, regulators and other stakeholders take in order to further open up private markets to retail investors?

Methodology

This paper draws on multiple sources:

Global workshops

Six virtual workshops were conducted between May and September of 2023. The participants were key stakeholders from a variety of financial services institutions.

Expert interviews

Interviews were conducted with subject matter experts from financial services firms, regulatory bodies and academia.

Data sources

A variety of available data sources have been used in this publication, including the 2022 BNY Mellon and World Economic Forum Global Investment Survey and other publicly available data sets – all referenced throughout.

Due to the everchanging and complex nature of regulations globally, the focus of this paper has been narrowed to the EU and US markets. However, this paper is intended to contribute to the larger global conversation on broadening access to private markets. As such, the calls to action outlined at the end of this paper aim to be applicable globally.

It is also important to note that there have been ongoing regulatory conversations on this topic. This paper is a reflection of the regulatory climate at the time of publication.

Defining private markets for retail investors

Generally speaking, private markets are a part of the broader asset class referred to as “alternatives”, which are alternatives to a traditional portfolio of publicly-traded stocks and bonds.

In this paper, private market investments explicitly refer to those within the private equity, private credit, infrastructure and real estate sub-asset classes:[2]

Private equity

Buying or selling equity in private companies

Private credit

Directly lending to companies where debt is not issued or traded on the public markets

Infrastructure

Investing in physical assets in sectors such as transport, communications and energy

Real estate

Becoming the owner of a portfolio of physical properties that can generate income and appreciate in value

These four sub-asset classes were chosen because they are private investment products that are common with institutional investors but limited for retail investors.

Retail investors – or individual investors – vary in their knowledge of, interactions with and access to markets

For the purposes of this white paper, investors have been grouped according to their net worth, which is one of the ways in which global regulatory bodies often assess accredited investor status.

The categories are as follows, according to investable assets:[3]

Mass market $0-100,000	**Mass affluent** $100,000-250,000	**Affluent** $250,000-1 million
High net worth $1-5 million	**Very high net worth** $5-30 million	**Ultra high net worth** $30 million+

Each set of investors will have different knowledge of, interactions with and access to private market products. Some investor groups may be better suited than others to invest in private markets, but all could potentially benefit from broadened access as a means to diversify their portfolios.

What is an accredited investor or qualified investor?

An accredited or qualified investor refers to an individual or entity that meets certain financial criteria and regulatory requirements. Drawing this distinction is intended to protect investors by limiting access to certain high-risk, illiquid or complex investment opportunities to those individuals or entities that are deemed capable of bearing the associated risks.

The specific criteria for accredited investor status can vary from one country to another, as financial regulations are established by individual governments and regulatory bodies. However, there are some common characteristics that accredited investors typically share:

- Income requirements: In addition to net worth, some countries also consider an individual's annual income when determining accredited investor status. The specific income thresholds can vary widely.
- Minimum investment: Some jurisdictions may require a certain minimum investment.
- Knowledge and experience: In some jurisdictions, accredited investors are required to demonstrate a certain level of financial knowledge and experience in order to qualify.
- Regulatory compliance: Accredited investors are often subject to various regulatory requirements and may need to provide documentation or make certain disclosures to prove their accredited status when participating in private market investments.

Each wealth tier has a number of specific characteristics

These characteristics include:

- **Financial sophistication:** Can these investors effectively navigate the private markets? Do they possess a deep understanding of complex financial concepts, products, markets and strategies?
- **Sensitivity to liquidity risk:** Do these investors need access to their capital or can they invest in longer-term assets?
- **Use of a financial adviser:** Do the investors have access to, and use a financial adviser?

It is recognized that these are broad assumptions. Within each wealth tier, significant variation is likely to exist as it relates to financial sophistication, sensitivity to liquidity risk and use of financial adviser.

	Mass market	Mass affluent	Affluent	High-net-worth individuals (HNWI)	Very-high-net-worth individuals (VHNWI)	Ultra-high-net-worth individuals (UHNWI)
	Potentially accredited by income definition in US[4]		Accredited by net worth definition in US			
Net worth	$0-100,000	$100,000-250,000	$250,000-1 million	$1-5 million	$5-30 million	$30 million+
Financial sophistication:[5]						
Knowledge and experience	On average, lower levels of financial knowledge and experience High use of self-serve digital platforms for financial advice and education	High use of self-serve digital platforms for financial advice and education	Use of both digital platforms and advisers to build financial knowledge and experience	On average, higher levels of adviser use to build financial knowledge and experience and assist with decision-making	On average, higher levels of adviser use to build financial knowledge and experience and assist with decision-making	On average, very high levels of adviser use to build financial knowledge and experience and assist with decision-making
Risk tolerance[6]	Low levels	Low-to-mid levels	Mid-to-high levels	High levels	High levels	High levels
Availability of capital	Low	Low	Mid	High	High	Very high
Sensitivity to liquidity risk	High, needs access to liquidity easily	High, needs access to liquidity relatively easily	High, needs access to liquidity easily	Med-high, depending on portfolio allocation	Med-low, depending on portfolio allocation	Low
Use of financial adviser	Typically less access and low use	Low use	Medium use	High use	High use	High use

Executive summary

Investing plays a crucial role in building wealth and ensuring long-term financial security. Broadening access to private investments can have significant economic opportunities for suitable retail investors and for economies, when done responsibly.

Private investments include:

- Private equity
- Private credit
- Infrastructure
- Real estate

For retail investors, private markets may represent wealth creation opportunities:

1. **Enhanced returns:** Private market asset classes have historically outperformed their public market equivalent on a risk-adjusted basis over the past decade.
2. **Generate income:** Investments can generate income through distributions, dividends or rental income.
3. **Diversify risk:** Adding private asset classes to portfolios can provide diversification from traditional bonds and equities.

There are also potential economic spillovers, including: reducing barriers to make private markets more user-friendly; as a catalyst for equitable growth; and, opportunities for new capital formation.

These opportunities are not without risk.

While broader access to private markets could offer opportunities, there are some key risks for retail investors, including:

1. **Complexity** of private market investments compared to public markets
2. Private investments are typically **illiquid** with long lock-up periods
3. Private companies provide **limited information** compared to public companies
4. **Adverse selection risk** from information asymmetry that may benefit bigger institutions over individuals when competing for high-performing assets
5. Current high **costs**, fees that erode returns and minimums that are beyond the reach of the average individual investor

Expanding retail access to private markets may influence system risks, leading to unintended consequences, such as inflated asset valuations, increased leverage and declining deal quality; regulatory and reputational considerations for institutions active in the space, as well as potential changes to market structure and liquidity in the system.

It should be noted that many of these risks exist in the public market context and can be partly mitigated with thoughtful policy, product design and targeted education.

Today, there are barriers exist for retail investors to access private markets.

These can be categorized into four areas:

1. Education, of both investors themselves and financial advisers
2. Regulation, which includes the jurisdiction-specific approach to accredit investor status and investor protection considerations
3. Access barriers, including high investment minimums and multiple layers of cost
4. Suitability requirements, including reduced liquidity, longer time horizons, varying complexity and terms of capital

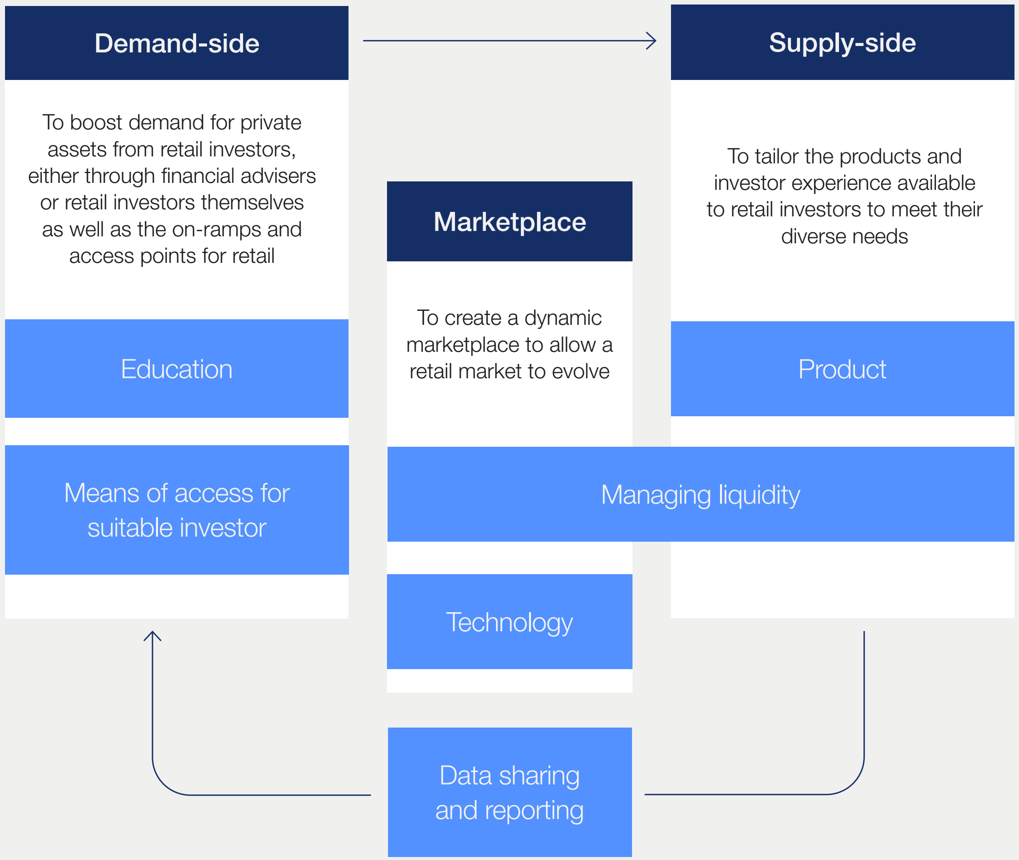
These barriers are experienced by retail investors differently across the wealth spectrum.

Access and education are key blockers for retail investors with a smaller amount of investible assets, while wealthier investors are often blocked by access to appropriate products that allow them to invest while abiding by investor protection constraints.

There remains an opportunity to unlock opportunities for mass affluent and affluent retail investors in particular.

How can industry and policy-makers broaden private market access in a way that is safe and ensure it is a **reliable source of diversification in retail portfolios?**

The challenges for retail investors in private markets need to be addressed to responsibly broaden access. These challenges interact, and progress towards a broadened ecosystem can only be made if these are tackled in parallel and through cooperation.



There are some potential and already emerging solutions to address some of these barriers.

	Current challenge	Emerging or potential solution
Demand		
Lack of education	– Education needed to increase awareness of true liquidity needs, asset classes, investment strategies, fund and fee structures for advisers and retail investors – Difficulty discerning performance and comparability across private asset products and managers	– Prioritize learning efforts on liquidity needs and alternatives' return and diversification profile over complex strategies or investment structures – Increased focus by product providers and fund managers to educate financial advisers on private assets – Digital platforms aggregating fund documentation to help ease comparability across products
Means of access for suitable investors	– Accredited and qualified purchaser definition may be overly restrictive and not necessarily align with financial literacy or sophistication – Steep asset-specific investment minimums and high fees also act as barriers for individual investors – Friction involved in purchasing due to a fragmented ecosystem – Policy-makers argue that private markets are opaque, provide limited information and are illiquid and, therefore, are in favour of regulatory restrictions on access	– Regulatory definition of accredited investors broadening in the United States to account for financial literacy in addition to amount of wealth – EU Long-Term Investment Fund (ELTIF) regulation allows mass retail access to certain "suitable" long-term investment funds, applying from January 2024[7]
Supply		
Product	– Investors' income levels currently determine their investment opportunity set – Retail investors have limited choice in terms of the types of private investments available to them, as many opportunities are typically offered to institutional or accredited investors – Additional diversification challenges exist, as it is hard to achieve this due to the larger investment sizes and limited access to a wide range of opportunities	– Intermediated, managed solutions that shift the investment selection burden to managers while offering retail access to institutional-quality alternative assets – Diversified solutions that mitigate risk and potentially offer exposure to several managers and strategies – Small ticket sizes
Managing liquidity	– For retail investors and advisers, understanding their true liquidity needs and constraints will better allow them to manage it correctly – Retail investors historically focused on liquid assets for cash management flexibility and ability to understand pricing – Fund/asset structures less liquid given funding needs and inability to quickly monetize the majority of underlying assets; secondary market is cumbersome/expensive to navigate – Lack of a centralizing market-maker for secondary trading, and no standardized data or guiding regulation	– Position private markets investments as designed for long-term holdings (e.g. retirement accounts), rather than requiring immediate liquidity – Develop solutions to increase liquidity in private market assets through innovations in secondary markets or more liquid products that offer quarterly or bi-monthly liquidity – The secondary market may mature sufficiently to offer a range of liquidity options to retail investors, alleviating some of the concerns around illiquidity – Retail investors will require a forum or platform, offered by either managers or third parties, to connect and trade

	Current challenge	Emerging or potential solution
Marketplace		
Technology	– Although they are narrowing, gaps remain in technological solutions that increase access for individual investors and their advisers – Platforms are currently manager-specific, leading to a fragmented investor experience and duplicated work for managers – Several stages of the investment process, from know your customer (KYC)/anti-money laundering (AML) onboarding to tax reporting, are onerous and difficult to navigate without an expert team	– Fintech companies can provide unitized access to private assets to accredited investors, opening up their ability to participate – Technology will enable every stage of the investor journey and should do so in a way that delivers the same seamlessness as current public investing tools – Automating retail investor relations will lower costs and ticket sizes
Data sharing	– Data is siloed by managers, each of which may disclose different information on investments and their track record, and potentially calculate figures with differing methodologies – Partially due to accreditation and marketing restrictions, retail investors find it difficult to access information about alternatives funds, and centralized providers are expensive and only available to institutions	– Transparent, standardized and tech-enabled data provision from managers and aggregation of secondary market data from disparate, existing marketplaces will facilitate retail investment and speed up trading in the secondary market – A consortium-based approach that partners with regulators and balances the need for investor protection with feasible manager participation is more likely to garner broad long-term support

Calls to action

To responsibly broaden access to private markets for suitable individual investors, a multistakeholder approach is essential

1 Rethink education and awareness-raising activities for key stakeholders – including, most importantly, financial advisers and investors themselves

For financial advisers:

- A focus on educating advisers to evaluate client liquidity, and feel comfortable and confident in recommending private markets products based on their return and volatility profiles.
- Shortcomings with the current medium and mode of education and awareness raising were identified – there is a need for compelling, engaging, evidence-based learning styles.

For funds/private equity:

- Broadened access will mean exposure to a new investor base not typically dealt with. The learning curve on communicating and engaging with this cohort may be steep, and education across the industry will be needed to ensure it is approached in a tailored and nuanced way.

For investors themselves:

- A continued emphasis remains on building core financial literacy skills for individuals across society, in particular, understanding their liquidity needs and constraints as well as the impact of private assets on their portfolios.
- Capitalize on opportunities to continually upskill and share useful information via investment platforms and advisers.

For industry players – including wealth management firms, brokerages, fintech, infrastructure providers, fund managers and private equity – tailoring to the retail investor is required

2 Tailor products to retail investors' liquidity, investment horizon and return needs

Reorganize current fund structures, address lack of liquidity and keep in mind retail needs, such as enabling exposure to products that range in performance to allow for diversification.

3 Form industry consortiums to accelerate standardization

This should include developing a shared long-term strategic vision to take the first steps towards offering a unified technologically-enabled retail product and investment journey.

4 Simplify investor journey

Following education and suitability assessments, accessing and owning alternatives should be frictionless and user-friendly.

5 Invest and explore technological innovations

Much of the technology to solve for current pain points already exists, and industry can learn from adjacent industries to integrate already existing technology to create ease and scale.

Policy-makers and regulators should consider actions to bolster the potential supply-side of the market as well as ways to responsibly foster demand

6 Address limits to on-ramps for retail investors and expand key access points

Continue to evolve the accredited investor definition, evolve the means for access for new and suitable retail investors and address marketing and solicitation guidelines.

7 Create policy instruments aimed at increasing retail participation, keeping in mind investor protection considerations

Policy instruments – such as regulatory reforms, tax incentives and financial education – can play an important role in retail participation in public and private markets.

8 Assess loosening constraints on private market exposure via managed solutions (e.g. pension funds)

Managed solutions offer both exposure to the private markets and allow investors to benefit from the returns and diversification outlined. Policy-makers must strike the balance by implementing appropriate safeguards and regulation.

To make progress towards broadening access to private markets for more retail investors, there is a need for public-private partnership

9 Standardize language, forms, reporting and processes

For industry, this means improving the overall investor experience and overly cumbersome forms. For policy-makers, this means streamlining requirements such as tax disclosures.

10 Support responsible data sharing

To effectively support the development of a marketplace and the exchange of information, support responsible sharing of data in a balanced way.

1 The opportunity of private markets for retail investors

This section details the growing influence of retail investors and the rationale for providing greater exposure to private markets as part of a diversified portfolio.

It explores the opportunities and challenges of broadened access for the individual, for industry and for society.

Retail investors have an increasing presence in global capital markets

The World Economic Forum's 2022 report, *Democratization of Retail Investing* found that retail investors[8] are participating in global capital markets in greater numbers and through new channels. This is due in part to several tailwinds, including the shift in retirement benefits from defined benefit to defined contribution plans, which place the responsibility of retirement increasingly in an individual's hands; to advances in technology and fintech, which have made it easier for retail investors to invest from the palm of their hand; to the rising ubiquity of zero-commission trades, making it easier and more accessible than ever for individuals to invest.

What's holding retail investors back?

Despite the significant gains in democratization of investing, three key levers of access, education and trust can help paint a picture as to where the blockers are for retail investors.

Education

In the 2022 survey of retail investors globally, the number one barrier to investing was **education** – with 74% of investors saying they would likely invest more if they had more opportunities to learn about investing.

Trust

For non-investors, 54% had chosen not to invest because they feared losing money through investing, hinting at issues of **trust**.

Access

When it comes to **access**, 79% of current investors stated that being able to speak with a financial adviser is important in making decisions, but only 48% of current investors are able to turn to a financial adviser or wealth manager for advice on how to invest.

Is there appetite for private assets among retail investors?

Private assets have historically been limited to only the highest net-worth investors or institutions and often are accessed through financial advisers or wealth managers. The World Economic Forum's 2022 report found that very few retail investors surveyed incorporated private assets into their portfolios. Yet, as many as 51% of non-investors would be more likely to invest if they had access to such alternative investments.

Other surveys of asset managers[9] have also found that there is growing demand for broader access for retail investors to achieve better portfolio diversification.

Reasons for this growing interest in private markets may in part be due to the resilience of private asset classes, diversification opportunities or historical outperformance.

Today, some fintechs and other platforms have begun to venture into private markets to meet this growth in appetite. However, significant hurdles must be overcome for this to become mainstream for suitable retail investors.

Private markets represent an important source of financing for the global economy

Companies are increasingly gravitating towards private markets.

Public markets have been central to the development of the global economy. However, a global shift is underway. Private markets are becoming increasingly more attractive to companies because of the benefits they provide in terms of flexibility, access to patient capital and reduced short-term pressures.[10] Additionally, continued transformation of the economy (e.g. net-zero transition) requires an immediate large-scale mobilization of capital into long-term investments.[11]

There is a trend towards staying private longer, using private capital sources and opting to delay or forego going public. The use of private funds also allows businesses to make decisions that benefit the long-term horizon over quarterly results. These businesses are also, in some cases, big and consequential – making significant contributions to job creation, the need for new services and supply chains, and innovation.

This transition has resulted in a dramatic growth in private markets activity and its share of business and asset finance.

It reflects a changing landscape in corporate finance and investment strategies, reshaping the dynamics of the global economy and investor returns.

For the purposes of this work, private markets[12] are defined to include private equity, private credit, infrastructure and real estate. The box to opposite provides some further insight into the drivers of growth within each of these sub-asset classes.

Current drivers by sub-asset class

Private equity

Many companies choose to delay or avoid going public due to a number of factors, including regulatory burdens, governance flexibility and perceived short-termism of public markets.

Private credit

Companies seeking more flexible financing terms and more certain execution increasingly turn to non-bank lending sources, as banks adjust to regulatory capital rule changes following the global financial crisis.

Infrastructure

Global energy transition requires unprecedented capital deployment into infrastructure to support the path to net zero.

Real estate

Key portions of the real estate market continue to experience strong growth and demand for incremental capital, including rental housing, industrial space and advanced data centres.

Private markets are critical to the global real economy, but historically access has been limited to institutions and wealthy individuals

Private markets have boomed in recent years, and currently represent $9.6 trillion in assets.

This includes private equity, private credit, venture capital and real assets such as real estate, infrastructure and natural resources – a full breakdown by sub-asset class can be found in the left-hand chart below. The size of the market has tripled since 2010 as seen in the right-hand chart below.

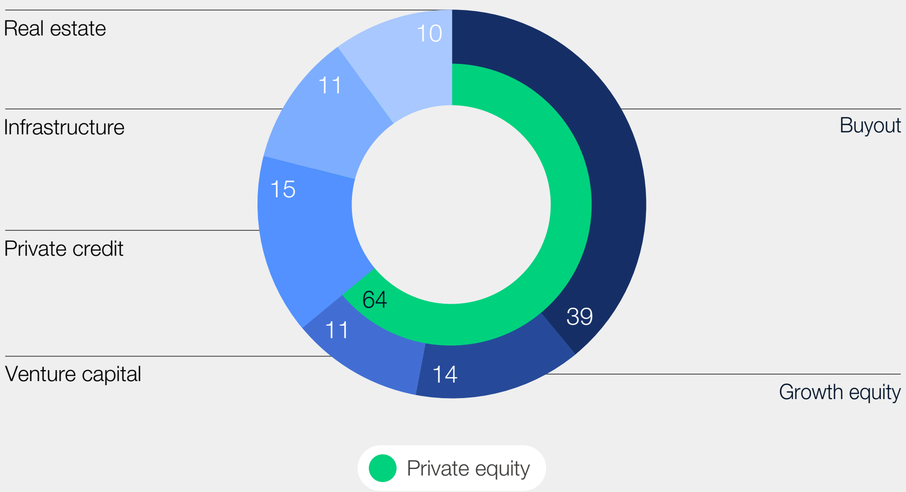
Geographically, private markets are largest in North America and Europe – of the $9.6 trillion in value, 56% of this is domiciled in North America, 24% in Europe and 18% in Asia.[13]

Current exposure to private markets as part of an investment portfolio looks strikingly different for retail investors than for their wealthier counterparts.

This is, in part, because of their limited ability to access private markets directly, or even indirectly.

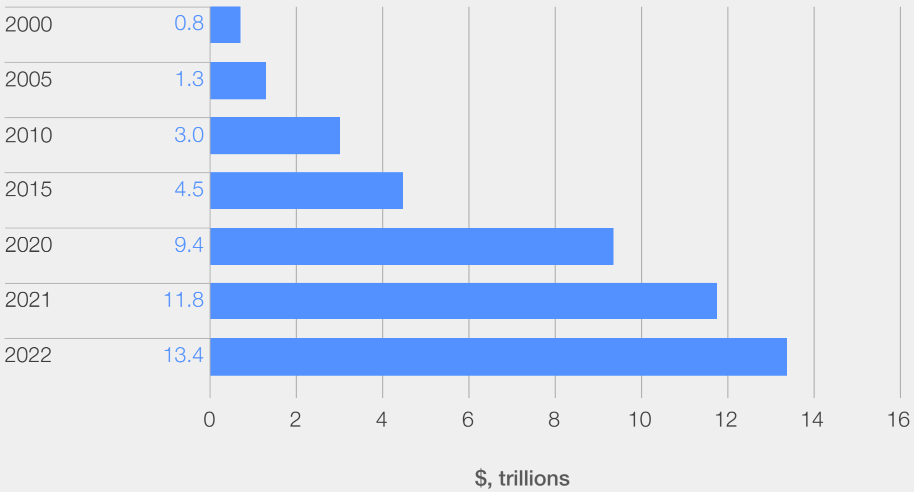
Currently, retail investors can access real estate and private equity via crowdfunding platforms, and can gain some exposure through public market alternatives (e.g. mutual funds holding private allocations, real estate investment trusts, special purpose acquisition companies, business development companies or liquid alternatives).

Global private markets
$9.6 trillion as of 03/31/2022



Sources: McKinsey, Morgan Stanley, Bain & Company

Global growth in private markets
by assets under management (AUM)



For retail investors, private markets are an opportunity for diversification and potentially enhanced returns…

Benefits of private markets

1. **Enhanced returns:** Sub-assets classes like private equity are designed to increase performance over the long term. Additionally, private market asset classes have historically outperformed their public market equivalent over the past decade. See Figure 3 for a breakdown by category.

2. **Generate income:** Investments can generate income through distributions, dividends or rental income.

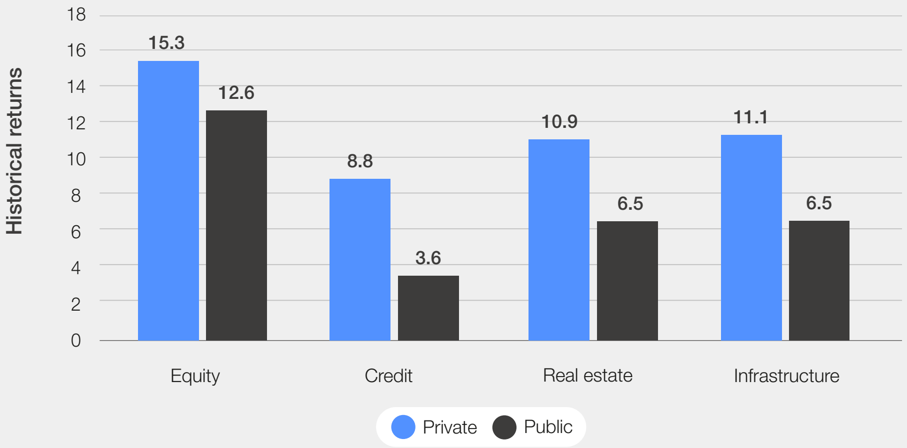
3. **Diversify risk:** Adding private asset classes to portfolios can provide diversification from traditional bonds and equities (e.g. less sector concentration).

Potential to improve risk-return: Private markets provide investors with additional tools to target specific portfolio outcomes and improve their long-term risk-adjusted performance, if used as part of a diversified portfolio.

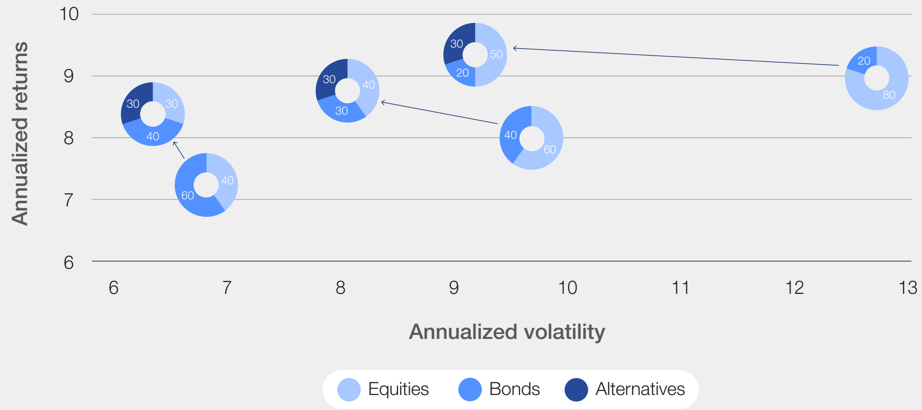
Over the past decade, a wide range of investor profiles – conservative, balanced and growth – have been able to reduce risk and increase their overall returns by complementing a pure public markets portfolio with private markets.

These benefits are subject to fees, costs and liquidity lock-up periods.

Private vs public 10-year compound annual growth rate (CAGR) (2012-22)



Estimated impact of an allocation to private markets on returns and volatility



Sources: Pitchbook; Morgan Stanley; Bain & Company; J.P. Morgan, Preqin; Private market CAGRs based on Preqin's Private Capital Quarterly Index. Public benchmarks used are MSCI World Total Return, Morningstar LSTA US Leveraged Loan, S&P Infrastructure Total Return and MSCI US REIT Total Return indexes

…with benefits that could extend to other parts of the investment industry and the wider economy

Reducing barriers to make private markets more user-friendly

- **Price discovery:** Access to better transactional data and market pricing informs efficient price discovery and better allocation of capital to the best marginal investment opportunity.
- **Policy efficiency:** The broader public, including regulators, academics and governments, can benefit from public disclosure of information that provides a clearer picture of economic activity.
- **Reduce barriers:** Innovative products and potential regulations that reduce information barriers are potentially beneficial to broader market participants, including institutional investors and financial advisers.

Catalyst for equitable growth

- **Equitable growth:** As retail investors grow their exposure relative to institutions and wealthier individuals, they may experience similar benefits to those already accessing private markets. This is subject to broadened access, performance and construction of diverse portfolios.

New capital formation

- **Mobilize capital:** By designing new products appropriate for retail investors, asset managers can capture and distribute economics from a massive, previously untapped capital base.
- **Fueling economies:** Retail investment in private markets continues the trend of capital flowing to more productive segments of the economy, fuelling aggregate growth.
- **Accelerating decarbonization:** Real asset investments in opportunities like infrastructure and real estate can accelerate global decarbonization efforts and the transition to net zero.

2 Risks and barriers to broadening access

This section provides an overview of the key risks and potential unintended consequences if access to private markets was broadened for retail investors.

It then details the key barriers, by wealth tiers of retail investor, that will need to be overcome to broaden access to private markets for individuals.

While there are potential benefits to broadened access, there remain significant risks for retail investors that need to be weighed

While broader access to private markets could offer diversification and the potential for enhanced returns and income, the illiquidity and lack of transparency associated with private investments can make them unsuitable for retail investors.

Some of the key risks for retail investors include:

1. **Complexity**

   Private market investment can be more complex than public markets and, in some cases, higher-risk, potentially exposing inexperienced retail investors to significant financial losses (especially in equity investments).

2. **Illiquidity**

   Private investments are typically illiquid and, with some potential cash requirements to meet various financial obligations. This can have a disproportionate effect on the retail investor who may not be able to absorb this risk.

3. **Limited information**

   Private companies provide less information and transparency compared to public companies, making it difficult for retail investors to make informed decisions.

4. **Adverse selection risk**

   Key risks arise from information asymmetries and competition for high-performing assets, leaving average retail buyers with exposure to less compelling opportunities.

5. **Cost**

   Including fees that may erode returns and high minimums. Retail investors often find it challenging to access private markets due to the prohibitive costs associated with such investments, which typically require minimum capital commitments and entail substantial fees that are beyond the reach of the average individual investor.

Broadening access to retail investors may potentially also introduce new risks and unintended consequences

Broadening access to a new investor base could potentially have wider market consequences that are essential to consider, but in many cases may be difficult to predict. It should be noted that many of these risks already exist in the public market context and can be partly mitigated through thoughtful policy, product design and targeted education of financial advisers and investors.

Greater competition, with potential impacts on valuations and investment quality	Challenges for regulatory and market integrity	Risk mismanagement by retail investors
– **Greater competition and valuation pressure:** Retail participation could lead to greater competition for the same investment opportunities, potentially resulting in higher valuations for private assets. This potentially could diminish, or lower, the return potential and make it more challenging to find opportunities at an attractive entry point. – **Adverse selection:** Due to the scale advantages that institutional investors have, the pool of investment options for retail investors could skew, potentially resulting in suboptimal returns for retail.	– **Market fragmentation:** The proliferation of new platforms and investment opportunities could lead to market fragmentation, contributing to information asymmetry. – **Regulatory challenge:** Regulators will need to adapt to the changing landscape of retail participation in private markets. Unintended consequences can arise if regulatory frameworks are not adequately updated to protect investors and maintain market integrity.	– **Uninformed decision-making:** Broadening access to a new sub-asset class introduces risk mismanagement challenges (for example, by overallocation to private assets). These risks exist in the public market also and emphasizes the need for improved retail investor financial education and access to financial advice.

As a function of both the inherent risk, as well as existing market and regulatory guardrails, there exist current barriers to access private markets

These barriers can be grouped into the four following categories:

Education

Education to help investors better understand the value of private markets in a diversified portfolio, to understand illiquid or semi-liquid investments and to help identify the types of products that will help them reach their financial goals.

Regulation

Accreditation status generally prevents access to private markets investments for those that make under $200,000 annually in the US. There are partial limits for accredited but not qualified professionals, which may prevent access for those under $5 million of assets, with restrictions partially relaxed for those who make over $200,000 in the US. In the EU, the MiFID opt-in professional regime requires a portfolio of at least €500,000 in financial instruments and at least one year of relevant professional experience in the financial industry.

Investor protections are put in place to ensure firms, advisers and products are lessening as much risk as possible, but may inadvertently affect access. Potential liability may vary based on the sophistication of the investor. Jurisdictional variations also exist.

Access

High investment minimums make diversification across private deals difficult, as the average minimum investment is $250,000-500,000 per deal.

Limited partner (LP) management. It is costly in time and resources to navigate deploying capital for thousands of small investors, and often is the driver for high investment minimums.

Bite-size constraints prevent investors who are otherwise qualified to invest from doing so, as many firms only allow a maximum of 3% net worth into any one deal – meaning investors need over $8.5 million in assets to participate.

Multiple layers of cost present when investing in private markets assets, which can offset expected returns and discourage some investors.

Suitability

Reduced liquidity in underlying private market assets often requires longer investment time horizons, or acceptance of partial liquidity, which may make investing in alternative investments more challenging for certain segments.

Within private markets, investments vary in complexity. Varying levels of sophistication are required to invest in a specific deal, versus to select a specific fund or manager, versus to allocate to a diversified private markets portfolio through a manager.

Term of capital can be an important factor for suitability – long-term savings (potentially including retirement savings) may be more appropriate versus near-term savings.

Barriers exist for retail investors across wealth tiers, but there remains an opportunity to unlock opportunities for mass affluent and affluent investors

Given each wealth tier has its own unique characteristics, these barriers are not felt equally across the spectrum of retail investors. Access and education are key blockers for retail investors with a smaller amount of investible assets, while wealthier investors are often blocked by access to appropriate products that allow them to invest while abiding by investor protection constraints. Critically, it is important to consider how these factors will impact the outcomes from exposure to private assets and how products or services can be tailored based on the unique characteristics of each wealth tier.

Mass market	Mass affluent	Affluent	HNWI	VHNWI	UHNWI
$0-100,000	$100,000-250,000	$250,000-1 million	$1-5 million	$5-30 million	$30 million+

Darker shading indicates barrier is more pronounced

Investor protection and liquidity risk considerations are significant	Potential to expand access		Already has access, but scope for product and access innovation		
– Product and access innovation, financial advice by distributor and education will be the primary drivers of access for this wealth tier. – However, this wealth tier has significant investor protection and liquidity risk considerations that need to be addressed in particular at distributor level.	– While mass affluent and affluent wealth tiers currently lack direct access to private markets, they have the most opportunity and appetite for participation due to their financial education, risk tolerance, use of a financial adviser and use of collective investment vehicles. These investors would benefit the most from education, product and access innovation.		– While these investors technically have access to the private markets through their accreditation status, status quo standards often create significant barriers to access for these segments. These investors would also benefit from product and access innovation.	– While many of these investors have little to no barriers to entry to invest in the private markets, those that do could see access broaden with product and access innovation.	– These investors already have access to the private markets in most cases.

To responsibly broaden access, stakeholders need to carefully consider the risks and barriers at every stage of the journey for investors across wealth tiers

A retail investor would be exposed to these risks at various stages of their investment journey, in a world of broadened access. The key stages include:

Product awareness

- Investor or adviser awareness of the specific private market product
- Interest and intent to invest in product

On-ramp

- Preparing to invest in product
- Investing in product

During hold

- Period of time when holding investment (years)
- Information access may impair ability to monitor investments
- Governance varies, typically with limited rights

Off-ramp

- Exiting investment via sale in primary or secondary market

A full breakdown of activities that take place in each stage of the investor journey can be found in the Appendix.

Balancing increased access to private markets with appropriate access, as well as adequate safeguards at every stage of the investment life cycle, is crucial to harness the potential benefits of retail participation while mitigating the potential unintended consequences that could arise in a rapidly evolving financial landscape.

With this in mind, the remainder of this white paper will explore ways to address access barriers for suitable retail investors, and other demand-side, supply-side and market-enabling considerations that must be addressed.

3

Considerations to broaden access to private markets

This section considers the supply- and demand-side factors that are necessary to broaden access to private markets for retail investors.

It also provides an overview of some key considerations in terms of what would be needed to evolve a marketplace that would be fit-for-purpose for retail.

The challenges for retail investors in private markets need to be addressed to responsibly broaden access

The challenges have been segmented into three categories and are considered in the remainder of this section. It is important to note that these challenges interact, and true progress would only be made if these are tackled in parallel through coalitions and public-private partnerships. None can be solved in isolation or by one stakeholder alone.

Demand-side

To boost demand for private assets from retail investors, either through financial advisers or retail investors themselves as well as the on-ramps and access points for retail

Marketplace

To create a dynamic marketplace to allow a retail market to evolve

Supply-side

To tailor the products and investor experience available to retail investors to meet their diverse needs

Education

Managing liquidity

Means of access for suitable investor

Technology

Product

Data sharing and reporting

To unlock full potential, education of both advisers and individuals is key

In the private markets, **education becomes even more critical both for investors and those who are involved in the investing process** (e.g. through direct education or via financial adviser, wealth managers or asset management companies) due to the higher levels of capital required, lower levels of liquidity, potential higher risks and potential higher fees. Private markets bring with them an entire new lexicon of terms, nuances in liquidity and reporting, and may have a steeper learning curve for investors and financial advisers.

The figure below details some of the key pain points and considerations for educating both financial advisers and investors through the investment life cycle. Pain points that relate to scalability and the underlying technology of this ecosystem will be discussed in the technology section of the white paper.

	Product awareness	On-ramp	During hold	Off-ramp
Financial advisers	– Types of products the client is eligible to invest in (accredited investor, etc.) – Minimum investment – Typical length of hold and estimated return – Potential benefits of investing in this product – Product risks	– Additional necessary forms and background checks including AML and investor accreditation	– Compiling fund updates and communicating to investor – Understanding and flagging any potential issues to team and investor (e.g. capital deployed differently than originally planned, delays, underperformance, etc.)	– Communicating timeline to exit – Advising and selecting next investment using capital gained by investor
Investors	– Types of products they are eligible to invest in (accredited investor, etc.) – Minimum investment – Typical length of hold and estimated return – Potential benefits of investing in this product – Product risks	– Stages and amounts of capital to be called – Any tax implications during hold period (timeline and receiving of K-1s, etc.)	– Understanding nuances of reporting, when available – Understanding how state of returns may impact overall financial well-being – Understanding governance rights	– Understanding timeline – Clarity of potential tax implications and strategies – Determining use of capital once regained

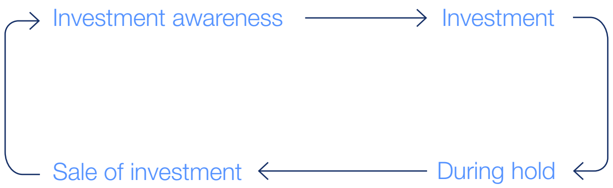
Education needs to be fit-for-purpose and meet the needs of individuals and advisers

Based on the global workshops hosted as part of this work, **inadequacies in current mediums and content of education for both advisers and investors were flagged as a concern** if access was to be broadened to private markets for individual investors.

When it comes to educating investors and advisers about private markets, the following considerations are key:

- Accessibility: Is the information readily available and current? Is the language accessible to the average investor?
- Transparency: Are details pertaining to liquidity, capital requirements, fees, and more, clear and available?
- Scale: Are the materials designed in such a way that they can be leveraged across wide swaths of investors and ecosystem players?

Each stage of the investment life cycle requires different educational touchpoints for investors and advisers



Where would a typical **retail investor** go today to learn about investing in private markets? Online searches for "how to invest in private equity" yield a multitude of sponsored company advertisements, blogs, videos and more, which may be sufficient to gain a base level of understanding about private equity. However, without a financial adviser as such, or advice from the product distributor, prospective investors may have a difficult time selecting the optimal investments.

Where would a typical **financial adviser** go today to learn about new private markets products? There is no industry standard today in terms of training financial advisers to learn new products; rather, each investment firm is responsible for their adviser training, often given online and introductory. However, with this level of training, financial advisers may find it difficult to sell these products to their clients.

As an investor, do you know:

- ✓ How this investment impacts your overall portfolio diversification and risk profile?
- ✓ What are your real liquidity needs and how do alternative investments impact them?
- ✓ When and how your investment funds will be "called" by the fund manager?
- ✓ What the fees are both on a percentage and dollar basis?
- ✓ What is the minimum and maximum length of time your capital will be "locked up"?
- ✓ How often you'll receive performance updates on the fund?
- ✓ Ability to exit/sell your investment if needed?

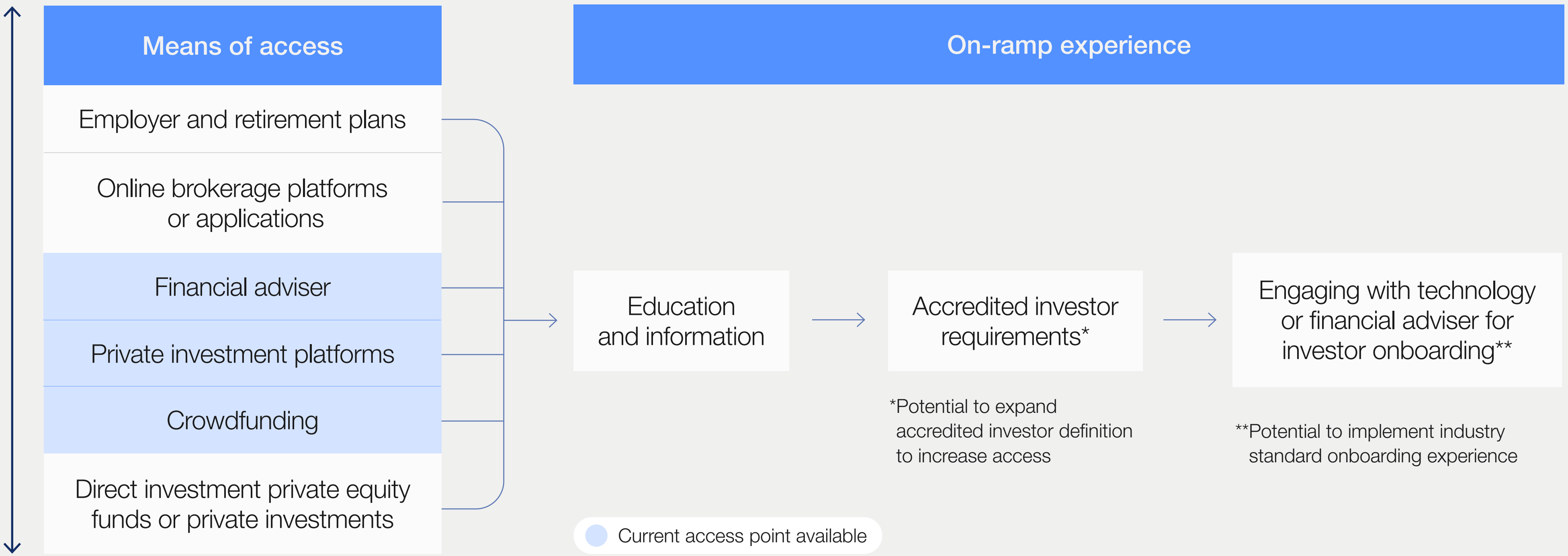
As an adviser, do you know:

- ✓ The considerations regarding how (and when) to potentially include these investments as part of the broader portfolio?
- ✓ What the liquidity needs of your client are and how they are impacted by alternative investments?
- ✓ The nuances of different private market products to be able to sell to new and prospective clients confidently?
- ✓ How and when yearly compliance or annual reporting is due for each type of product?
- ✓ The tax implications for your clients who decide to invest in the private markets?
- ✓ The fund details, including liquidity timelines, called capital timelines, fees, exit strategy to manage your client questions?

Ease of access to the private markets is important to consider when designing the broadened ecosystem

Means of access and investor on-ramps both pertain to the process that an individual must go through to become an investor in a particular investment opportunity. Suitable means of access provide the tools and platforms for investors to engage with various investment opportunities. In turn, the investor on-ramp process ensures that individuals or entities using these means of access are properly informed, qualified and compliant with regulatory requirements before they can participate in investments.

With regards to the private markets, these steps in the investment process might be the first exposure that some investors have to the private markets, making on-ramps a critical experience impacting demand. To ensure retail investors have access to the private markets, **both access points and on-ramps need to be comprehensive enough to ingest the multitude of complex information required for investment, while being user-friendly to ensure that new investors do not feel overwhelmed or discouraged.**



Products tailored to the needs of retail investors may expand and improve investment choices, in concert with appropriate education

Although individuals' wealth creation opportunities may benefit from exposure to alternative investments, existing products are mostly ill-suited to the spectrum of retail investors. **Retail investors will require nuanced product considerations as market access widens.**

As alternative investments broaden to include retail investors, they must be offered in a way that avoids placing the same decision-making and capital allocation challenges faced by institutional investors (with a full investment team) on retail investors. This will entail catering to their liquidity preferences, investment sizes and knowledge of the alternatives space. Key features of successful products will likely include:

Predictable product liquidity and capital requirements

- Enhanced predictability across the landscape with clear rules around redemptions will appeal to investors and their advisers alike
- Quarterly or monthly liquidity likely needed for mass-affluent investor base
- Investors should be allowed adequatetime to prepare to fund capital calls without any call comprising a disproportionate amount of the commitment

Small minimum investments

- Retail investors cannot be expected to pledge a majority of their net worth in novel products
- Very small ticket sizes will be needed for widespread retail adoption up to an appropriate percentage of investors' net worth

J-Curve risk mitigation

- Returns from many private funds (including most private equity funds) are negative in the early stages, as capital is called by managers, before turning positive as capital is distributed by managers
- Products that are a consistent source of positive investment income will be more suitable for a range of investment horizons and liquidity needs

Intermediation

- Curated products, which offer pre-diligenced and selected choices, simplify decision-making. By providing access to multiple alternative investment types and managers, these products are likely to appeal to retail investors
- Tech-savvy third parties, separate from fund managers, may aggregate and distribute such products

Diversification

- The full range of funds and strategies offered by large managers today cater to large diversified institutional investors
- Products should allow retail investors to build a similarly diversified alternatives portfolio via a single entry point

Transparency

- Retail investors have come to value and expect automated and consistent profit and loss (P&L) and portfolio reporting updates (in the context of public investment platforms offered real-time)
- Alternative products are more likely to find broad appeal if they have a similarly intuitive and data-rich interface with simple portfolio monitoring

Integrated delivery

- Streamlined tax reporting that does not put the onus of complicated filings on retail investors
- Centralized interfaces (applications, web-pages) that potentially span managers and alternative products will facilitate access and adoption

Choosing the ideal vehicle is an important consideration in terms of investor suitability, liquidity preferences and other trade-offs

By steering less sophisticated investors towards products[14] that have a high-level of design and curation by third parties, it would be possible to shift some of the education and selection burden from investors to the professional managers. For higher-net-worth individuals and above, their access and ability to absorb liquidity risk deem them more appropriate for selecting direct investments.

Education for investors and investment advisers is still needed throughout the product spectrum.

Managed solutions – more suitable for lower net worth

Bespoke and direct investments – more suitable for higher net worth

Intermediated, diversified, streamlined and standardized

Negotiated and concentrated

	Retirement/pension manager	Public market fund with private exposure	Annuity	Crowdfunding	Self-directed	Bespoke/direct investments
Product	Longer-term, relatively lower risk	More liquid, lower risk	More liquid, lower risk	Less liquid, potentially mid-higher risk	Less liquid, potentially mid-higher risk	Low liquidity, potentially mid-higher risk
Description	Selected by pension manager as an option for retail investor	Private market allocation (up to 15%)	Purchased through an insurance company, brokerage firm, mutual fund company or bank	Facilitated by a company to aggregate investors into a fund or product	Investing directly via an investment platform or company	Investing through an adviser or directly into the asset itself

Secondary market trading for non-institutions is at an early stage of maturity

The secondary market is a marketplace where previously issued securities or investments can be bought and sold by individual investors and managers, **allowing retail investors and shareholders to access liquidity and potentially exit their private market investment before the intended fund maturity or exit event of the underlying assets**. It also offers incoming investors a place to buy private equity assets at a potentially discounted price. Secondary deals can be structured in several ways, depending on the stakeholders and circumstances.

Although the secondary marketplace will play a role in offering liquidity to retail investors, there is a risk of excessive liquidity enabling irrational decisions, bubbles and speculation. Responsible investors should not consider secondary sale options to be full mitigations to the illiquid nature of private alternative investments.

Globally, the maturity of a secondary market for private assets for retail investors is very limited and reserved for institutions and large managers. As the market continues to mature, there are a number of design principles that would need to be considered.

At this stage of evolution for retail investors, these are all hypothetical, but could include:

- **Transparency:** Provide clear and transparent pricing, allowing investors to understand how asset valuations are determined. It should include and implement disclosure requirements that ensure retail investors receive essential information about the risks and potential returns associated with the private asset.
- **Transaction costs and fees:** Clearly outline all transaction costs and fees associated with buying, selling or holding private assets. Ensure fees (and discounts for sellers) are fair and competitive, aligning with industry standards.
- **Liquidity options:** Offer a range of liquidity options, allowing investors to choose from options that offer quick liquidity at a higher price or slower liquidity at a lower price. One day, the market should allow market orders and limit orders to accommodate different trading strategies.
- **Risk mitigation and investor education:** Develop risk assessment tools to help retail investors evaluate the risk associated with their investment choices, and consider the best way to offer educational materials to help investors make informed decisions.
- **Regulatory compliance:** Ensure adherence to accreditation criteria, compliance frameworks as well as other AML and KYC procedures. Ensure that laws and regulations are amended to allow the operation of a multilateral trading facility that facilities direct secondary trading of alternative investment funds between retail investors.

The market today

Secondary transactions are negotiated individually through lengthy processes, and often require the involvement of investment banks. Despite this, secondary trading has evolved greatly, and now has several institutional funds dedicated exclusively to providing liquidity to managers and investors. Over the past 15 years, the growth of private equity secondaries market has been accelerating rapidly.[15]

Fintech platforms have recently emerged that offer a variety of transaction structures for investor-to-investor transactions, including open auctions, or partner with dedicated secondaries managers to offer investor-to-manager sale options. Like these platforms, a mature secondary marketplace is likely to be seamlessly accessible (online and through applications), and may be developed by a dedicated third party intermediary (potentially in collaboration with existing secondaries managers).

A secondary market could evolve to allow retail investors to access liquidity

The secondary market may play a crucial role in providing retail investors with access to liquidity, if it is required. Part of the returns from alternatives comes from a liquidity premium. In exchange for creating liquidity, secondaries players are compensated by buying assets at a certain discount (around 10%). As this market matures, the options for retail investors to liquidate private investments will multiply, pricing will become more attractive (discounts will compress), and liquidity risk could become less of a concern. Secondary securities, whether direct asset ownership or fund interests will transact multiple times in standardized ways, and dedicated market-makers may even emerge to bridge the gap between dedicated secondaries fund strategies and retail investors.

In the bottom right chart, transaction 0 represents an initial fund investment by a retail investor. As transparency and data sharing increase, retail investors will one day have several ways to obtain liquidity via secondaries, including:

1 Manager-to-manager transaction

A fund manager sells fund assets to another manager or another of its own vehicles, realizing returns for existing institutional investors or rolling them into the new vehicle. This allows investors to see returns and potentially exit their investment even if the underlying assets have not matured (for credit) or cannot yet be sold publicly (for equity). Such transitions provide information for investors on the real value of the asset.

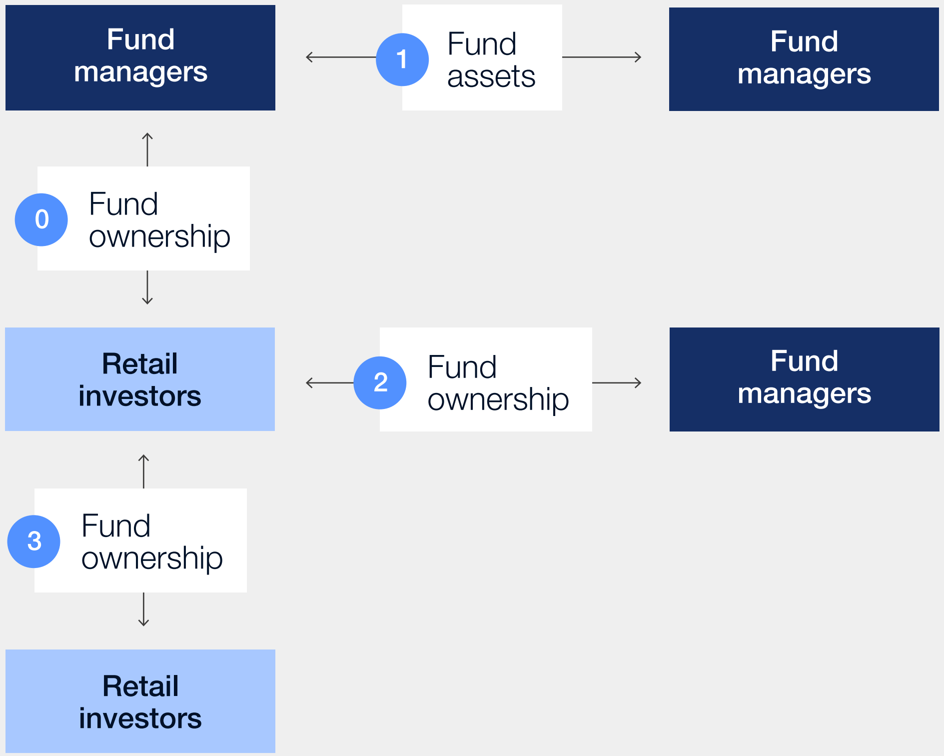
2 Investor-to-manager transaction

An investor sells their ownership interest to a secondaries fund manager directly. These deals currently exist for large institutional LPs and are done on a bespoke, diligence-intensive basis or for individual asset-holders on a negotiated basis. One day, deals will become faster, easier and more standardized.

3 Investor-to-investor transaction

An investor sells their fund ownership interest to another investor. For retail investors, this may one day even involve a centralizing market-maker, and the liquidity distinction between private and public investments may even begin to blur. Some emerging platforms have begun to offer these types of transactions

Potential unintended consequences of a secondary market, and their impact on valuations and returns, have not been considered as part of this white paper but should be considered for further anlaysis.



Technology will be a key enabler to ensure a seamless and scaled investor journey for all stakeholders

In this nascent market, technology will act as the intermediary between the supply created by managers and the demand from retail investors and their advisers, although it is managers who will face the challenge of building unified and cohesive solutions.

Every step of the investor journey will be impacted and facilitated by technology.

On the one hand, retail investors already expect a technologically-enabled investment process from their experience in public markets, with seamless onboarding and verification, asset selection, bank account integration and 24/7 monitoring and analytics. On the other hand, the alternative asset investment process is procedurally cumbersome, requiring continuous communication for capital calls, unstandardized fund performance reporting and onerous tax filings. Technology needs to bridge this divide by facilitating a streamlined investor journey, from onboarding to asset purchase and monitoring to monetization and tax handling.

Critically, the vast majority of the solutions needed to provide such an investor experience already exist and are being used by public asset managers, current retail investing platforms and digital asset investment companies. Blockchain technology and tokenized fund ownership may even play a role in reducing frictions in the investment process. Alternative managers would need to provide guidance for the standardization of investor reporting, etc., but most of the building blocks for a retail-friendly alternative asset investment experience, including a smooth on-ramp, off-ramp and holding process, already exist.

Technology needs to play a vital role in helping to broaden access, improve the investor experience, and help standardize a scaled solution

	Access	Investor suitability	Investor experience	Education
Pain points	– Prohibitively high minimum investments, in part due to need for institutional investor management – Multiple layers of cost – Concentration limits (“bite-size constraints”) from wealth managers	– Reduced liquidity – Varying complexity for deal selection vs broader portfolio construction – Term of capital	– Speed – Transparency – Incorporation into existing portfolios – Tax reporting – Capital calls – Lack of standardization	– Lack of comprehensible content for both financial advisers and investors – Scale of information spread – Lack of simplified messaging – Fragmented content often linked to a marketing context

Role of tech	– Lower cost of onboarding and servicing, making it easier to scale
	  – Better user experience (UX)
	  – Scale adviser process
	  – Scale LP management
	– Democratize access through integrated access to several investment options
	– Ease validation of total net worth for concentration limits
	– Provide access for brokers during off- and on-ramps
		– Enable participation in model portfolios
		– Speed validation of investor suitability via total net worth analysis, income threshold via application programming interfaces (APIs) or other existing solutions
		– Maintain adherence to liquidity requirements by monitoring entire portfolio
		– Evaluate capacity to commit and deploy capital
		– Automate and streamline AML/KYC process, using solutions from the cryptocurrency onboarding process
		– Enable development of private market indices leveraging increasing volume of secondary market data
			– Enable advisers to service clients at scale (potential to reduce costs)
			– Provide better user interface, with faster onboarding and interaction
			– Establish minimum standards for investor reporting and transparency
			– Incorporate data flow into investors’ “native” investment home, for access in context of full portfolio, and in an understood format
			– Centralize capital calls and provide ample notice
			– Consolidate tax reporting into a single consolidated document
				– Scale spread of investor and adviser education through videos, articles and posts, potentially from a consortium of industry participants

As in any market, access to comparable and reliable information will be core to coordinating buyers and sellers

Envisaging an efficient marketplace requires the effective and responsible sharing of data. Fund managers will have to provide retail investors with a sufficient degree of standardized information (including, for example, on performance, liquidity, risk, historical returns) to allow investors and advisers to make informed decisions quickly.

Although there is an increasing push for more transparency and data sharing in private markets, balancing the need for transparency with concerns around regulatory burden, data confidentiality and competitive advantage must be weighed up. A public-private partnership approach would likely be most constructive in maximizing investor protections and investor access to high-quality alternatives strategies. Key considerations around data sharing are explored further below.

Transparency

- Access to information will be essential for retail investors to be able to make informed choices
- This information may be different from that required by institutional investors, particularly for intermediated and well-diversified products
- Ensuring a clear investor understanding of the liquidity and investment horizon of prospective investments will be essential

Data confidentiality

- Adherence to data confidentiality best practices are critical to ensure investors are protected while data is shared between stakeholders

Standardization

- Data will be most useful if it is calculated with consistent methodologies and terminology across products and managers
- Standardized data will facilitate product comparison and institutional investor engagement

Manager feasibility

- The more managers that are able to access the retail market, the greater the competition on fees and options available to investors
- Attention needs to be paid to the spectrum of managers (from smaller actors to larger), to comply with data sharing standards and not be a competitive barrier

Tech-enabled access

- Retail investor access is likely to occur via platforms that allow access to several fund managers and strategies
- These platforms may be webpages, applications or other services, all of which will benefit from quick and reliable online access to product data
- API access to information or order routing can increase access

Public-private cooperation

- An approach developed jointly with regulators is more likely to succeed in the long term and to be adopted broadly

Industry consortium approach

- Closely linked to standardization and feasibility, standards should be developed cooperatively across managers to maximize engagement, participation and ultimately retail access

4 Calls to action

This section provides an overview of the recommendations to broaden access to private markets for suitable individual investors.

If access to private markets is broadened, the education of investors, advisers and fund managers will be foundational

Based on input from the global workshops held as part of this work, education was a resounding necessary step if access to private markets was to be broadened to retail investors. This includes education of financial advisers, fund managers and retail investors themselves. A multi-pronged approach that combines regulatory oversight, industry best practice and investor education would be necessary to effectively broaden access to private markets while safeguarding the interests of retail investors. True progress to improve education across the ecosystem will require partnership from all stakeholders.

1

Rethink education and awareness raising activities for key stakeholders – including, most importantly, financial advisers and investors themselves

In private markets, education is even more critical due to the higher levels of capital required, lower levels of liquidity, potential higher risks and higher fees.

For financial advisers:

- Regulatory compliance training, product knowledge and other ethical considerations will be key for advisers. Several shortcomings were identified with the current medium and mode of education and awareness raising of financial advisers within organizations. Financial adviser education around the specific risks can go a long way to help them appropriately position these products to clients. A focus on educating advisers to feel comfortable and confident in recommending private market products with compelling, engaging, evidence-based learning styles is important. Additional guardrails could be considered that contemplate how much private market risk would be advisable for a particular client. Ensuring this is scalable across an organization or industry will be essential, as well as efforts to standardize approaches.

For funds/private equity:

- Transparency and communication and access to information needs to be presented in a way that is understandable to a non-professional audience – for funds/private equity who have historically worked only with institutions, this will be a steep learning curve. Broadened access will mean exposure to a new investor base not typically dealt with. The learning curve on communicating and engaging with this cohort may be steep, and education across the industry will be needed to ensure it is approached in a tailored and nuanced way.

For investors themselves:

- A continued emphasis remains on building core financial literacy skills for individuals across society. This means starting early and building on these skills through schooling and life. As individuals interact with investment platforms and advisers, opportunities to continually upskill and share useful information should be capitalized upon.

For industry players – including wealth management firms, brokerages, fintech, infrastructure providers, fund managers and private equity – tailoring to the retail investor is required

This paper has highlighted the unique characteristics across the retail investor market. To responsibly broaden access in an inclusive way, continued innovation is needed to ensure products and investment choices are fit-for-purpose and provide diversified exposure, while minimizing downside risks.

2

Tailor products to retail investors' liquidity, investment horizon and return needs

Reorganize current fund structures to incentivize onboarding smaller investment sizes to appeal to mass retail clients.

This could also include developing derived investable products leveraging secondary market data to broaden access to diversified private assets.

Address lack of liquidity during off-ramp phase by expanding qualified investment to include secondary market transactions.

Keep in mind retail needs, such as enabling exposure to products that range in performance and in order to allow for diversification.

3

Form industry consortiums to accelerate standardization

The creation of a consortium to create industry-standard products tailored to retail and have aligned incentive structures is key to ensure that coordination challenges can be addressed. A proof-of-concept approach is valuable as it allows for real-time adjustment prior to any market launch.

This should include developing a shared long-term strategic vision to take the first steps towards offering a unified technologically-enabled retail product and investment journey. If coordinated with the educational investments needed to galvanize investor demand, a comprehensive solution could help to jump-start a broader wave of alternative investment democratization.

4

Simplify investor journey

This starts with education and suitability assessments but also includes thinking through risk disclosure, due diligence and diversification recommendations.

Making private market investments and platforms user-friendly and accessible will ensure retail investors can easily access information about available opportunities, historical performance and fees associated with investments.

This should be continuously monitored to assess continued suitability for retail investors, and adjustments should be made based on changing market conditions or regulatory developments.

5

Invest and explore technological innovations

Much of the technology that would solve for the pain points in the investor journey already exist. Stakeholders should learn the lessons from these adjacent industries (such as those used by digital platforms) to integrate already existing technology to create ease and scale.

New technologies, such as generative artificial intelligence (AI) and tokenization, also represent significant opportunities when it comes to the challenges of broadening access to retail investors. All stakeholders should consider how to use such new technologies to aid in the demand- and supply-side, as well as assess any unintended consequences.

Policy-makers and regulators should consider actions to bolster the potential supply-side of the market as well as ways to responsibly create demand

During global workshops held through the course of this work, a number of pain points were identified that would potentially hold back progress towards broadening access to private markets for retail.

6

Address limits to on-ramps for retail investors and expand key access points

Continue to evolve the accredited investor definition to shorten the length of the on-ramp for retail investors in a way that is inclusive and mindful of investor protection.

Evolve the means of access for new and suitable retail investors and enable broader educational messages.

Address marketing and solicitation guidelines to enable the spread of broader educational messages – e.g. allow marketing to be included in educational efforts geared towards non-accredited investors for widely available products, such as 401(k) plans.

7

Create policy instruments aimed at increasing retail participation, keeping in mind investor protection considerations

Policy instruments – such as regulatory reforms, tax incentives and financial education – can play an important role in retail participation in public and private markets. Other tools to target market access and through government-backed initiatives (such as the European Long-Term Investment Fund) can also provide a supportive policy environment.

This needs to be balanced against investor protection considerations, which will be unique to each jurisdiction or region (e.g. in the EU with the MiFID investor protection rules).

8

Assess loosening constraints on private market exposure via managed solutions (e.g. pension funds)

Managed solutions offer both exposure to private markets and allow investors to benefit from the returns and diversification outlined. However, jurisdictions vary in their approach and openness to this.

Of course, policy-makers need to strike a balance by implementing appropriate safeguards and regulations to mitigate potential risks, ensuring that such expansion benefits pensioners and the broader economy.

To make progress towards broadening access to private markets for more retail investors, there is a need for public-private partnership

Across all stakeholders, including policy-makers, regulators, brokerages, wealth managers, advisers, private equity, fund managers and exchanges and infrastructure providers, there are a number of calls to action that require partnership and collaboration.

9

Standardize language, forms, reporting and processes

Standardization can play a crucial role in broadening access for retail investors by enhancing transparency, reducing barriers to entry and improving the overall investment experience. This can contribute to a more inclusive and equitable financial landscape.

Through the global workshops held, many examples of overly cumbersome forms, reporting processes and manual ways of doing business were identified. One common example was the tax disclosure process. Opportunities to standardize and streamline these should be identified by public and private stakeholders. Technological innovations may go some way in overcoming some of these challenges.

10

Support responsible data sharing

To effectively support the development of a marketplace and the exchange of information, support responsible sharing of data.

This should be balanced against reporting burden, incentive to innovate, competitiveness of smaller managers and competitive advantage. It should also keep in mind data protection and confidentiality. Public-private dialogue to strike this balance will be essential.

5 Appendices

This section provides appendices of additional analysis undertaken.

Mapping of existing product offerings in private markets, by wealth tier

The below table provides an overview of the current gaps in product offering, by wealth tier.

		Mass market	Mass affluent	Affluent	HNWI	VHNW	UHNW
		$0-100,000	$100,000-250,000	$250,000-1 million	$1-5 million	$5-30 million	$30 million+
Private equity (PE)	Publicly listed PE investment firms	X	X	X	X	X	X
	Passive ETF tracking listed PE firms	X	X	X	X	X	X
	Crowdfunding platforms	X	X	X	X	X	X
	Secondary platforms / Market places	X	X	X	X	X	X
	Fund of funds or portfolio products				X*	X	X
	PE funds				X*	X	X
	Co-investments/direct deals				X*	X	X
	Venture funds				X*	X	X
Private credit	Crowdfunding platforms	X	X	X	X	X	X
	Direct lending				X	X	X
	Mezzanine				X*	X	X
	Special situations				X*	X	X
	Distressed credit				X*	X	X
	Venture debt				X*	X	X
	Real estate debt				X*	X	X
	Infrastructure debt				X*	X	X
Real estate	Public REITs		X	X	X*	X	X
	Private REITs			X	X	X	X
	Commercial real estate				X*	X	X
	Residential real estate	X*	X	X	X	X	X
	Real estate crowdfunding platforms	X	X	X	X	X	X
Infrastructure	Infrastructure debt				X*	X	X
	Infrastructure PE funds				X*	X	X
	Listed companies providing infrastructure	X	X	X	X	X	X

Note: *Technically has access to these types of investments, but realistically cannot invest due to limiting factors.

The investor experience has been mapped as having four stages

Product awareness

Opportunities for improved education for **retail investors** to understand the role of private market exposure, as well as:

- Ways to access private market assets
- Types of products
- Fee structures
- Liquidity requirements
- Investment window and details

Improving **adviser education** to become proficient in alternative products, and empower them to sell them efficiently to their clients.

On-ramp

Access point to private asset, market securities and investment vehicles.

Includes, but is not limited to:

- Accredited investor requirements
- Solicitation
- Investor onboarding
- Subscription agreement

During hold

This includes **all ongoing obligations while invested.**

Includes, but is not limited to:

- Fund reporting, investor updates and disclosures
- Performance and attribution reporting
- Tax compliance

Off-ramp

This refers to **exiting the investment**, noting various routes to do this.

Includes, but is not limited to:

- Redemption policy and liquidity management tools
- Disposal of asset
- Distribution of proceeds and capital

Investor onboarding experience

KYC/AML capture for (first-time investor)	Review executive summary (included in solicitation email)	Private placement memorandum (PPM)	Onboarding form input and verification	Accredited investor questionnaire	Subscription agreement	Client is onboarded
Details	– Investor has reviewed solicitation email and made their initial commitment to be pushed into the flow	– Investor must validate having reviewed PPM and risks associated with investment	– Verify name, date of birth and contact information – Input sources of income – Confirm if politically exposed person – Confirm if ever convicted of a financial crime – Confirm if beneficiary of a trust or legal entity	– Investor validates being an accredited investor	– Investor completes subscription form (verifies committed amount and signs)	
Pain points for investor	– Investor needs to understand product and asset class – Investor needs to have relationship with adviser	– Investor needs to understand PPM and risks	– Confusing to input all information correctly – Inputting information can be manual process – Needs to be attested and verified annually – Can take time to verify and track down paperwork	– Can take time to verify and track down paperwork – Inputting information can be manual process	– Long document – Subscription agreements are written in legal language and can be difficult to understand – Investors may not read agreement, and may not be able to fulfill it when capital gets called	
	Education	Education	Technology	Technology	Technology Education	
Pain points for adviser	– Variation of coverage – Adviser education on alternative products		– Needs to be attested and verified annually – Can take time to verify or fill in incorrect/missing pieces of information	– Can take time to verify or fill in incorrect/missing pieces of information	– This entire process is a major pain point for advisers	

Investor hold experience

As relevant	Monitoring and reporting	Potential follow-on investments	Tax compliance	Dividend distributions
Details	– During the hold period, the investor actively monitors the performance of the investment – The fund provides regular updates, financial statements and other relevant information to keep the investor informed about the progress and any material events	– In some cases, the investor may have the option to make additional investments in subsequent funding rounds to support the growth or expansion of the company – This may involve renegotiating terms or participating in pro-rata offerings	– Annual tax compliance related activities that all investors need to follow in the US – This could include gathering documents, filing an extension for tax deadline, and working with their certified public accountants (CPAs)	– Depending on the nature of the investment, the investor may receive periodic dividend distributions if the company generates profits
Pain points for investor	– Reporting can be inconsistent fund-to-fund, creating multiple reporting formats for investors – Not easy for investors to see how their total portfolio is doing across multiple lines of investments	– Re-negotiating terms or participation in pro-rata offerings comes with additional paperwork and onboarding	– Long process with lots of delay in time (K-1 time lags) – Costly – need to hire an accountant, file an extension, filing your K-1 ($100-300 per K-1) – Overly manual process – need to look through investment reporting for data for tax forms	– Nature of timing is not clear – Investors need to understand it takes 3-4 years before returns are typically realized
Pain points for adviser	Technology Education	Technology	Technology	Technology Education
	– Providing performance and attribution reporting can be a complex process depending on technology	– Re-negotiating terms or participation in pro-rata offerings comes with additional paperwork and onboarding	– Gets confronted with client requests on tax questions they will most likely not be able to answer, if not automated	

Investor offboarding experience

	Exit strategy evaluation	Preparing exit documentation	Tax planning and optimization	Exit execution	Distribution of proceeds and capital
Details	– Investors should review their investment document to understand their rights, restrictions and procedures related to exiting the investment – Investors must also review any exit paperwork to understand the terms of their exit – This includes performing due diligence on the buyer or acquiring entity	– Preparing and reviewing legal agreements, disclosure documents, due diligence materials, financial statements and other relevant materials – Advisers must ensure that documentation is accurate and in compliance – Investors need to understand the documentation and sign off on the exit terms	– Advisers provide guidance and support during the negotiation phase of the exit transaction – Help navigate complex negotiations, review and propose changes to the terms of the transaction, and ensure that the investor's interests are protected	– Any regulatory or compliance procedures required for the execution of the exit strategy are completed at this step – This also includes the signing of paperwork and transfer of ownership and settlement activities	– This can involve assisting with post-closing adjustments, facilitating the resolution of any post-closing disputes and supporting the investor in managing the proceeds from the exit
Pain points for investor	– Investor needs to find and read complex documents and understand their implications	– Investors need to read complex documents and understand their financial implications – Process could be time consuming, stressful and costly		– Investors need to provide any relevant information required	
	Technology / Education	Education	Education	Technology	Technology
Pain points for adviser	– Adviser needs to compile or pass along fund exit paperwork to their client – Advisers should help evaluate the exit opportunity to ensure alignment with investor's goals	– Advisers need to perform valuation and financial analysis, which could be time consuming		– Adviser needs to understand the compliance and tax landscape – Can take time to verify paperwork and can be a manual process	

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Endnotes

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