WEAVING PRIVATE ASSETS INTO WEALTH PORTFOLIOS: EVOLVING STRUCTURES TO MEET EVOLVING NEEDS

A white paper by the Investment Association and Goji

December 2021

ABOUT THE INVESTMENT ASSOCIATION (IA)

The IA champions UK investment management, supporting British savers, investors and businesses. Our 270 members manage £9.4 trillion of assets and the investment management industry supports 114,000 jobs across the UK.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs.

The UK is the second largest investment management centre in the world, after the US and manages over a third (37%) of all assets managed in Europe.

ABOUT GOJI

Goji is a leading provider of regulated platform technology to alternative investment managers. Goji's mission is to make private asset investments more accessible to a wide range of investors. Goji's investment platform gives investors an online journey and automates onboarding, payments, custody and reporting. Investors in Goji include AXA Strategic Ventures and Anthemis. Goji is headquartered in the UK and regulated by the FCA. For more information, please visit **www.goji.investments**

FOREWORD

By Chris Cummings, CEO, The Investment Association

SOPHISTICATED, LONG-TERM INVESTORS HAVE LONG BEEN AWARE OF THE RETURN AND DIVERSIFICATION BENEFITS THAT AN ALLOCATION TO PRIVATE ASSETS CAN BRING TO THEIR PORTFOLIOS. AS PRIVATE MARKETS BECOME AN INCREASINGLY SIGNIFICANT PART OF THE ECONOMY, AN IMPORTANT DEBATE IS TAKING PLACE IN THE UK, EU AND ELSEWHERE ABOUT HOW TO WIDEN ACCESS FURTHER. THERE EXISTS GREAT POTENTIAL TO BETTER MATCH THE DEMAND AND SUPPLY FOR PRIVATE ASSETS THROUGH THEIR 'DEMOCRATISATION', REACHING DEEPER INTO THE DC PENSIONS, PRIVATE WEALTH AND RETAIL MARKETS.

To date, these investors have had a limited range of options to share in the benefits of the private markets, primarily focused on closed-ended, listed vehicles. The illiquid nature of these assets has traditionally precluded their use in portfolios built around the operational model of daily pricing and open-ended investment vehicles. This limitation affects a range of customers, including private wealth clients.

Since 2018, we at the IA have been working with regulators on the development of a new authorised fund structure, designed specifically to give a range of investors outside the institutional market more direct exposure to returns from illiquid assets, by better aligning the liquidity profile of the assets with the redemption terms of the fund. With the advent of the Long-Term Asset Fund (LTAF) in November 2021, this vision is starting to be realised and we hope that the LTAF will play a valuable role in providing greater choice alongside the closed-end universe.

A constant question in the debate has been the extent of demand by different kinds of investors. Regulators are understandably keen to understand whether, in bringing a new fund regime into existence, it will be extensively used. The IA has therefore been pleased to partner with Goji in commissioning this research from Compeer. As this report shows, a lack of demand is not a primary concern: wealth managers are already making small allocations to private assets, with significant potential for further growth, as firms seek to improve their client propositions by offering more diversified portfolios that can enhance investor outcomes.

Instead, there are other challenges facing wealth managers seeking to allocate to private assets, notably: the lack of appropriate illiquid fund structures; a mismatch between client expectations on liquidity and the liquidity of the investments; concerns over the distribution landscape for private asset funds; and the higher costs of investing in private assets.

The LTAF can solve some of these concerns, but further regulatory intervention is necessary if private wealth clients are to fully benefit from it, with its distribution currently heavily restricted by the FCA's rules.

As we await the next stage of work on broadening retail access to the LTAF, with a further consultation to follow in H1 2022, we hope this report will contribute to the debate by providing a clear view of the current and potential demand for private assets by wealth managers, as well as the challenges these firms face in making such allocations on behalf of their clients.

...WITH THE ADVENT OF THE LONG-TERM ASSET FUND (LTAF) IN NOVEMBER 2021, THIS VISION IS STARTING TO BE REALISED

FOREWORD

By David Genn, CEO, Goji

PRIVATE ASSETS ARE ALREADY AN IMPORTANT PART OF PRIVATE WEALTH PORTFOLIOS. MANY PARTICIPANTS ACROSS THE PRIVATE CAPITAL UNIVERSE PROBABLY SUSPECTED THIS, BUT THROUGH A SURVEY OF WEALTH ADVISORS, WE CAN NOW VALIDATE THE DEMAND THAT EXISTS IN A CORNER OF THE MARKET TRADITIONALLY DIFFICULT TO PIN DOWN – HIGH-NET-WORTH AND ULTRA-HIGH-NET-WORTH INVESTORS.

One of the clear themes from the research commissioned by The Investment Association and Goji was that investors aren't necessarily asking for private assets exposures by name. The commitments are instead premised on delivering investment outcomes that traditional public equities and fixed income portfolios can't provide on their own.

If anything, the fact that four out of every five wealth managers in the UK are investing in private assets speaks to their determination to access otherwise hard-to-reach strategies on behalf of their clients. Prior to the recent rollout of the Long-Term Asset Fund (LTAF) in November 2021, illiquid investments – at least for wealth managers – were characterised as much by the operational headaches as the enhanced alpha, increased yields and diversification benefits they can instil into an investment portfolio.

From the industry's perspective, what's exciting isn't necessarily the accessibility of private capital made possible by the LTAF. Wealth advisors already had their foot in the door. But the potential growth available now that regulatory and digital tools have cleared a path into these asset classes should beckon both fund and wealth managers who might previously have felt the juice wasn't worth the squeeze. Just to contextualise it, Oliver Wyman recently forecast that ultra-high-net-worth (UHNW) exposures to private capital will reach $24 trillion globally by the end of 2024.

For the uninitiated, the LTAF is designed to address, among other things, liquidity mismatches that have historically complicated private asset investments through open-ended funds. This characteristic, along with being a regulated structure, will also engender transparency around exposures, underlying valuations and costs as well as the limited liquidity of the structures. The biggest game changer, which is related to the efforts to solve the liquidity mismatches, is the flexibility afforded to managers to accommodate redemptions without sacrificing value through the forced sale of assets.

The LTAF does not necessarily represent a silver bullet that will democratise private assets overnight. Moreover, awareness will need to grow for both wealth managers and their clients to understand how they can leverage the structure and the potential trade-offs required.

Even if the structure, at this early stage, only represents a starting point, when coupled with innovations that streamline back-office operations and deliver efficiencies that enable distribution at scale, we believe the launch of the LTAF could represent a milestone and catalyst, as private assets are increasingly made available to a wider and more diverse audience. At Goji, we look forward to supporting the industry as this journey progresses and as a path for individual investors into these asset classes continues to form.

… ULTRA-HIGH-NET-WORTH EXPOSURES TO PRIVATE CAPITAL WILL REACH

$24 TRILLION

GLOBALLY BY THE END OF 2024

EXECUTIVE SUMMARY

CURRENT MARKET AND DEMAND FOR PRIVATE ASSETS

Almost 80% of wealth managers who responded to this survey already invest in private assets on behalf of their clients, allocating, on average, around 5% of their total assets under management (AuM). These firms cite diversification and performance as key reasons for incorporating private assets into portfolios, with such allocations being driven by wealth managers seeking to improve their clients' outcomes.

THE PRIVATE ASSET MARKETPLACE

The most commonly used asset classes are private equity, real estate and infrastructure. Real estate and infrastructure investing are often targeted as an income-producing exposure, while private equity is viewed as a growth-oriented strategy, with structural hedges to capitalise on public market volatility.

When reviewing the various investment vehicles used to provide exposure to private assets, investment trusts and VCTs are used by all the firms surveyed, with authorised funds also used, most likely NURS structures. By contrast, only a small proportion of wealth managers invest directly in private assets or opt for professional funds.

DELIVERING ON THE DEMAND

There are a number of barriers standing in the way of greater private market allocations by wealth managers. Chief among them, according to those surveyed, is a mismatch between the liquidity profile of private assets and client expectations of liquidity, availability of appropriate fund vehicles and higher costs. The restrictions on marketing Non-Mainstream Pooled Investments (NMPIs) – which are how certain private asset funds are classified for distribution purposes – to private wealth clients also represent significant hurdles.

Most firms surveyed had heard of the LTAF when this survey was conducted in Summer 2021, and 50% were familiar with how it will operate. Approximately one in three were already likely to consider investing in the LTAF once it is launched, or other similar structures, with a further 30% neutral at this point.

INTRODUCTION

Demand for private capital investments among institutional investors is obvious and quantifiable, as demonstrated by allocations to private equity, private debt, infrastructure and real estate that have grown rapidly over the past 10 years. According to Preqin data, fundraising for alternatives (including private equity, infrastructure, private debt and real estate) in 2021 is on course to be a record year in terms of aggregate capital raised with $1,186 billion raised so far.[1]

With institutional participation in private markets now well established, investment managers are considering the opportunity beyond traditional institutional customers. This has coincided with increasing interest in private assets by wealth managers, whose clients represent a large and generally untapped pool of capital in respect of private assets. The high-net-worth (HNW) segment, alone, is conservatively on pace to exceed $100 trillion in available assets by 2024, according to Oliver Wyman.[2]

At the same time regulators are making significant strides to open up private markets to larger pools of capital, while private markets are becoming an increasingly prominent part of the overall investment landscape and difficult to ignore. The number of private- businesses in the UK has jumped 61% from 2000 to around 5.6 million in 2021, according to the Department for Business Energy & Industrial Strategy.[3] Moreover, the number of public companies continues to shrink[4], creating fewer investment options and leading to greater concentration risk in the process.

As a result, the question facing wealth managers today is: what role do private assets have to play in the investment portfolios of their clients? To gain some clarity around this and other prevailing questions, The Investment Association and Goji commissioned Compeer, an independent research firm that focuses on the wealth management industry, to undertake this research.

The study was designed to assess the appetite of wealth managers for making allocations to private assets. The research also focused on the new fund structures that would facilitate investment in private assets, with an emphasis on the anticipated prospects for the new Long-Term Asset Fund (LTAF), which was introduced in November 2021.

The intention, in sharing this report, is to add to the understanding of the levels of demand among wealth managers for private markets investments and the factors driving and limiting the use of these types of assets across client portfolios. The findings may be interesting for wealth managers as they evaluate their offerings to clients and compare their services to peers. The findings could also be enlightening to alternative asset managers, fund distributors, service providers who work with illiquid assets and any individual or organisation involved in the rollout of the LTAF.

[1] Preqin database
[2] https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2020/jun/Global-Wealth-Management-Report-2020.pdf
[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019907/2021_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf
[4] https://meketa.com/wp-content/uploads/2012/10/Decreasing-Number-of-Public-Companies-FINAL.pdf

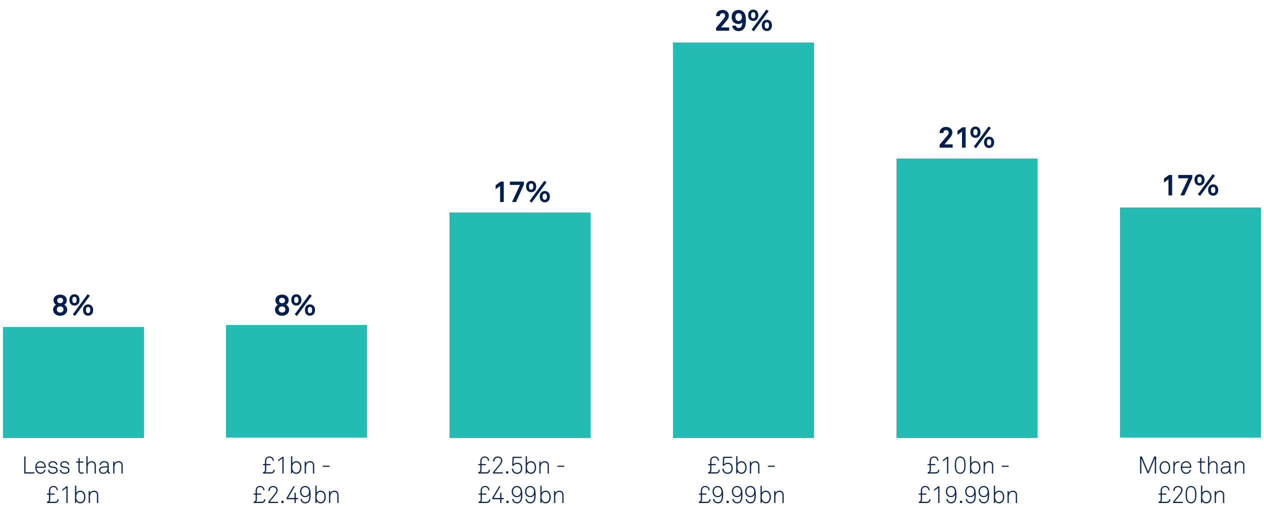
Methodology

The results were collected via an online survey of Chief Investment Officers and Investment Directors at wealth management firms between July and September 2021. In total, 24 firms were represented, with over £270 billion of investment assets between them, thereby representing approximately a quarter of UK wealth management assets.[5]

Firms of all sizes were approached for the research, with sizes ranging from less than £1 billion of AuM to some with well in excess of £40 billion. Around one in three firms surveyed are responsible for managing £5 billion to £10 billion of assets.

We define the wealth managers surveyed for this report as managing money on behalf of retail rather than institutional investors. However, the firms surveyed manage assets on behalf of affluent investors rather than the retail mass market. For the purposes of this research, affluent investors are considered to have between £250,000 and £1 million in investible assets; HNW investors £1 million to £10 million; and Ultra High Net Worth (UHNW) investors over £10 million in investible assets.

FIGURE 1: PLEASE INDICATE THE AUM THAT YOUR FIRM CURRENTLY MANAGES ON BEHALF OF PRIVATE CLIENTS

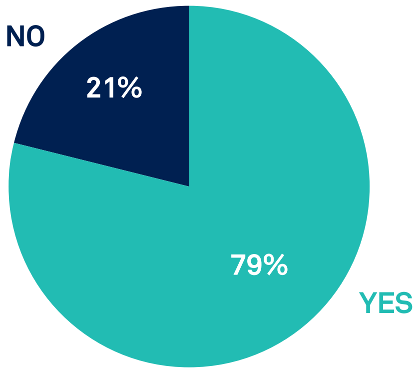


5 Source: Compeer Annual Benchmarking Survey of the UK Wealth Industry

CURRENT MARKET AND DEMAND FOR PRIVATE ASSETS

Around four in every five wealth managers polled are already investing in private assets within at least a portion of their client portfolios. This increases to 100% for firms with AuM in excess of £10 billion.

FIGURE 2: DO YOU CURRENTLY INVEST IN PRIVATE ASSETS WITHIN ANY OF YOUR CLIENT PORTFOLIOS?

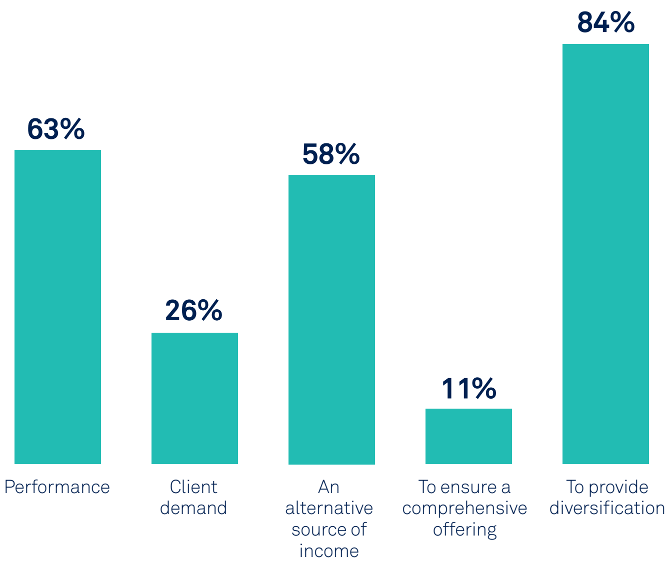


To be expected, the primary reasons given for private asset exposures are to provide additional sources of diversification, enhanced performance and to provide an alternative source of income. While these key elements of portfolio management can all be achieved through exposure to public markets, investment in private markets can bring further benefits to clients in these areas. Wealthy clients without access to suitable structures for investing in these asset classes are missing out on the benefits private assets can provide in this regard.

Client demand is referenced as a primary driver by just one in four of those polled. The responses imply that wealth managers are chiefly focused on achieving investment outcomes for clients, rather than making allocations to specific products or asset classes. It is typical for clients to build their expectations around performance, income and diversification goals – characteristics that private markets can offer – versus requesting certain investment products or asset classes to be reflected in their portfolios. It is the role of investment professionals to match specific products and asset classes to the achievement of investor goals.

Furthermore, since the managers surveyed are discretionary fund managers (DFMs) allocating on their clients' behalf, client "demand" at this level may not be a key consideration. As one CIO noted, "We operate a centralised investment process for DFM clients. The decision to allocate capital to private assets is not driven by the client."

FIGURE 3: WHY DO YOU INVEST IN PRIVATE ASSETS?



Notwithstanding the focus of clients on goals rather than asset classes when asked specifically about demand for private assets from clients across various investor types, the results tell a slightly different story. Across all wealth bands, over half of managers cited there to be at least medium demand. Demand is particularly strong among the ultra high net worth (UHNW) segment, where there is greater potential to make commitments within the prevailing limited partnership fund structures.

FIGURE 4: WITHIN EACH OF THE FOLLOWING CLIENT TYPES, PLEASE OUTLINE THE CURRENT LEVEL OF DEMAND FOR HAVING ACCESS TO PRIVATE ASSETS IN THEIR PORTFOLIOS.

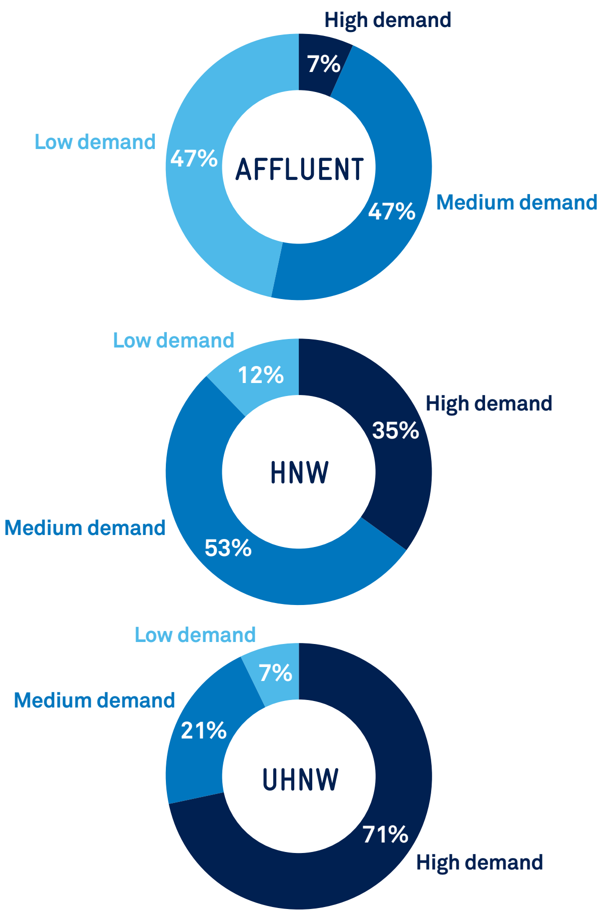
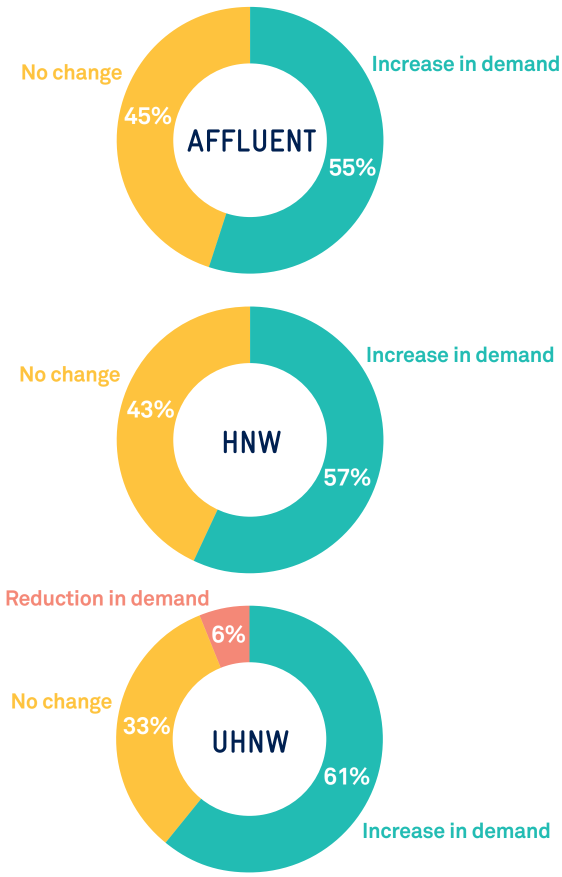


FIGURE 5: HOW DO YOU FORESEE THE LEVEL OF DEMAND CHANGING IN THE NEXT 3 YEARS FOR ACCESSING PRIVATE ASSETS?



The majority of wealth managers believe demand for private assets will increase across all investor groups and very few believe the appetite will diminish. As new structures, like the LTAF, are introduced that make it easier for wealth managers to access private assets for their clients, new offerings could quickly follow and look set to prove popular.

Demand isn't unchecked, however. Nearly half the respondents polled perceive current demand among the affluent investor segment to be low and a similar proportion expect it to stay that way for the next several years at least. This may reflect the relative lack of availability of such products that are suitable for wealth management clients at the lower end of the wealth spectrum.

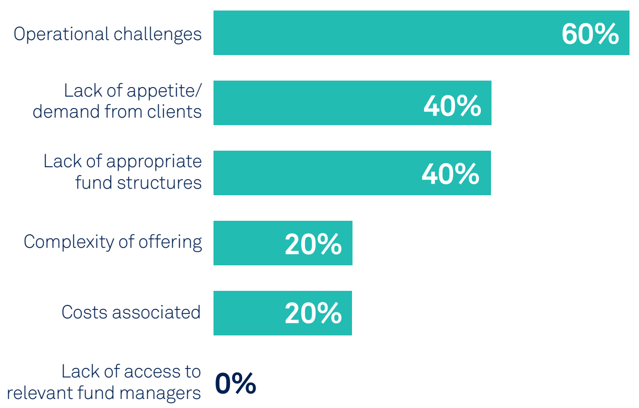
A further insight is provided by one respondent who commented: "Our clients generally are wary of investing in less regulated private markets." This observation suggests if private markets investing does become more widespread and open to new types of investors, some work will need to be done to educate investors on the risk profiles and characteristics of such investments.

For example, it is important to understand the liquidity profile of these investments, but more importantly, be able to contextualise the level and type of risk illiquidity actually presents. While illiquidity adds a certain amount of risk over near- and intermediate-term time horizons, investors are generally compensated through the alpha, or excess returns, available over longer-term holding periods. Moreover, the risk, in and of itself, is not necessarily any more acute (and often less pronounced) than other asset categories available to retail investors and it can be managed effectively through thorough cash-flow analysis and planning around future obligations and expense projections. In fact, as part of a broader portfolio, the diversification characteristics could be expected to moderate risk, as many respondents recognise.

Among the minority of firms that do not invest in private assets on behalf of their clients, operational challenges and a lack of appropriate structures are cited as the number one and two obviating factors ("lack of demand" is also tied as the number two reason).

Of note, it is unlikely these firms will change their view on private assets in the near future, with 80% suggesting they will not be considering private assets in the next three years. For those that may turn to private assets, it is because they view alternatives as an enhancement of their current offering for a select group of clients.

FIGURE 6: WHY DO YOU NOT CURRENTLY INVEST IN PRIVATE ASSETS ON BEHALF OF YOUR CLIENTS?



THE PRIVATE ASSET MARKETPLACE

For those wealth managers investing in private assets on behalf of their clients, they cover a broad spread of asset types. This reflects the sophistication of this audience – specifically their appreciation for the benefits that illiquid products bring. They recognise their role in diversifying portfolios as well as their potential for strong returns and consistent income, which has been particularly relevant since the Global Financial Crisis in an era of very low interest rates.

According to the wealth managers surveyed, the most commonly used asset classes are private equity, real estate and infrastructure. Real estate and infrastructure investing are often targeted as an income-producing exposure, while private equity is viewed as a growth-oriented strategy, with structural hedges to capitalise on public market volatility (for example, the potential for financial sponsors to acquire assets at a discount when public markets falter).

The popularity of private equity in part stems from the strong returns it has delivered in recent years. A recent study by JP Morgan Asset Management[6], for example, shows that private equity funds since 2009 have delivered annualised returns, net of fees, between 1% and 5% higher than the S&P 500.

Another contributing factor is the fact that an increasing number of high-profile companies, particularly within the technology sector, are staying private for longer. This leaves retail investors unable to invest in some of the fastest growing companies. The number of unicorns – privately held companies with a valuation in excess of $1 billion – increased by 52% between 2019 and 2020 alone, according to data provider PitchBook.[7]

[6] https://privatebank.jpmorgan.com/content/dam/jpm-wm-aem/global/pb/en/insights/eye-on-the-market/private-equity-food-fight.pdf
[7] https://pitchbook.com/blog/what-is-a-unicorn

FIGURE 7: WHAT TYPE OF PRIVATE ASSETS DO YOU CURRENTLY INVEST IN?

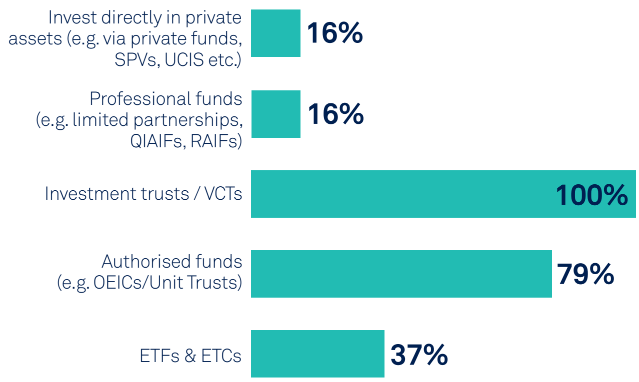
	ALL	Firms with less than £2.5bn AUM	Firms with £2.5bn – £10bn AUM	Firms of more than £10bn AUM
Private Equity	84%	100%	100%	67%
Private Debt	32%	33%	29%	33%
Infrastructure	63%	67%	71%	56%
Real Estate	74%	67%	71%	78%
Venture Capital	32%	33%	43%	22%

When reviewing the various investment vehicles used to provide exposure to private assets, investment trusts and VCTs are used by all the firms surveyed, with authorised funds representing another popular choice. These authorised funds likely reflect the holdings of daily dealing property funds structured as non-UCITS Retail Schemes (NURS) since the other asset classes discussed here would not be available in an authorised fund being sold to retail clients[8]. Daily dealt NURS property funds do not strictly constitute exposure to illiquid private assets. By contrast, only a small proportion invest directly in private assets or opt for professional funds.

While these vehicles provide liquidity and flexibility to investors looking to tap into long-term assets, they also carry potential for a liquidity mismatch between the redemption terms that the fund offers to investors and the fund's underlying assets. For instance, suspensions can arise during periods of volatility when the terms for frequent dealing in units of open-ended funds are not aligned with the time it takes to buy or sell certain assets in which the funds invest. In the case of property funds, for instance, immediate redemptions to accommodate daily dealing of units are not always feasible when fund managers need to sell the underlying real estate or buildings within their portfolio to reimburse outgoing investors. This was the case in 2016 following the Brexit referendum, although not in 2020 when valuation uncertainty rather than redemption pressure was the central driver of suspension.

If private assets investing is to become more mainstream, understanding the liquidity implications in investment decisions also becomes more important. The use of these specific investment vehicles, as illustrated above, is likely to further evolve as more appropriate fund structures emerge to suit retail investors and better match their liquidity requirements. For instance, if investors are willing to forego a level of liquidity to have investments more correlated to the underlying assets in favour of longer-term performance, wealth managers can position them to benefit from the so-called 'illiquidity premium' in private equity and other private asset classes, that has proven so popular among institutional investors for decades.

FIGURE 8: WHICH INVESTMENT VEHICLES DO YOU USE TO ACCESS PRIVATE ASSETS?



Overall, private markets investments represent a fairly small proportion of total AuM. The average across those surveyed was 5%, with most allocating between 2% and 5% to these assets.

FIGURE 9: APPROXIMATELY WHAT PERCENTAGE OF YOUR FIRM'S AUM IS CURRENTLY INVESTED IN PRIVATE ASSETS?

15%	5%	<1%
MAXIMUM	AVERAGE	MINIMUM

[8] The use of retail client here is in the regulatory sense, as set out in the FCA's rules on client categorisation (COBS 3)

DELIVERING ON THE DEMAND

CHALLENGES AND ROADBLOCKS

In identifying the most prominent roadblocks, firms commonly selected the same three barriers currently preventing them from investing more in private assets.

- The mismatch between the liquidity profile of private assets and client expectations on liquidity;
- Availability of appropriate fund vehicles;
- And higher costs involved with private asset investments (in that order).

While fewer respondents selected restrictions on marketing Non-Mainstream Pooled Investments (NMPIs) to private clients, for those that did, it was frequently selected as the main barrier. This suggests marketing restrictions can be a significant hurdle and creates another paradox that potentially limits the extent to which managers can educate retail investors about the role alternatives can play in a diversified portfolio. This is consistent with feedback received elsewhere from private wealth managers, that classifying private funds as NMPIs is a significant barrier to their distribution. This is because the rules that permit the marketing of NMPIs to certain limited categories of retail investors are complex to administer and carry regulatory risk to distributors, because they rely on subjective assessments of an investor's ability to understand the objectives and risks of these investments.

LIQUIDITY MISMATCH IS A BARRIER TO INVESTING FOR NEARLY

2/3

OF RESPONDENTS

The liquidity conundrum

The liquidity mismatch does not necessarily mean clients aren't prepared to give up liquidity for other characteristics; rather that it could be a case of clients being promised liquidity that they don't really have. This is an issue of education and transparency, both lessons to be learnt from recent liquidity issues around daily dealing funds.

It's important that investors know what they are getting into with private assets and that they understand the disparate liquidity profiles of these specific strategies. Liquidity isn't generally an end goal for a retail investor in its own right and while the average investor will need to retain a significant amount of liquidity in their portfolio, investor expectations around access to investment capital are in no small part due to how expectations have been set and the investment products that have hitherto been available to them.

As investors are increasingly encouraged – and indeed required – to look at their investments with a longer-term horizon through the introduction of the likes of lifetime ISAs (LISAs) and Innovative Finance ISAs and the proliferation of defined contribution pension schemes, looking at retail investing through the prism of daily dealing is not always a necessity or desirable.

Among the most sophisticated investors, those that are investing in private assets are doing so partly for the illiquidity premium. They also understand that "illiquidity" on its own doesn't necessarily translate into high risk in the same way that daily dealing does not always equate with safer or lower risk investments. The volatility and risk seen in the unregulated crypto currency markets, for instance, is not necessarily mitigated by the market's liquidity.

[9] See the IA response (Q8) to the FCA's consultation on the Long-Term Asset Fund. Available to download at https://www.theia.org/sites/default/files/2021-06/IA%20Response%20to%20CP21_12%20on%20LTAF_final_250621_1.pdf

FIGURE 10: WHAT ARE THE THREE MAIN BARRIERS CURRENTLY PREVENTING YOU FROM INVESTING MORE IN PRIVATE ASSETS ON BEHALF OF YOUR CLIENTS?

	% of firms including it in top 3 barriers	% of all firms voting it as the main barrier	% of firms selecting it that then voted it as the main barrier
Mismatch between liquidity profile of private assets and client expectations on liquidity	58%	29%	45%
Availability of appropriate fund vehicles	46%	6%	10%
Higher costs	46%	12%	22%
Restrictions on marketing Non-Mainstream Pooled Investments (NMPIs) to private wealth clients	29%	29%	71%
Concerns about investor understanding of the nature of private assets	21%	12%	40%
Operational constraints including the impact on rebalancing and pricing within unitised, daily-dealt portfolios	17%	6%	25%
Operational inefficiencies from investing in non-daily-dealt funds	13%	0%	0%
Lack of support from investment platform technology	8%	6%	50%

APPROPRIATE FUND STRUCTURES

Another key barrier is the availability of appropriate fund vehicles to invest in private asset investments. This limitation was also cited as one of the main barriers for wealth managers not investing in private assets on behalf of their clients at all.

On the other side of the equation, global asset managers and private markets investment firms are increasingly looking to access new pools of capital, which is spurring the 'retailisation' of private equity and other private assets globally. For many of these players, it's no longer a question of 'Should we be opening up our assets to retail?' but rather, 'What is the best way to do it?'

With greater segmentation expected across the larger retail investor base, the need for suitable funds for each bucket and for greater flexibility to offer illiquid assets to a wider range of clients is set to intensify.

It's against this backdrop that the Long-Term Asset Fund (LTAF) was conceived. It promises to offer a new way for investors to access private assets and will have a role to play in the range of solutions available to wealth managers to access these investments going forward.

Interestingly, none of the firms surveyed felt there was a lack of access to relevant fund managers. Therefore, there's acknowledgement that the investments are available, but their structures do not suit their current set-up and requirements.

WHAT IS THE LTAF?

The Long-Term Asset Fund (LTAF) is a new UK authorised fund regime allowing wider access to assets including private equity, private credit, venture capital, infrastructure, real estate, forestry and collective investment vehicles that invest in private asset classes. Beyond offering greater diversification for pension savers and investors, the LTAF is designed to provide wider access to long-term investment opportunities, particularly within defined contribution (DC) pension schemes. With the appropriate protections, individual investors should also be able to use the LTAF as a building block in their overall portfolio, although current distribution rules for the LTAF mean it is available only to a small group of wealthy and sophisticated retail investors.

The LTAF was originally proposed by the Investment Association (IA), based on discussions with a wide range of stakeholders representing both investment industry and customer views. It is part of a package of measures proposed to enhance the competitiveness of the UK funds regime to the HMT Asset Management Taskforce in June 2019. The proposal was subsequently adopted and developed by the FCA, in conjunction with HMT, the Bank of England and the industry.

The LTAF can be established as a unit trust, open-ended investment company or authorised contractual scheme. It is defined as a non-mainstream pooled investment, which limits its distribution, although the FCA has indicated that it will be consulting in H1 2022 on whether the LTAF distribution landscape should be broadened to cover a wider range of retail investors.

When it comes to different approaches – such as considering an LTAF relative to an investment trust – this should never be seen as a competition between different kinds of investment products. Rather, the LTAF will ensure that consumers continue to have new options that can be matched to their changing needs across a continuum of fund structures.

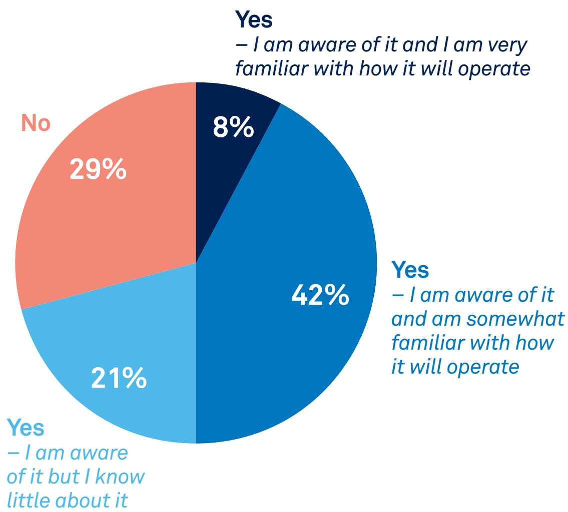
The LTAF is also designed to bring other advantages. There is growing international demand for access to the diversified returns available from long-term assets such as infrastructure, renewable energy and building projects. The structure will also help to channel capital to other opportunities, such as the development of green finance as part of the wider focus on sustainable long-term growth.

In October 2021, the FCA officially announced the launch of the LTAF as an open-ended investment fund structure with a minimum notice period of 90 days and with dealing limited to a maximum of one trade per month. The regime came into force from 15th November 2021. Firms wishing to launch LTAFs are now able to make applications for authorisation to the FCA.

The LTAF is intended to address liquidity mismatches that can arise from holding illiquid assets in open-ended funds and aid transparency by being very open about the limited liquidity of the structure. The principles-based rules allow managers to set spread and diversification limits appropriate for the illiquid nature of the unlisted assets, creating alignment between the liquidity available in the portfolio and the redemption terms. This approach should enable managers to accommodate redemptions without sacrificing value through the forced sales of assets. Clear communication will be conducive to its success.

Awareness of the LTAF was reasonably high among the respondent sample, with 71% at least having heard of it. Given several factors – such as the structure was still being consulted on at the time the research, the final decision from the FCA had yet to be revealed, and there were no LTAF products yet available – this level of awareness is higher than might be expected.

FIGURE 11: ARE YOU AWARE OF THE LONG-TERM ASSET FUND?



In the immediate wake of its launch, the LTAF will likely require greater exposure before widespread adoption. Despite this, nearly one third of respondents said they would be likely to invest in an LTAF-like fund. Based on an average 5% allocation of those currently investing in private assets, this level of demand suggests there is already a potential market for the LTAF of £3.9 billion. Extrapolated to the total industry, that would be £16.7 billion.

A number of comments also reveal where the pinch points may come. One firm noted that it would not consider investing unless LTAFs become a retail vehicle, while another wanted to see take up in the pensions market first. Among those unlikely to use the LTAF, an emphasis on liquidity in the investment proposition was cited by one firm as a critical concern.

The operational hurdles for those with less experience investing in private capital will be greater as they may not have the necessary digital infrastructure and operational underpinning to efficiently integrate private capital capabilities into their portfolios. They would also be on the back foot in rolling out retail-oriented products as soon as the LTAF is approved.

"THE LTAF IS DESIGNED TO SPECIFICALLY ADDRESS THE PROBLEM OF LIQUIDITY MISMATCH IN OPEN-ENDED FUNDS"

FIGURE 12: HOW LIKELY WOULD YOU BE TO CONSIDER SOME INVESTMENT IN A FUND SUCH AS THE LTAF (WHICH INVESTS IN PRIVATE MARKETS WITH NOTICE PERIODS) WITHIN YOUR CLIENT PORTFOLIOS WITHIN THE NEXT THREE YEARS?

	Likely	Neither Likely nor Unlikely	Unlikely	Very Unlikely
Respondents interested in private assets	35%	30%	30%	5%

CONCLUSION

Every wealth manager surveyed for this research was asked if they believe providing greater access to private assets would enable them to deliver better, sustainable returns for their clients; none disagreed. This was true even among those who do not currently invest in private assets.

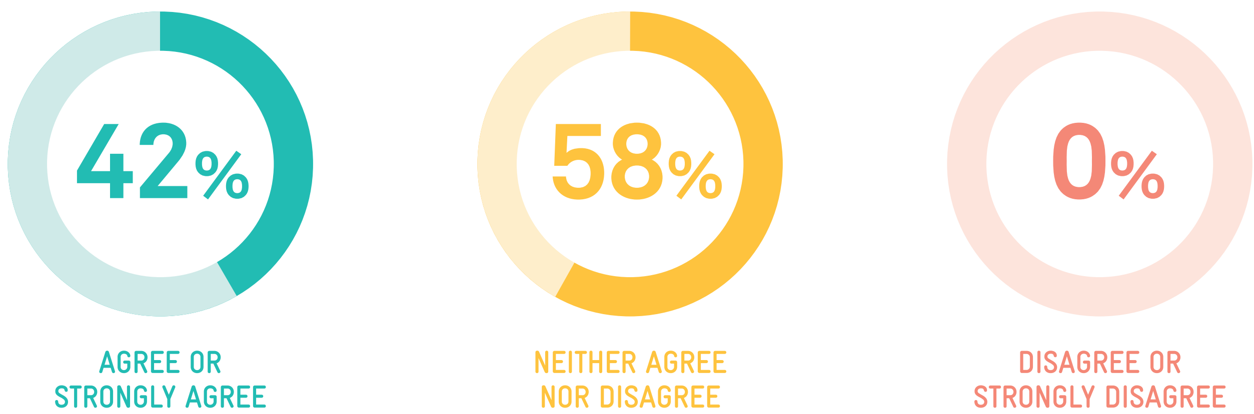
On this basis alone, private assets have a role to play in the portfolios of individual investors, providing diversification and returns. They also look set to have a prominent role in portfolio construction for wealth managers in the coming years.

There is, however, widespread acknowledgement that private wealth investors cannot access private investment opportunities, even as they are growing. There is thus an ongoing need for education and retail-friendly structures.

While the FCA-authorised LTAF came into force from 15 November 2021, it may take some time for the first LTAFs to become available. Moreover, a further consultation is planned by the FCA in H1 2022 to potentially enable a broader range of consumers to invest in LTAFs in a controlled way. The prospects for wider retail distribution are also likely to have an impact on future LTAF product launches.

FIGURE 13: HOW FAR DO YOU AGREE WITH THE FOLLOWING STATEMENT?

"BY PROVIDING GREATER ACCESS TO PRIVATE ASSETS, WEALTH MANAGERS WILL BE ABLE TO DELIVER BETTER, SUSTAINABLE RETURNS IN THE LONG TERM FOR THEIR CLIENTS"



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