WHITE PAPER

BCG Series on Permanent Capital – Part 1

Tapping into Private Wealth and Retail Demand

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Tapping into Private Wealth and Retail Demand

Alternative asset managers are increasingly focused on securing “permanent”[1] capital that they can deploy into various asset classes and strategies. This type of funding is an increasingly popular alternative to traditional closed-end finite life fund models for several reasons: the stable and predictable management fees can be highly accretive to a manager’s valuation, less fundraising is necessary, and there’s greater flexibility in capital deployment and long-term value creation. Key players such as Apollo, Blackstone, KKR, Carlyle, and Ares have invested significant resources in permanent capital approaches, a clear sign of its ascendency. The trend is not limited to scaled managers. Numerous middle market players have begun to access permanent capital in some form.

There are three primary sources of permanent capital. (See Exhibit 1.) Each source offers distinct advantages and presents unique considerations:

1. **Private wealth and retail products:** There is strong demand among private wealth and retail investors for access to private markets, but legacy closed-end fund products have not suited these channels well, curtailing their ability to invest. Recent product innovation, particularly the introduction of various semi-liquid Permanent Capital Vehicles (PCVs) that better address their needs, is expected to spur greater investment. For asset managers, these channels represent a large and potentially lucrative addressable market and an opportunity to diversify their investor bases. However, product packaging can be tricky and popular products of today lend themselves better to certain asset classes.

2. **Life and annuity (L&A) insurance carriers:** L&A carriers’ large asset base and relatively predictable liabilities allow for more exposure to illiquid assets than other carriers. Asset managers that partner with L&A carriers benefit from the steady inflow of new capital from insurance policies and their ability to deploy such capital into longer-duration, higher yielding assets. That said, there are meaningful risks that asset managers must consider when tapping L&A for permanent capital. With proper execution, such partnerships can potentially generate powerful synergies.

3. **Institutional capital/Sovereign wealth funds:** Large institutional investors, particularly sovereign wealth funds, can serve as an anchor for these long-term capital vehicles, or even provide the entire capital base. For such arrangements to work, however, asset managers must find a partner with the proper risk tolerance, long investment horizon, and aligned visions and objectives.

This article is the first in our series designed to introduce these permanent capital strategies, explaining the pros and cons of each, and providing a view of the critical issues that asset managers, insurers, wealth managers, and other key stakeholders in the ecosystem should carefully consider. In this piece we will focus on private wealth- and retail-oriented products.

Exhibit 1 - Three potential sources of permanent capital

Each source with different partnership models

Focus of article (Private wealth)

Permanent capital sources	Private wealth	Insurance	Institutional
Private markets exposure	$2.0T	$1.4T	$5.9T
Permanent capital description	• Creation of perpetual-life or restrictive redemption products for private wealth investors • Typically executed through semi-liquid, permanent capital vehicles (PCVs) such as REITs, BDCs, interval funds, and tender offer funds	• Management of insurance company's balance sheet, and potentially leveraging a portion for seed capital • Typically executed via acquisition of or partnership with life & annuities insurer, or reinsuring a closed block of liabilities	• Management of long-term capital commitment from institutional investors (sovereign wealth funds & pensions most likely) • Typically executed through seeding a long-term fund (e.g., 15+ years), or providing capital that is not tied to a finite horizon to support the build-out and/or growth of a platform

Sources: Partners Group; Jefferies Research; BCG Global Asset Management Report; Preqin; BCG analysis.

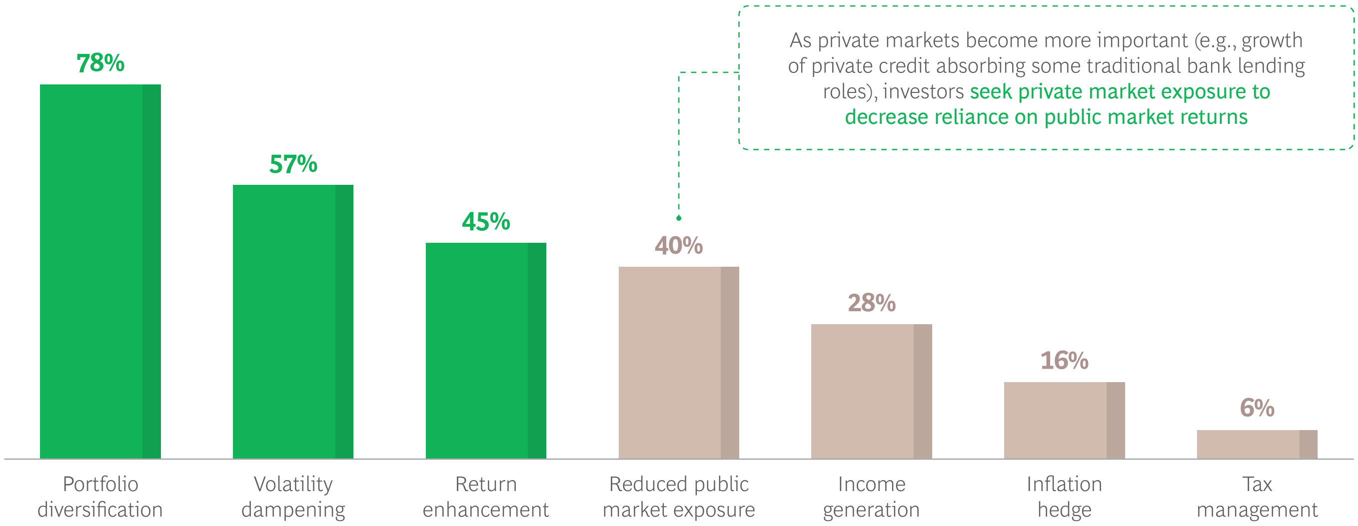
A Growing Source of Permanent Capital

Private wealth and retail investors are increasingly attracted to private markets for a variety of reasons including portfolio diversification, which is cited by 78% of advisors, as well as reduced portfolio volatility and enhanced returns. (See Exhibit 2.) This shift is poised to reshape the industry, offering challenges and opportunities for asset managers and investors alike. We estimate that private wealth and retail investment in private markets, approximately $2 trillion in 2022, will expand at a CAGR of 10–17% through 2032.

Despite the demand, individual investors have remained relatively untapped by private capital managers because most products have not been suitable and could not be easily delivered through established channels. But this is changing rapidly. Alternative Asset managers are introducing a wider array of private market products that are more sensitive to the needs of these investors, most notably in the form of semi-liquid PCVs.

Exhibit 2 - Individual investor rationale for seeking private markets exposure

Advisor reported private market portfolio objectives, 2023



Source: Cerulli Associates

The Rise of Semi-Liquid PCVs

As of 2023, the semi-liquid PCV market totaled approximately $355 billion[2], having grown substantially at 46% per year since 2018. The growth has been largely fueled by investment into non-traded Real Estate Investment Trusts (REITs), non-traded Business Development Companies (BDCs), tender offer funds, and interval funds. The perpetual nature of these products and significant guardrails governing liquidity, including gating features[3], qualifies them as permanent.

These products—as well as more recent innovations (see Sidebar)—offer significant advantages for investors over traditional closed-end, finite-life vehicles, including periodic liquidity opportunities, lower minimum investments, and significantly reduced administrative burdens. (See Exhibit 3.) Such benefits allow managers to cater to a broader market, expanding access to private markets across the more fragmented wealth and retail channels.

- **Non-Traded REITs & BDCs:** These vehicles focus on a single asset class (i.e., real estate and private credit). Their unlisted nature shields investors and asset managers from market price volatility while maintaining the features of their publicly traded counterparts, creating a win-win. Investors are protected from public equity risk that would otherwise be injected into their real estate and credit holdings, while asset managers are shielded from the corresponding risk of such vehicles trading at a discount to net asset value (NAV), which impedes future growth. These vehicles require regular distributions and require investors to meet certain suitability thresholds[4].

Exhibit 3 - Semi-liquid funds more directly address investor needs

Key considerations in retail segment	Closed-end, finite-life funds *(e.g., traditional drawdown funds)*	Semi-liquid, evergreen funds *(e.g., non-traded REITS, BDCs, interval funds)*
Counterparty risk	– Private investors more likely to miss capital call payments	+ Investors contribute full amount of commitment at time of subscription
Liquidity management	– Typically, do not offer periodic liquidity	+ Typically target periodic distributions, e.g., on a monthly or quarterly basis
Admin cost & burden	– High administrative burden as funds not designed to operate with large number of private investors	+ Digital access platforms & tax treatment simplify onboarding, reporting, redemptions, etc.
Minimum investments	– Require substantial initial investments	+ Typically, set lower minimum investment thresholds
Investment horizons	– Have long and fixed fund lifespans	+ Provide some level of flexibility to adjust investment duration
Access to top managers	– Often grant fund access only to large blue-chip institutions	+ No hard cap and no investor limits typically allow broad access to wealth investors
Private mkt. exposure	– Finite exposure with intermittent periods of cash drag that investors must manage	+ Investors stay deployed into private markets consistently

Source: Market participant interviews; BCG analysis.

- **Tender Offer Funds:** These are continuously offered closed-end funds that provide partial liquidity at the sponsor's discretion. They do not mandate share repurchases, and investors must also meet specific qualification thresholds[5]. Sponsor control over liquidity allows for inclusion of asset classes that generate infrequent and unpredictable cash flows (e.g., private equity and venture capital).

- **Interval Funds:** Like tender offer funds, interval funds are continuously offered closed-end funds. However, they must repurchase a minimum number of shares outstanding at predetermined intervals, offering more liquidity than tender offer funds, which typically necessitates a higher cash allocation, potentially impacting returns. Asset classes with infre-quent cash flows are not a natural fit, but they are often blended into diversified product offerings that provide value as "one-stop-shopping" for smaller wealth clients. All investors are technically eligible from a regulatory standpoint, but distributors typically limit avail-ability to accredited[6] investors or above, creating a de facto barrier for mass retail.

Product Innovations Continue

In Europe and the U.K., European Long-Term Investment Funds (ELTIFs) and Long-Term Asset Funds (LTAFs) represent innovative yet nascent[7] vehicles that aim to make diversified investment opportunities more accessible to private wealth investors.

ELTIFs are focused on the European Union and require that most capital is invested in illiquid EU assets. These vehicles have historically had pre-defined end dates, but recent regulatory updates ("ELTIF 2.0 rules") are expected to allow for more permanent open-ended evergreen structures and will thus expand investor access. Meanwhile, LTAFs, which are offered in the U.K., were established as permanent structures but were primarily targeted towards institutional investors. However, recent regulatory changes by the Financial Conduct Authority (FCA) that came into effect in 2023 have expanded LTAF access to a broader range of private wealth channels.

Another product packaging mechanism, known as tokenization, makes illiquid assets such as private equity funds accessible through blockchain technology, offering fractional ownership and the promise of secondary market trading. This innovation lowers entry barriers, enhances transaction efficiency, removes the liquidity burden from the manager entirely, and im-proves transparency.

While some jurisdictions, such as Singapore and Hong Kong, have become early adopters, regulatory hurdles elsewhere impede the widespread use of tokenization in asset management. Authorities in many countries are grappling with how to adapt existing frameworks to properly oversee the nuanced risks and implications of blockchain-based assets.

Alternative Asset Managers Have Choices to Make

Which of these PCV products an alternative asset manager chooses to offer depends on various factors, including the manager's channel relationships and preferences, objec-tives, existing asset class capabilities, and the specific needs of target markets. For instance, Registered Investment Advisors (RIAs) may prefer interval funds for clients with greater liquidity needs, while wirehouses might opt for tender offer funds due to their more stringent investor qualification requirements and their clients' higher tolerance for illiquidity. (See Exhibit 4.)

The distribution landscape varies significantly from channel to channel, forcing managers to pick the channels they wish to target. In doing so, managers are essentially forced to view each chan nel as a proxy for the needs of a specific client type. For example, a manager wishing to distribute in the wirehouse and private banking channels, must tailor products to the specific needs of UHNW and HNW individuals, while a manager wishing to distribute to RIAs, must consider the needs of a wider client base.

The objectives of the manager will also play a role in determining whether they will target "qualified purchasers"[8] or accredited investors, and thus which vehicles they will offer. In the U.S., registered funds targeting accredited investors are prohibited from charging fund-level performance fees. Products aimed at these investors are thus forfeiting significant upside potential in exchange for the growth potential associated with such a large and relatively untapped market segment.

There are also stringent rules governing "affiliated transactions" that protect investors, but severely restrict the use of special purpose vehicles and other tools that a manager may find useful or necessary to execute a given investment strategy. By contrast, products limited to qualified purchasers allow managers to charge incentive fees and loosen the restrictions governing affiliated transactions. But the investor pool is limited to individuals that meet a high minimum bar of investable assets.

Exhibit 4 - Product/market fit of PCVs by U.S. wealth channel

	Channels, AUM[9]	Wirehouse $6.5T	Private bank $2.8T	Retail bank B/D $1.6T	Ins. & IBDs[10] $2.9T	Nat. & Reg. B/D $2.9T	Hybrid & RIA $5.8T	Retail direct $8.4T
Non-public	Non-Traded REITs & BDCs[11]	Med/High	Med/High	Low/Med	Moderate	Moderate	Moderate	Low
Non-public	Tender Offer Funds[12]	High	High	Low/Med	Moderate	Moderate	Med/High	Low
Non-public	Interval Funds	Moderate	Moderate	Moderate	High	High	High	Low
Public	Traded REITs & BDCs	Low	Low	High	Low/Med	Low/Med	Med/High	High
Public	Tokenized	Moderate	Moderate	High	Med/High	Med/High	Med/High	High

Contingent on widespread adoption

Product/market fit by channel

Low ■ ■ ■ ■ ■ High

Sources: Goldman Sachs; Wells Fargo; Cerulli Associates PIMCO; BCG analysis. ;

For multi-asset managers, decisions must be made regarding which asset classes to offer. The periodic liquidity requirements of interval funds call for cash generative products that minimize the drag on returns caused by holding some combination of cash and liquid securities. Credit, real assets and PE secondaries all offer a stable yield component that makes them more suitable. By contrast, buyout and venture capital strategies might undergo long periods with little to no distributions, making them a poor fit for an interval structure. To offer such strategies, managers may need to pursue a tender offer structure and potentially bundle them with other cash generative asset classes to create diversified private markets products.

Navigating Distribution Challenges

Another challenge for alternative asset managers is the numerous points of friction in the distribution of these private market products to private wealth and retail investors through established channels. (See Exhibit 5.) These include accessing channel shelf space, educating advisors about the complex features of PCVs, and overcoming technological and administrative hurdles.

Alternative asset managers face particularly acute challenges in simply placing their PCVs within centralized channels such as wirehouses and private banks, which limit product offerings. In more fragmented channels, such as independent broker-dealers and RIAs, the primary challenge lies in education and technology integration.

To address these distribution challenges, managers are adopting various strategies (see Exhibit 6). Building an in-house wealth distribution team is one way that large managers are fostering strong long-term relationships with channel gatekeepers and enhancing education and awareness among advisors. Major private capital managers with balance sheet strength have deployed significant resources to establish internal wealth distribution teams and advisor education platforms. Such efforts are time and capital intensive, and success is not assured.

Exhibit 5 - Mapping the frictions across the investment lifecycle of PCVs

1 Onboarding

Fund diligence
Many private wealth channels lack private markets diligence experience and must rely on 3rd parties

Subscription
Subscription documents and agreements are extensive and require manual processing

Repository
Must create a digital document repository that is secure and easily accessible to authorized users

2 Client servicing

Client requests
Responding to document requests from hundreds of investors for multiple strategies can be difficult

Client reporting
Most private markets data does not sync seamlessly with advisor systems to generate client reports

3 Ecosystem integration

Dataflows
Private markets lack common systems and data formats complicating data transfer between parties

Valuation
PE general partners report valuations quarterly, while advisors typically require monthly valuation data

4 Analytics & Insights

Performance
Assessing performance of PCVs is challenging due to lack of standardized benchmarks

Risk assessments
Many clients and advisors struggle to evaluate the underlying risk profile of relatively opaque PCVs

Value creation
Assessing and articulating value creation drivers of PCVs is challenging for asset managers & advisors

5 Liquidity

Redemption
Requires managing redemption queue, recalculating available liquidity, communicating distribution policies, etc.

Cash drag management
Must leverage analytics and back-testing tools to accurately predict liquidity needs

Credit facility
Involves setup and ongoing monitoring of subscription line, incl. fees, to fund liquidity as needed

Primarily challenge for: Advisors Asset managers

Sources: Market participant interviews; iCapital Network; BCG analysis.

Exhibit 6 - Asset managers are leveraging combined distribution model

	① Build an in-house distribution team	+	② Establish Fintech/Digital partnership(s)
Approach	Build (or acquire) in-house distribution **capabilities with expertise in private wealth distribution** and downstream channels		Form **high-value partnerships** with alternative **distribution platforms** (e.g., iCapital, CAIS, Moonfare) that act as a bridge between general partners and pools of fragmented investors
Key benefits	**Education & Awareness:** Product specialists educate advisors and investors and promote sell-through **Access & Regulatory:** Cultivating strong relationships with channel gatekeepers and supporting on regulatory matters		**Speed to market:** GPs with strong credentials can quickly access more centralized wealth channels with existing product **Technology & administrative:** Provide centralized and automated administrative functions that reduce the technology and administrative burden for channels and GPs

Source: BCG analysis.

To complement this approach, asset managers are also partnering with B2B FinTech/digital platforms, such as iCapital and CAIS, to reduce the technological and administrative burden by integrating fragmented systems and automating labor-intensive client service processes. The FinTech platforms have played an especially critical role for smaller specialist managers that lack the resources and balance sheets to justify in-house wealth distribution teams. For at-scale managers, the FinTech platforms provide additional leverage and a more immediate path to accumulating assets in various wealth channels.

Looking Ahead

Private wealth and retail investors are a major strategic priority for alternative asset managers with private markets capabilities. Through innovative product offerings, such as semi-liquid PCVs, and a focus on overcoming distribution challenges, managers have taken the first steps to compete for capital in these critical channels. As PCVs and other wealth- and retail-oriented products continue to evolve to better meet investor needs, managers will unlock an enormous yet highly fragmented pool of investor capital.

Winning over these investors will require the right combination of product manufacturing, packaging, and distribution, coupled with extensive and continued advisor and investor education. It will also require a deep understanding of the needs of individual investors and their advisors within each channel, as well as the strengths and limitations of FinTech inter mediaries and other third-party partners that play a critical role in distribution.

Alternative asset managers seeking to win share in the marketplace face the monumental task of harmonizing an operating model around these resource-intensive (and sometimes competing) objectives. Key decisions such as building an in-house distribution team, building an advisor education platform, or strategic prioritization of channels represent substantial investments of time, capital, and resources and should be approached carefully. Existing investment and distribution capabilities, firm culture, brand equity, and long-term objectives should all play a critical role in decision-making. If executed properly, the capital and resource investment will be rewarded with AUM growth and the stable and predictable fee income that permanent capital can provide.

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Appendix

1. Here we define permanent capital as capital available for an unlimited time horizon or for a long-term horizon extending well beyond the standard 10–12 year private capital fund life cycle. Note that despite the “permanent” descriptor, partial liquidity may be offered in some form. p.1

2. Preqin. Note that estimate may be conservative as not all funds disclose latest valuation. p.3

3. For example, interval funds may allow for quarterly liquidity of up to 5% of NAV; redemption requests beyond 5% may remain unfulfilled or “gated”. p.3

4. Private placements are only available to accredited investors and not to mass retail, unlike public REITs and BDCs. p.3

5. Available only to Qualified Clients, Qualified Purchasers, and Accredited Investors. p.4

6. A net worth of at least $1 million excluding the value of one’s primary residence, or have income at least. p.4

7. Combined markets are estimated to be below €50 billion as of December. p.5

8. $5 million of investable assets excluding primary residence. p.5

9. AUM for U.S. only as of 2021. p.6

10. Includes insurance B/Ds given similarity in retail distribution for private products. p.6

11. Does not include private REITs & BDCs (i.e., private placements with a future IPO target date). p.6

12. Lux UCI Part II vehicles (SICAVs) included in Tender Offer Funds p.6