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Advisor Private Equity Hunger Sparks Product Innovation

By Jack Buehrer July 6, 2016

Fund managers are increasingly trying to bridge a wide gap between the interest among high-net-worth investors to jump into the private equity game and the willingness of their advisors to offer such options.

Product innovation efforts have been in motion, with managers developing new private equity market vehicles of shorter duration, more flexible lockups, new fee options, and lower investment minimums.

“The trend is accelerating,” says **Robert Collins**, a managing director in **Partners Group**’s New York office. “For the past couple of decades, there hasn’t really been a whole lot of innovation [in private equity offerings]. But over the last few years, things have finally started to change.”

Only about a third of nearly 450 registered investment advisors (RIAs) surveyed in a recent **iCapital Network** report released last month say they have provided private equity investment options to their wealthy individual clients in the last five years. And among the RIAs not offering private equity, 70% say their clients have expressed interest in the asset class, while only about 25% of those advisors say they have brought up private equity at all.

The usual suspects of stumbling blocks have remained: long lockups, high minimum investment requirements and lack of transparency were among the top five reasons the advisors surveyed by iCapital gave for holding back on private equity opportunities.

“The need is there, the interest is there,” says **Lawrence Calcano**, managing partner of iCapital. “And I think that more and more, advisors and their high-net-worth investors will start finding solutions to get involved in the asset class.”

With the demand in place, fund managers are increasingly looking to develop products that allow wealthy investors to get exposure to private equity, while helping them sidestep some of those obstacles. In some cases, it’s already happening.

Collins points to funds like the CPG Carlyle Private Equity Fund – a joint venture between **Carlyle Group** and **Central Park Group** – as an example of funds that offer lower minimum investments for clients. That fund, launched in 2013, is open to accredited investors whose assets, minus the value of their residence, total $1 million and are able to invest at least $50,000 – a far cry from the typical minimum requirements which, over the years, have hovered in the $5 million to $20 million range. The Altegris **KKR** Commitments fund – launched last year – has similar terms, but requires a $25,000 minimum investment. It includes an initial two-year lockup from the product launch date, and a quarterly liquidity provision afterward.

Another approach some advisors are considering is using private credit funds, which –compared to standard private equity products – offer shorter investment and holding periods. Earlier this month, for example, **Hamilton Lane** launched a new $210 million private credit fund that is structured as an annual series with just a one-year investment period.

Credit funds have become increasingly popular as an option for advisors, Calcano says.

“A credit strategy [has] an inherently shorter investment period,” he says, adding that maturity on the loans could take two or three years, with managers sometimes opting to deploy the entire fund in three to five years. “The life of a credit strategy is shorter than a traditional private equity fund and may also start to make distributions along the way earlier in the process.”

Another strain of development is to bring private equity to mass affluent investors, says **Kevin Albert**, a partner at **Pantheon**, which has been active developing options to bring private equity to accredited investors as well as the retirement plan market.

“The recent state of product innovation has centered around the idea of, ‘Let’s make this available to the mass-affluent investor,’” he says. “We’re starting to get there, but I think you’ll still see some smaller enhancements made.”

The private equity manager fee structure could be the next area to be tweaked, Albert says. “I think you’ll start seeing a whole new fee class,” Albert adds. “It won’t mean fewer or lower fees, but I think we’ll get to a point where eventually you won’t see fees until money is drawn.”

And the eventual creation of private exchanges to buy and sell secondary stakes in private equity funds should be another way to address retail investor concerns over long lockup periods, says **Todd Thomson**, chairman and investment committee chair of **Dynasty Financial Partners**.

Still, despite the heavy interest from investors, the underlying character and risks of private equity will still keep exposure to the asset class relatively low among high-net-worth investors, he adds.

“The nature of the private equity beast means it is an unnatural product for a [19]40 Act structure,” Thomson says. “The underlying investments are, by definition, private securities and not publicly traded. [So] I don’t expect to see an explosion of liquid alts focused on private equity the way we’ve seen in hedge funds.”