Juniper Square

Rise of the Retail Investor: Impact on Private Markets

In collaboration with PitchBook

Executive summary

Juniper Square's latest report, developed in collaboration with PitchBook, draws on PitchBook and other datasets to explore the rise of retail investors and how GPs are adapting to their demands.

Private market investments have boomed over the past decade. Already large at $25 trillion, the market is on pace to more than double in size by 2032 to $60 trillion.[1] A primary driver of this growth is—and will continue to be—the increased participation of individual, high net-worth retail investors in alternative investments.

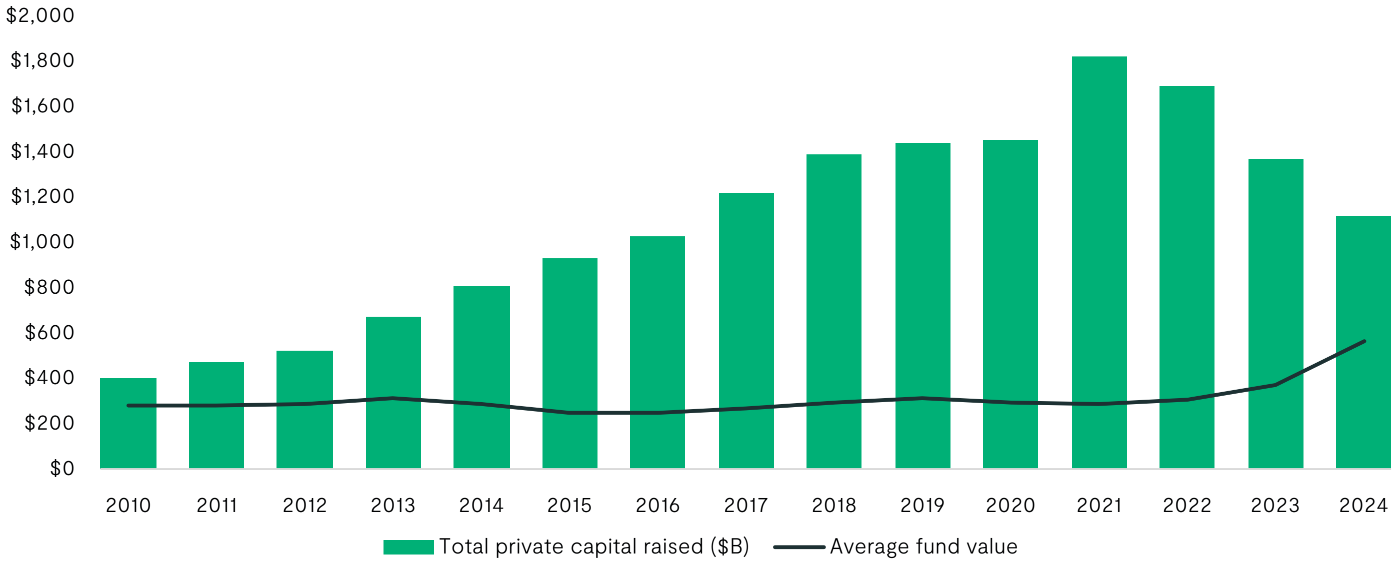
As interest in the private markets accelerates, new avenues for retail investors to access alternatives are emerging. Beyond indirect access to alternatives through publicly traded GPs, interval and evergreen fund structures are becoming key access points that will play a vital role in the growth of retail investor participation.

Why this matters: The combined scale of private capital and demand from retail investors for expanded investment opportunities will continue to add operational pressure on GPs in investor onboarding, investment management, and fund administration. As this new class of investors becomes increasingly influential in the private markets, new investment vehicles and innovations in the investor experience will emerge.

1: "Avoiding Wipeout: How To Ride the Wave of Private Markets," Bain & Company, Markus Habbel, et al., August 2024.

Trend analysis

Figure 1: Private capital fundraising activity



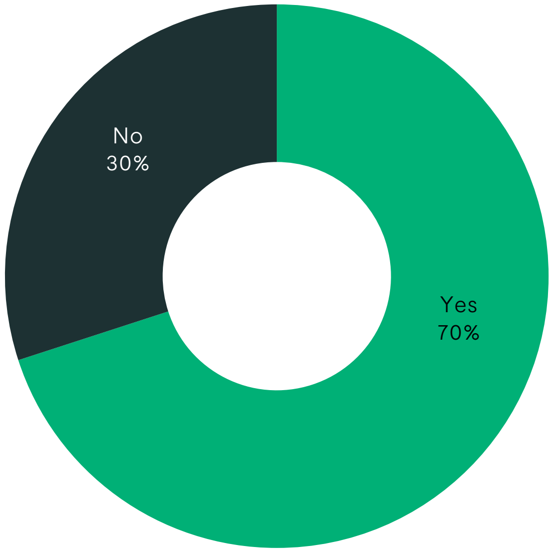
Source: PitchBook · Geography: Global · As of November 27, 2024

More retail investors are seeking access to alternatives

There are many drivers behind the increasing demand from retail investors to access alternatives, but chief among them is the broadening of financial asset exposure—largely public—among retail investors in general. JPMorganChase research has found more investors across all income levels engaging with brokerage accounts and deploying capital to investments than ever before.[2] From 2019 to 2022, the number of US families holding retirement accounts and pooled investment funds increased.[3]

As the investment community grows and actively engages worldwide, more investors seek alternative investment opportunities in private equity and venture capital. 70% of high-net-worth individuals (HNWIs) recently surveyed noted they would invest in alternatives if financial advisors recommended the move—which most financial advisors are inclined to do (Figure 2).[4]

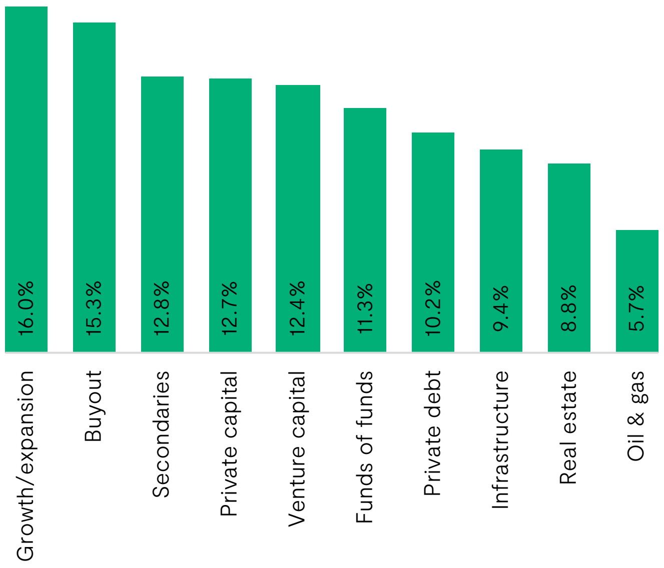
Figure 2: HNWIs open to investing in alternatives



Source: Brookfield Oaktree Wealth Solutions · Geography: Global
As of November 27, 2024

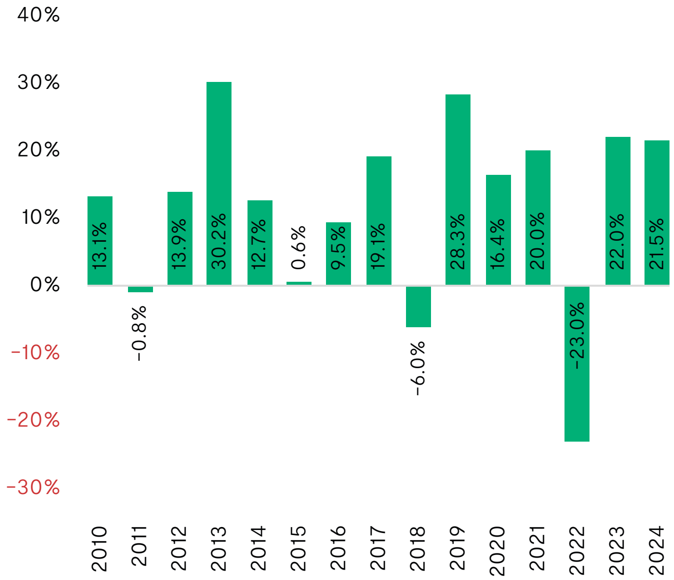
2: "The Rise in Retail Investing: Roles of the Economic Cycle and Income Growth," JPMorganChase, Chris Wheat and George Eckerd, 2024, n.d., accessed December 13, 2024.
3: "Changes in U.S. Family Finances From 2019 to 2022," Board of Governors of the Federal Reserve System, October 2023.
4: "Brookfield Oaktree Wealth Solutions Survey Highlights Investor Demand for Alternative Investments and Critical Role of Financial Advisors," GlobeNewswire, Brookfield Asset Management, October 8, 2024.

Figure 3: Private capital 15-year horizon IRRs



Source: PitchBook · Geography: Global · As of March 31, 2024

Figure 4: S&P 500 Annual Real Return



Source: PitchBook · Geography: Global · As of March 31, 2024

Steady performance is part of the appeal of private funds

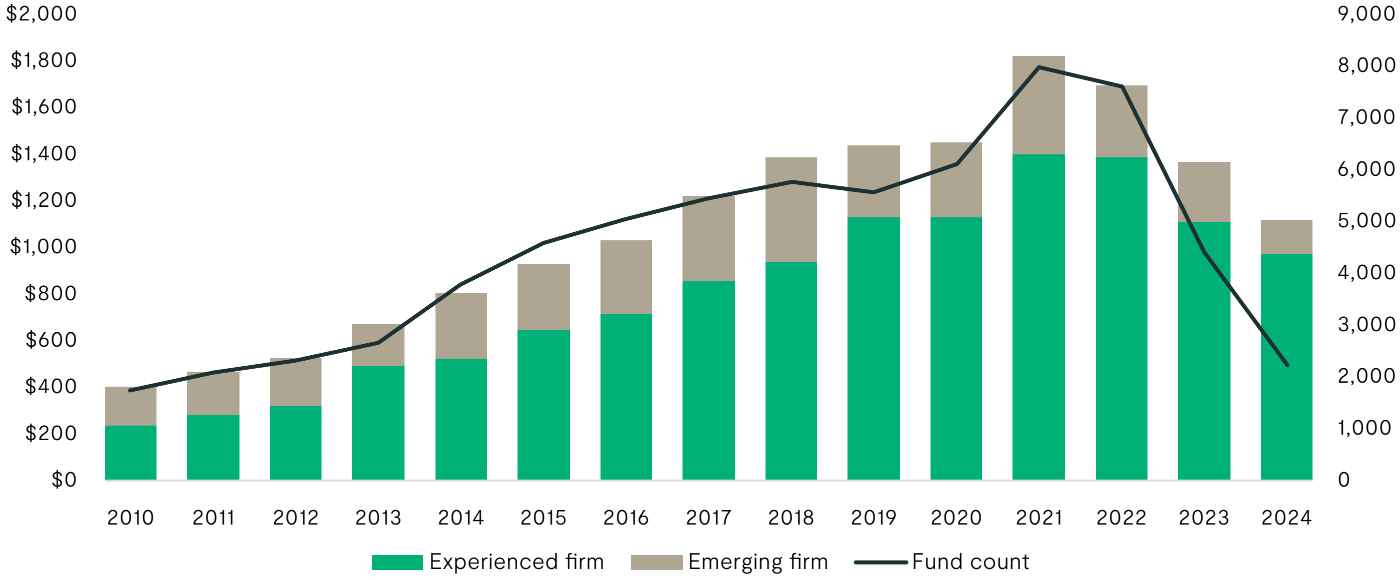
Private funds have increased in appeal by offering potentially more predictable long-term returns that are uncorrelated with public markets volatility. PE represents the largest and most popular alternative strategy, and fund performance has remained relatively stable for over a decade. On the other hand, volatility in equities markets has risen over the same time frame (Figure 4), driven by macroeconomic shocks as well as a higher concentration of investment in the major technology stocks—which exert significant influence on broader market performance in both directions. Many investors find the longer periods of illiquidity involved in private fund investments tolerable in the name of diversification and long-term stability.

Increased attention on alternative investment options coincides with a trend of companies staying private for longer. Inflated enterprise multiples rewarding "growth at all costs" have been replaced by lower multiples rewarding profit, contributing to slower exit activity. This has reduced the number of opportunities available in the traditionally retail-friendly public markets. With a slower pipeline of new public entrants and more deal activity happening privately, it is no surprise that retail investors are seeking ways to capitalize. When exit opportunities do materialize, top-tier private managers can still notch double-digit returns (Figure 3), which has cemented alternatives' appeal to investors of all kinds, especially retail investors wary of equities pricing and concentration.

More private capital is pouring into fewer funds

Private capital funds—which include VC, PE, real estate, and more—have collectively raised more than $1 trillion each year since 2016. Fundraising numbers at large paint a picture of demand for private markets investment. However, the share of fundraising secured by emerging firms—GPs that have launched fewer than four funds—has declined by 10% since 2021, as LPs increasingly favor their experienced counterparts (Figure 5). This is an indication that institutional LPs are consolidating their GP relationships in a tighter liquidity environment, sticking with GPs that have a history of performance. As a result, some GPs find themselves managing an influx of potential LPs, while others are feeling increased pressure to compete for LPs and retain them.

Figure 5: Private capital raised ($B) by manager experience



Source: PitchBook · Geography: Global · As of November 27, 2024

Investor and manager partnerships are evolving alongside product offerings

While the largest LPs are meeting their desired alternative asset allocations through fewer GP relationships, smaller and emerging GPs continually seek competitive edges. One such edge is raising vehicles and products geared toward different types of LPs—primarily HNWIs and ultra-high-net-worth individuals, alongside the broader retail investor base that has grown increasingly active in the past 10 to 15 years.

The exact value of private capital derived from retail investors is opaque, but the logic behind targeting this investor base is clear. Estimates point to $14 trillion of new capital entering the private markets over the next several years, with over $7 trillion coming from individual investors.[5]

While it is accepted that retail investors will continue to gain share and influence over asset managers and private funds specifically, retail investor access to private asset allocation remains limited. BlackRock recently noted that ETFs focused on private assets could eventually present an important expansion for investors; Goldman Sachs and Apollo Global Management expressed similar sentiments.[6]

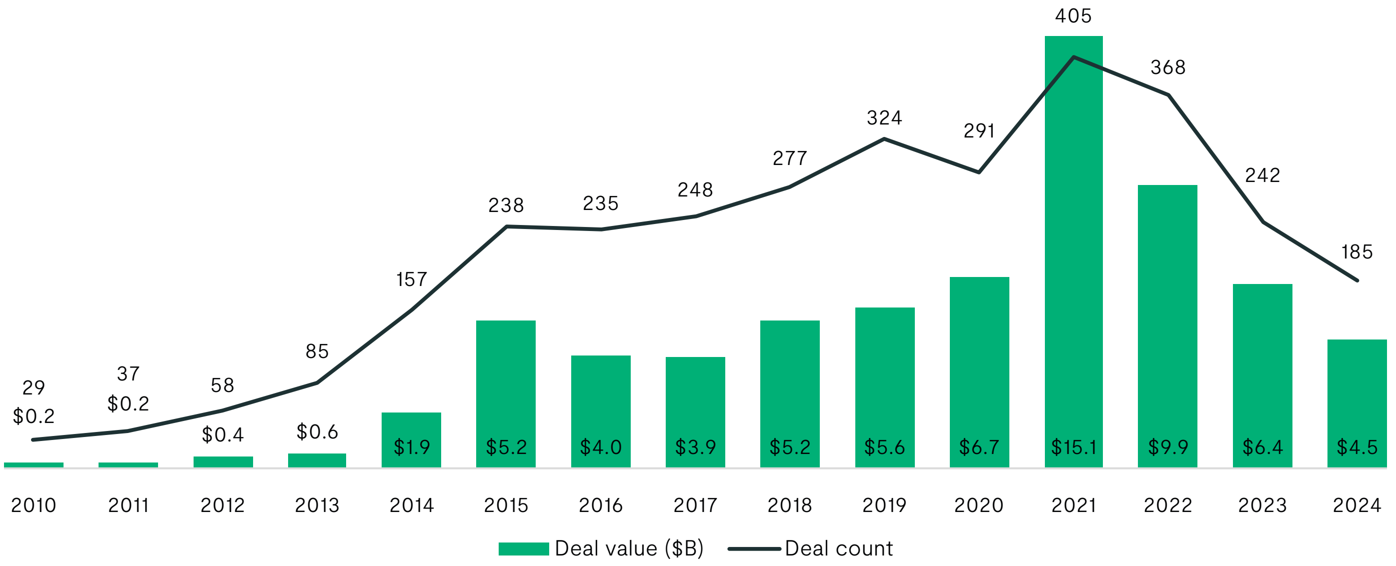
The first Bitcoin exchange-traded products, which were approved by the US Securities and Exchange Commission in January 2024,[7] also reflect a growing push for products and infrastructure to support a more diverse range of cost-effective investment options.

Still, private market GPs have shown a relatively quick reaction to shifting LP demand. While PE heavyweights Apollo, Blackstone, KKR, and Carlyle have offered indirect exposure to alternatives through public listings and private wealth offerings, over 200 alternative fund offerings since 2019 have launched in tandem with the surge in family offices and wealth management firms looking to target HNWIs and ultra-high-net-worth individuals, primarily structured as interval funds and tender funds.[8]

Both GP and LP demand for these structures contributed to their rise, and both are carving out new avenues for the necessary capital flows. For LPs, traditional closed-end fund structures lock up uncommitted capital for years at a time, sometimes for more than a decade. This is not typically in line with retail-investor expectations. For GPs, rigid and lengthy time frames may not always work in their favor either, especially in instances of poor timing for exit

5: “Pulse Check: 2024 Market Outlook,” Blue Owl Capital, 2024, n.d., accessed January 14, 2024.
6: “BlackRock Pushes to the Fore in Private-Asset ETF Race,” InvestmentNews, Bloomberg, July 31, 2024.
7: “Statement on the Approval of Spot Bitcoin Exchange-Traded Products,” US Securities and Exchange Commission, Chair Gary Gensler, January 10, 2024.
8: “Q3 2024 PitchBook Analyst Note: The Evergreen Evolution,” PitchBook, Zane Carmean, CFA, CAIA, et al., September 27, 2024.

Figure 6: Wealthtech VC deal activity



Source: PitchBook · Geography: Global · As of November 27, 2024

windows—as seen since 2022, when opportunities for aging portfolio holdings to secure sizable exits have fallen alongside the market correction.

Interval and tender offer funds have emerged as potential solutions to these problems by offering and repurchasing shares of the fund on a more frequent basis (often quarterly) than traditional fund capital calls and distributions. These funds have opened doors for investors more sensitive to illiquidity, which in turn has expanded the landscape for GPs.

Nonlisted business development companies (BDCs) are popular fund options as well, but this may be driven more by the increase in popularity of private credit as an asset class, especially as traditional buyout shops become more difficult to access. Otherwise, tender offers and interval funds combine the appeal of recurring liquidity and somewhat more accessible investment sizes. This could potentially grow even further if regulations governing the accreditation of investors shift, which could result in a new swath of individuals qualifying to invest in vehicles that were previously off-limits due to their net worth or expertise level.

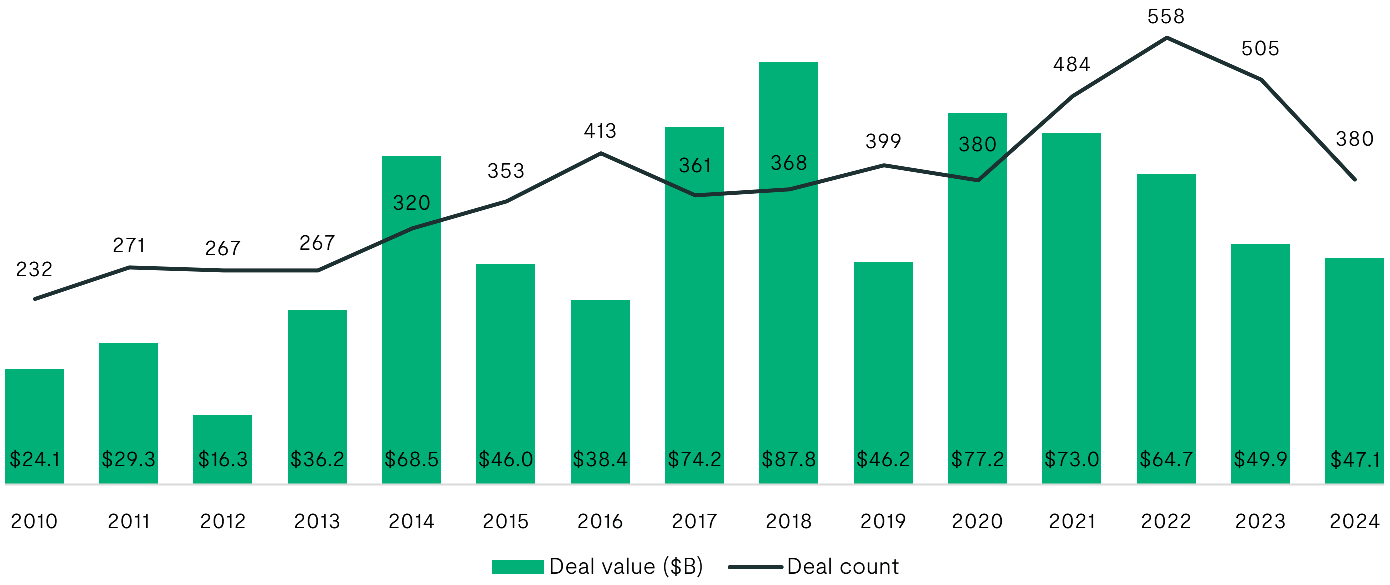
This regulation was last amended in 2020 to allow investors with particular knowledge of private funds—through either certification or employment experience—to participate in private markets.[9] The change came at a time when retail investment was surging into public stocks, the performance of which was buoyed by a low-rate environment and COVID-19 pandemic stimulus checks supporting individual wallets.

Markets and platforms alike innovate to accommodate a new investor base

Retail investor growth, along with consumer demands for more accessible and digital-forward platforms, has led to the evolution and ongoing disruption of the wealth and asset management industries. In recent years, VC firms have recognized these trends and backed more wealthtech companies that apply innovative technologies to traditional wealth management services. VC investment in wealthtech reached a record $15.1 billion in 2021, with declining but still material levels in subsequent years (Figure 6).

9: "Amendments to Accredited Investor Definition," US Securities and Exchange Commission, December 7, 2020.

Figure 7: Asset manager & brokerage M&A activity



Source: PitchBook · Geography: Global · As of November 27, 2024

Wealthtech innovation has yielded meaningful competitors to established incumbents, producing new heavyweights such as Robinhood, Betterment, and eToro. Given their scale and approach, these platforms have incentivized incumbents to invest more in their trading platforms, aiming to provide a simpler interface for creating investor accounts, executing trades, and viewing performance. Rivalries between major managers such as Vanguard, Charles Schwab, and Fidelity have prompted significant consolidation to capture market share, enhance product and service offerings, and improve overall operating costs.

This activity led to the rise in asset management M&A over the past few years, with over 400 deals closing each year between 2021 and 2023, which has only trended lower due to broader economic and regulatory pressures as of late (Figure 7).

Wealthtech VC deal activity and asset manager M&A reflect the realization that investor experience innovation is both a big opportunity and a cost of doing business. Consumers who utilize platforms like Robinhood as a brokerage will demand similar access to investing in alternatives in the imminent future. It behooves private market GPs launching offerings for retail investors to match this level of investor experience innovation.

Q&A with Alex Robinson

Alex Robinson
Co-founder and CEO
Juniper Square

What do you see as "the big opportunity" for the private markets?

Investors have started chasing returns outside of the public markets, because they know that it will be tough to repeat equities' performance over the past 15 years. Almost $14 trillion of net-new capital is flowing into the private markets, and over $7 trillion of that is coming from individual investors–most of whom are younger and newer to private market investing.[10] If GPs want to earn their piece of this $7 trillion pie—and they must, given how many institutional investors have slowed their commitments—they will need to scale their operations and modernize their technology to meet the expectations of these overwhelmingly digitally native investors.

Used to cutting-edge financial and banking tools, these modern LPs demand that private market GPs offer the same seamless experience to which they are accustomed from public market investing. The days of producing a quarterly PDF report and calling that "investor reporting" are over. Private market GPs are expected to offer unprecedented levels of transparency and access, providing direct live data feeds to their stakeholders, striking frequent net asset values, and continually updating accounts in real time.

What kinds of products are these investors looking for?

We recently had Joan Solotar, Blackstone's head of private wealth solutions, on our podcast The Distribution by Juniper Square.[11] She noted that, "The path of travel is moving towards open-ended [funds], because your money is invested right away. Others prefer drawdown funds to manage their own liquidity...but, if you're an open-ended investor and that fund achieves just 12% net over 10 years, you will triple your money, because the money's in the ground on day one."

Most GPs have built their businesses on the backs of closed-end drawdown funds, but Blackstone's success with Blackstone REIT (BREIT) has shown that retail investors—and the wealth channel that advises them—want evergreen, liquid, registered products that trade with a CUSIP. This is a fundamentally different business model.

Not all GPs have investing strategies that align well with the requirements of evergreen funds, but those that do would be wise to explore how to evolve their business models to these new structures. GPs, however, should be realistic in their expectations. Much of the success of vehicles like the BREIT is the result of the massive marketing and distribution investment made by industry giants like Blackstone. Few can or should repeat that strategy.

On another episode of The Distribution, Michael Episcope, co-founder and co-CEO of Origin Investments, told us how they started offering evergreen structures instead of closed-end funds back in 2019.[12] These products were designed for "the individual investor who is trying to get passive income, grow wealth, and build upside over time." Origin now has 4,000 active LPs and a marketing list of over 80,000 potential investors. We expect semi-liquid, exempt, nontraded vehicles to also grow in popularity.

What operational hurdles must GPs overcome to support retail investors?

Efficiency, automation, and scale are the whole game. Brute-forcing connections across systems and service providers—that often rely on limited or outdated technology—inevitably increases risk, wastes time, frustrates stakeholders, limits insights, and creates operational headaches for the entire organization.

Evolving to effectively manage hundreds or thousands of LPs profoundly affects a GP's tech stack. As the number of retail investors in the private markets grows, the industry will face increasing levels of regulatory scrutiny. This means more disclosures, more in-depth reporting needs, more timely access to data, and greater demands for transparency. In fact, "regulatory scrutiny" ranked as one of the most significant fund operations challenges facing GPs.[13] Instead of an Excel file and manual calculations, GPs must upgrade their technology and operational infrastructure to be more

10: "Pulse Check: 2024 Market Outlook," Blue Owl Capital, 2024, n.d., accessed January 14, 2024.
11: "Ep.53: Education as Strategy: The Key to Adviser Buy-In - Joan Solotar" The Distribution by Juniper Square, produced by Apple Podcasts, December 16, 2024.
12: "Ep.45: Accessing the Individual Investor at Scale - Michael Episcope," The Distribution by Juniper Square, produced by Apple Podcasts, September 2, 2024.
13: "Optimizing Outsourcing: Strategies for Taking Operations to the Next Level," S&P Global Market Intelligence and Mergermarket, 2023, n.d., accessed January 14, 2024.

robust, integrated, real time, and secure. New financial products will also require tight integration with the wealth channel's technology infrastructure around core workflows like subscriptions, compliance, money transfer, and reporting.

How can GPs create a seamless fundraising and reporting experience for retail investors?

A great experience needs to be three things: integrated, smart, and simple.

Integrated: A modern platform must efficiently connect all fundraising activities, from the CRM, data rooms, and subscriptions to investor onboarding and compliance activities. It must also store and share LP data easily. The investor portal must be a data exchange, not a document repository. Finally, a single-click subscription for LPs is the real Holy Grail. An integrated solution also means GPs can quickly and confidently answer any question about their portfolio. It also easily powers the most complex custom LP reporting requests with automated workflows that push information directly into the investor portal.

Smart: No one likes building the same profile repeatedly, so having a universal system that captures an LP's subscriber profile, payment methods, communications preferences, and more that can be automatically applied across new investments—and even new GPs—is critical. When an investor updates their information, all relevant tools should automatically ingest those updates. The system must also support conditional logic on both onboarding questions and different subscription forms used by different entities. It should also capture the full complexity of the LP's signing requirements, from multiparty-ordered signatures to registered investment advisors queuing signatures on their clients' behalf.

Simple: The compliance landscape is changing dramatically and quickly, and new rules are putting more firms under regulatory scrutiny. If GPs can integrate compliance processes directly into the fundraising and onboarding period—because "know your customer" and anti-money laundering programs often rely on the same LP data gathered during the subscription process—then they will streamline the investor onboarding experience while also simplifying ongoing compliance efforts.

What are some solutions Juniper Square developed for clients that support the retail investor?

Many of our clients raise capital from a diverse pool of investors and have strict compliance requirements. They often need to configure custom subscription workflows for each individual based on prior knowledge and then manually follow up after reviewing subscription documents to request additional information and documentation. This was a significant time suck for all parties, and we realized that as more GPs came under regulatory oversight and looked to significantly expand their investor pool, it simply was not a sustainable process.

To solve this, we launched dynamic subscriptions, an enhancement to our digital subscriptions tool, allowing GPs to add conditional logic to custom questions during the fundraising and onboarding process.[14] For example, if LPs on our platform respond "yes" when asked if they are a "politically exposed person," the GP can automatically trigger follow-up questions and/or require additional compliance documentation. As another example, they can require all "individuals" to provide proof of identity and income. This innovation created a more intuitive and streamlined experience for the LP while allowing GPs to maintain critical legal language when processing subscription documents, minimizing objections from legal counsel.

We have also given our clients the ability to allow LPs to export their own investment data for offline analysis. This streamlines communication and minimizes the in-house workload of bespoke LP requests while also giving investors more visibility and access to their data.

Ultimately, we believe retail investors are about to shift the private markets like they transformed institutional capital 30 years ago. This sea change demands that GPs make transformational investments in their products and operations if they hope to serve these LPs the way they have come to expect from the public markets. GPs who seize this opportunity and reconsider their approach to technology will be better positioned to distinguish themselves in an evermore competitive fundraising environment. By automating day-to-day activities and effectively managing the back office, our clients can focus more on building and strengthening individual investor relationships and ultimately earning more capital.

14: "Digital Tools To Raise More Capital With Less Effort" Juniper Square, n.d., accessed January 14, 2024.

Conclusion

Alternatives are becoming a key component in the asset allocation plans of all types of investors beyond the current scope of institutional LPs. Public equities had an unparalleled run from the late 2000s through the present, but the relative stability of private funds performance—even through challenging macro environments—offers investors a separate path. As a result, investors are looking to maintain or grow allocations to alternatives.

Mass consumer adoption of platforms like Robinhood also indicates broad retail demand for friction-free access to investment opportunities and performance reporting. The barrier to entry for public markets investing has been reduced to a few clicks on a laptop; we anticipate that retail investors looking for greater direct exposure to alternatives will expect the same experience.

With $14 trillion in new capital expected to enter the private markets over the next several years—much of it from retail investors—private market GPs must find their edge not just in the strategies and products they develop, but in their operations and service to investors. To that end, we see three venues in which private market GPs must adapt their operations and allow for a more public markets-like investment experience:

- **Investor onboarding:** Digital platforms for public markets investing require users to go through a full identification process just once to create an account, and two-factor authentication thereafter, to access investment opportunities and transact without further obstacles. Retail investors are likely to demand this type of user experience from the private markets.

- **Investment management:** Buying and selling public equities—as well as contributing and withdrawing funds from an investor's account—can be done in minutes, if not seconds. One-click subscriptions to deals and seamless contributions and distributions are also likely to be a requirement for retail investors when working with private market GPs. This will become critically important as demand for other, more liquid vehicles increases.

- **Fund administration:** While the accounting and reporting complexities of private market funds are distinct, retail investors still expect to access performance reports on demand. Fund administration for private market funds will need to become more digitized and automated, paving the way for performance reporting to move closer to parity with the public markets in terms of timeliness and accuracy.

GPs that actively address these opportunities in earnest will be well positioned to meet the demands of institutional and retail investors in the private markets now and in the imminent future.

Methodologies & disclaimers

Standard PitchBook methodologies, found here, apply to all datasets unless otherwise specified.

Wealthtech is defined as the combination of fintech companies and companies identified as either asset management, brokerage, consumer finance, or specialized finance firms.

About Juniper Square

Juniper Square is dedicated to transforming the private markets investing experience. The company provides a full range of modern, connected fund technologies and services for over 2,100 private markets GPs across fundraising, reporting, fund administration, treasury, compliance, and business intelligence. Today, over $1 trillion of assets and 600,000+ LP accounts are managed through Juniper Square software and fund administration services.

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