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Simplifying access to private investments

5 QUESTIONS

RIAs can deploy private market investment products capable of enhancing the traditional 60/40 portfolio

No longer the exclusive domain of institutional investors, private investments are increasingly playing an important role in the portfolios of individual investors. Michael Bell, CEO of Meketa Capital, explains how the traditional barriers to entry have been lowered and how RIAs and their clients can access private markets more efficiently to move beyond the limitations of the traditional 60/40 portfolio.

Why have RIAs been slow in adopting private market investments?

RIAs face a variety of challenges when adopting private market investments. The first challenge is understanding private market investing. Advisers have a duty to make sure that investments are suitable for their clients, which means education, not only the details of products going into portfolios, but the broader characteristics of different private market asset classes. Education takes time and advisers, understandably, want knowledge before implementation.

The second challenge advisers face is the administrative burden of private investments. Whether lengthy subscription documents, managing capital calls or cumbersome tax reporting, administrative complexity can detract from both the client experience as well as adviser capacity.

Another challenge is access. High investment minimums create barriers for advisers when building portfolios for their clients. And there may be accreditation standards that disqualify many investors. So, there's potentially a lot of time, effort and energy that has to be expended to access this asset class.

Are there ways to reduce the challenges to accessing private markets?

There are a number of solution sets in the marketplace, primarily technology driven, that help to reduce some of the hurdles to access. They make the subscription process a little easier. They develop feeder funds and make the investment minimums lower. They make tax reporting easier and can help to eliminate or limit capital calls. Interval fund structures not only help to reduce these challenges but can actually eliminate many of them. With an interval fund, RIAs and their clients can have "point and click" access to private market investments. These funds typically have lower investment minimums, few investor limitations, no subscription documents, no capital calls, and possibly higher levels of liquidity. They are available on popular mutual fund platforms, with daily NAVs, simplified account paperwork, and 1099 tax reporting. Also, these funds can be tradeable and typically have lower fees than traditional private market investments.

What role can these private market funds play in a client's portfolio?

The traditional 60/40 model portfolio may be insufficient for many investors' needs, and RIAs should consider providing more diversified strategies to help build portfolios designed to provide both improved potential protection during market turmoil as well as improved return potential. Expanding a 60/40 client portfolio to include an allocation to private investments may help enhance expected returns and broaden diversification while potentially lowering expected volatility, supporting a portfolio's long-term stability and growth. And the interval fund structure helps to simplify access to private markets for client portfolios.

How can product sponsors best penetrate the RIA market?

One effective way is through education. Unlike institutional investors, many RIAs may have limited experience in private markets investing. Indeed, there may be misconceptions related to the risks involved, lack of liquidity and investor suitability requirements. They may have questions about capital calls, commitment drawdowns and J curves. Advisers may not realize that including an allocation to certain private investments may actually reduce expected volatility in a portfolio. RIAs also need to understand the importance of manager selection and their various strategies.

What is the opportunity for private markets in the coming years?

One compelling asset class is private infrastructure. With world governments focused on energy security and future net-zero emissions goals, there's a strong tailwind for investment in the energy transition that will support opportunities in private infrastructure investments. Much of the capital expenditure in energy transition is expected to come from private capital sources. A 2023 report from the McKinsey Global Institute predicts a global annual investment of $9.2 trillion will be needed to achieve the required energy transition. The strong demand for renewable energy sources and the need for investment in energy transition technology can potentially bolster the long-term performance of the infrastructure asset class. ■