Private wealth is the next great frontier

Bringing private market investment benefits to more Australians

Peter Beske Nielsen

With wealth increasingly shifting towards individual investors, it is only natural for private equity to follow suit.

Looking at the generation of wealth globally, there is a clear shift happening. Wealth creation is moving from traditional pension funds and government pensions to individual investors. Australians are also investing in assets other than property. We are seeing a new wave of investors emerging and a growing interest in investments in shares, exchange-traded funds (ETFs) and more sophisticated investment solutions.

Wealthy Australians and their advisers are increasingly exploring alternative investments for better returns and diversified portfolios beyond traditional markets. There is no doubt that this trend will shape the financial landscape over the next 15–30 years—in ways we probably cannot yet even imagine.

Private equity on an upper trajectory

The private equity industry has grown substantially over the past 5-10 years. Initially, it was straightforward to engage with large pension funds through one-on-one conversations about collective pension schemes. However, as the industry has expanded, the need to tap into new sources of capital has also grown.

In Western countries, governments are gradually stepping back from providing pensions to individuals, resulting in a reduced pool of state-provided capital. In Australia, the ongoing push towards individuals building their own wealth through superannuation has resulted in the nation having a retirement savings pool that now sits in excess of $3.5 trillion.[1]

Consequently, the wealth in these areas shifts quickly from government-managed to individual savings. This divergence creates an exciting opportunity for private equity to engage with individual investors.

We often refer to three pillars of wealth generation:

- Pillar one—government pensions
- Pillar two—workplace pensions
- Pillar three—individual savings.

Depending on where you are in the world, the shift from pillars one and two to pillar three is accelerating and will continue to do so over the next few decades, particularly within Australia, given the continued increases to the superannuation guarantee.

The regulatory landscape has also evolved to accommodate this shift. Regulators have recognised the need for individual investors to participate in private markets. Thus, companies are continuing to create avenues for wholesale investors, advised clients and retail investors to buy into these assets.

Accommodating individual investors

This shift also requires private equity firms to lower the barriers to entry for individual investors, making it more convenient for them to invest in private markets. This regulatory and operational shift is essential for integrating private equity investments into individual portfolios.

However, it is a complex undertaking. The infrastructure around private equity investments must be robust, which means educating both individual investors and the advisers who guide them. There is a whole ecosystem that needs to be upgraded to accommodate these changes.

Despite the buzz around this shift, the actual capital raised from individual investors is still relatively small. For instance, in 2021 the average allocation to private equity by individual investors, through their wealth managers, was only about 3–5%.[2] In contrast, some institutional investors allocated up to nearly 50% of their portfolios to private assets in the same year.[3] There is a long way to go before individual investors reach similar levels of participation.

To make private equity accessible to individual investors, the same institutional rigor and performance standards must be maintained. This means adapting operational platforms to be more convenient for individual investors. The shift involves moving from traditional 10-year lockup structures with drawdowns to more open-ended structures that provide periodic liquidity. This change is significant and requires a fundamental shift in operational modes.

This trend aligns with a global pattern of more companies going private, driven by the desire for simpler ownership structures and enhanced capital fluidity. As a result, Australian investors are strategically pivoting towards private markets in pursuit of diversification and higher returns. With the public markets contracting, private assets offer fresh opportunities for building resilient portfolios and tapping into substantial value creation beyond the public sphere.

Public markets continue to contract

Public markets are shrinking as more companies are deterred from pursuing initial public offerings (IPOs) due to the rising costs and complexities involved. The burden of navigating complex regulations, strict compliance requirements, and increased scrutiny from stakeholders is pushing many firms to stay private instead, for much longer.

Data from the *ASX Group monthly activity report* covering the 2023/24 financial year[4] highlights the ongoing contraction of the platform. The total number of companies listed on the Australian Securities Exchange (ASX) decreased from 2,255 to 2,155, indicating a decline of 4% over the financial year with 100 fewer companies now listed. Additionally, delistings saw a significant upsurge, with 156 companies withdrawing from the ASX in FY 2023/24 compared to 119 withdrawals in FY 2022/23.

In the domestic market, the ASX has observed a substantial year-on-year decrease in the level of IPO activity. In the first six months to June 2024, we saw just 13 new listings on the exchange, one fewer than in the same period last year. This trend follows a lacklustre year for IPO fundraising in 2023, when the total funds raised from ASX listings was $847 million, marking the first time since 2012 that the total amounts raised did not exceed $1 billion.

This trend of staying private for longer is not limited to any specific region. Europe and the US have also witnessed a decline in the number of public companies. In the US, for example, the median age of companies at IPO stage has more than doubled over the past decade, largely due to the prevalence of private equity-backed firms.

Additionally, the UK has seen a dwindling number of new listings since the Global Financial Crisis, a trend showing no signs of a meaningful recovery. This decline directly affects the exposure the stock market offers to the corporate world.

Presently, fewer than 15% of US companies with revenues exceeding $100 million are listed. Globally, there are about 140,000 companies at this revenue level, and only 19,000 of them are publicly owned. For investors who are loyal to public markets, these findings demonstrate that they are only able to access a small fraction of the opportunity set that is available to them.

Recalibrating strategies to private assets

Given these developments, Australian investors should consider recalibrating their strategies to embrace private assets. Individual investors hold roughly 50% of global assets under management (AUM), yet only 16% in alternative investment funds. Institutional investors have already acknowledged this shift, with over 40% expressing their intent to further increase allocations to private markets.

The eventual winners in this space will be those who deliver outstanding performance consistently and make access to this performance convenient for individual investors. This involves simplifying the process, similar to how mutual funds and ETFs operate today. Performance remains paramount, as it is the licence to operate in the private market space.

In terms of embracing this shift toward private wealth, platforms need to be developed that meet the needs of individual investors without compromising robust investment processes or philosophies. This involves adapting to local regulatory regimes and ensuring that operational platforms can accommodate these diverse requirements.

The future

According to a report by Preqin, private equity allocations in private wealth management portfolios are expected to grow significantly in the next few years.[5] This accords with strategies to help make private equity more accessible and beneficial for individual investors. Ad-

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The quote

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ditionally, private equity investments have historically outperformed public markets, with buyouts generating an average net internal rate of return (IRR) of 14% over the past decade.[6]

Further, the high-net-worth (HNW) segment alone is on pace to exceed US$100 trillion in available assets by 2024.[7] According to a joint report by Oliver Wyman and Morgan Stanley, ultra-high-net-worth (UHNW) exposures to private capital are expected to reach US$24 trillion globally by the end of 2024.[8]

It is an exciting time for private equity. We have the opportunity to bring the benefits of private market investments to a broader audience, helping individuals achieve their financial goal.

The shift toward individual investors in private equity represents a significant transformation in the industry. It is a journey that requires careful navigation of regulatory landscapes, adaptation of operational platforms, and a steadfast commitment to delivering top-tier performance. **FS**

Notes

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