Private Equity: A Growing Opportunity for HNW Investors
Contents

Executive Summary 1

1. Demand for private equity has risen strongly 3

2. HNW wealth allocated to private equity is forecast to increase 6

3. Alternative investment drivers for HNW individuals 7

4. Recovery in wealth markets is expected 11

5. Alternatives have been challenging for distribution 15
Executive Summary

Market overview

The private equity market is steadily growing as its high returns attract an ever-widening group of investors. As of December 2020, AUM is estimated to be $4.7tr. Driven by desire for uncorrelated returns amidst volatile market conditions and search for ROI, the sector is forecast to record an impressive CAGR of 7.4% between the end of 2019 and 2024. Currently, HNW investors allocate 3.4% of their onshore wealth* to private equity, but this proportion is expected to trend upwards as technological advances provide more efficient and cost-effective access.

Key Findings

- By 2024, global private equity AUM is forecast to reach $6.4tr.
- The growing HNW segment will support private equity market growth as access to the asset class becomes more efficient – between December 2020 and 2024 HNW wealth is expected to record a CAGR of 9%.
- The proportion of onshore wealth HNW investors allocate to private equity is forecast to increase to 4.4% by the end of 2021.
- HNW investors in the UK are world-leading in embracing private equity with an allocation of 8.8%, while the Chinese HNW investor market is largely untapped with just 2% of the investment portfolio.
- Next to technological advances, ROI, diversification benefits, rising investor sophistication, and exclusivity are the prime drivers for private equity investments in the HNW space.
- The private banking industry has been among the slowest to innovate and digitalize, but a new generation of HNW investors expects seamless investment processes, which continue to drive partnerships with fintechs.
- Only 40% of wealth managers offer private equity investments, despite a strong and growing demand in the HNW space.
Critical success factors

Technology investments are critical: Efficiency-focused and end-to-end technologies, such as the digitization of regulatory and compliance processes as well as KYC, digital AML, reporting and due diligence requirements, are critical to remove key private equity investment barriers.

Partnerships will allow wealth managers to grow AUM: Partnerships with fintechs will allow wealth managers to target HNW investors more effectively, allowing for a more integrated and seamless investment process, while providing access to a wider range of investments still not commonly available among many private wealth managers.

Focus on growth drivers: HNW investors have become increasingly frustrated with traditional asset classes (equities and fixed income) and are looking for new means of diversification, while equity market volatility, combined with fears that prices are overvalued, has left investors searching for yield. Highlighting the role private equity can play in providing uncorrelated returns will drive uptake among HNW investors and enhance portfolio performance.

Investor education: Investors have increasingly strong knowledge of financial markets, which directly translates to increased openness to new investment ideas. However, building trust and knowledge is still necessary in order to encourage investments in alternatives, which are less familiar to even long-time investors.

*Onshore wealth refers to the local investors’ financial assets booking in a particular country, as opposed to the offshore wealth of the investors.
Demand for private equity has risen strongly

Not subject to short-term sentiment, the importance of alternative investments in the HNW portfolio has been on the rise

Alternative investments already constitute an integral part of the global HNW portfolio. Having broken the 10% mark in 2020 – i.e., every tenth HNW dollar is allocated to alternative investments onshore – the market is expected to continue on its growth trajectory. A search for yield and investors looking for new means of diversification is set to continue to support HNW demand over the coming years.

Diversification benefits have always been a key driver for both bonds and alternatives, but research shows this is becoming increasingly important for the latter thanks to their reputation for providing uncorrelated returns. Traditionally, bonds have acted as a safe haven during times of stock market upheaval, providing investors with positive returns when share prices dive.

However, the current economic environment means the situation is more complex. As central banks across the world continue to buy up large quantities of debt, investors are losing patience with bonds and are looking for returns elsewhere. The idea that gains in the bond market offset losses in the stock market no longer holds true, and investors have been looking towards alternatives as the current economic environment has challenged the traditional bond-equity correlation.

Going forward, this trend will continue to benefit alternative investment uptake in the HNW space. Data from GlobalData’s 2020 Global Wealth Managers Survey shows that 44.6% of wealth managers expect global HNW demand for the asset class to rise over the coming 12 months; only 13.4% predict a decrease.

A search for yield and investors looking for new means of diversification is set to continue to support HNW demand over the coming years.
In the alternative investment space, demand for private alternatives has been strong. According to data from Blackrock, private alternatives more than tripled since 2007, increasing from $2.5tr to $8tr.¹ Much of this growth stems from the private equity sphere. Surpassing the $4.5tr mark in 2019, private equity assets expanded at a compound annual growth rate (CAGR) of 11% over the past ten years.²

While Covid-19 has taken a toll on the sector, GlobalData’s outlook remains bullish and the research house forecasts the market to expand at a CAGR of 7.4% between the end of 2019 and 2024. After an impressive 2019, growth is expected to slow to 4.3% in 2020 as investment activity throughout the year remained flat in impacted sectors and firms shifted their focus inwards. However, growth is expected to pick up as we move further into 2021.

The pandemic and resulting recessions also present significant opportunities. The industry sits on a record amount of dry powder, and while some will be dedicated to the support of portfolio companies, private equity firms will look for bargains in the carnage. This means, GlobalData’s optimistic 2021 forecast rests heavily on the expectation that investors trust private equity firms’ ability to deploy their capital effectively, be it in an aggressive or friendly way, and thus supporting AUM inflows.
HNW investors are increasingly keen private equity investors, with assets equally split between direct and fund investments

HNW demand for private assets has been growing in recent years – a trend expected to be magnified by the effects of Covid-19 as investors are looking for uncorrelated returns, not affected by short-term market sentiment, and forced selling. Indeed, HNW investors have become keen private equity investors. Within a year, the proportion of HNW onshore wealth allocated to private equity rose by 1.2ppt to reach 3.4% in 2020, and private equity now attracts the largest share of HNW wealth in the average alternative investment portfolio.

Traditionally, fund investments dominated in the HNW space, however, interest in direct holdings is on the rise and investors are often opting for co-investment deals with fund managers or trying to gain access via their private banks. In the lower tiers of the HNW wealth spectrum, access to more sophisticated investments remains somewhat more limited than in the UHNW space. For example, JPMorgan provides direct investment in single private companies for investors with about $50m with the bank.³

While demand for exclusive access to investment opportunities is on the rise, direct investments do have limitations given the due diligence required for each investment and the compliance burden this imposes. In addition, funds offer greater diversification providing access to different private equity strategies, and investment thresholds tend to be lower, allowing access to a wider investor base outside of the exclusive realm of large-scale institutional investors, where the compliance burden is less of an issue.

Figure 3: Private equity dominates HNW alternative investments.

Figure 4: HNW investors allocate 3.4% of their onshore portfolio to private equity.
The proportion of onshore wealth that HNW investors allocate to private equity, is expected to rise from 3.4% in 2020 to 4.4% in 2021. However, there will be significant regional differences. Investors in Europe are already notably more exposed to private equity, with the UK, followed by Germany topping the list with allocations of 8.8% and 5.3% respectively. And it is here where the strongest rise in HNW demand is forecast.

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European HNW individuals are keen private equity investors

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Asia Pacific remains a mixed bag – demand is strong and growing in India, with allocations expected to rise from 5.1% in 2020 to 7.6% in 2021. In China, on the other hand, HNW investments allocated to private equity is at 2%. While the Chinese private equity market has been growing rapidly, the sector’s share of GDP was just 0.5% in 2019, compared to 1.7% in India and 2.6% in the UK.

Figure 5: UK HNW investors allocate a higher proportion of their wealth to private equity

Source: GlobalData’s 2020 Global Wealth Managers Survey

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There is no single driver affecting HNW individuals’ asset allocation strategies, and demand for private equity is influenced by an interplay of a variety of factors, such as risk preference, economic conditions, wider financial market performance, and investor attitudes. However, data shows that capital appreciation considerations, a greater need for diversification, rising investor sophistication, and perceptions of exclusivity have emerged as key investment themes, which will continue to support HNW demand for private equity.

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Figure 6: ROI and diversification represent key alternative investment drivers

HNW alternative investment drivers

- Capital appreciation opportunities: 16.0%
- The current returns: 15.6%
- Dissatisfaction with traditional asset classes: 14.2%
- Asset diversification: 15.7%
- Increased financial Market Volatility: 14.9%
- Low correlation to financial markets: 9.8%
- Perceptions of exclusivity: 13.5%
- Other: 0.4%

Source: GlobalData’s 2020 Global Wealth Managers Survey

©GlobalData

Demand for private equity is influenced by an interplay of a variety of factors.
1. Return on Investment: Low returns in other parts of financial markets, and high equity valuations are motivating HNW investors to look for returns in the private equity space

ROI is a major driver for private equity investments in the HNW space. Across most of the developed world, interest rates are near zero or negative. While inflation is almost negligible, so are the returns, if any, available on cash and near-cash and fixed income products. Consequently, investors are losing faith in bonds and deposits and are looking for returns elsewhere. While stock markets have rewarded investors with decent returns for most of the past decade, there are growing fears that equities are overvalued. Prices are highly dependent on low rates, and while cheap money will continue to fuel markets, and inflation does not pose a risk for the foreseeable future, risks remain. Faith in the effectiveness of vaccines, as well as countries’ abilities to distribute it to revert back to the former normal within the year, may be overly optimistic. At the same time, central banks have limited ammunition left, and the risk of policy mistakes on financial markets should not be underestimated.

Admittedly, the private equity market has not been immune to the effects of Covid-19, and the primary focus has been on supporting portfolio companies. According to Goby (2020), global private equity buyout and exit transactions decreased by 60% and 72% between January and April, respectively. However, the sector has ample dry powder ($1.5bn according to Deloitte) to support and strengthen portfolio companies, and Covid-19 induced market turbulences provide an opportunity to purchase quality companies at a discount. GlobalData’s 2020 Global Wealth Managers Survey data shows that the importance of ROI as an investment driver has been on the rise, highlighting investors’ belief that private equity firms will be able to capitalise on recessionary pressures. Indeed, recession vintages tend to outperform boom years, presenting private equity firms bargains as struggling companies are looking for investors. According to a study conducted by EY, pre-GFC private equity funds started during the 2006 market peak yielded a median 8.1%, while 2009 ones outperformed with a median of 13.9%.

As the public market equity valuations rise, private equity investments are likely to become more attractive to investors. Looking at historic performance, private markets have outperformed public ones over both 10- and 20-years horizons. According to Pengana Capital data, the pooled returns of limited partners were almost twice as high as the public market equivalent of the S&P 500 in the US over a 20-year time horizon, providing a strong draw for investors with the resources to make substantial long-term commitments.

Figure 7: Private markets have outperformed public ones over both 10- and 20-years horizons

<table>
<thead>
<tr>
<th>Return %</th>
<th>20 year investment horizon</th>
<th>10 year investment horizon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>Europe</td>
<td>US</td>
</tr>
<tr>
<td>10.9%</td>
<td>14.1%</td>
<td>11.3%</td>
</tr>
<tr>
<td>PME MSCI AC Asia</td>
<td>PME MSCI AC Europe</td>
<td>PME S&amp;P 500</td>
</tr>
<tr>
<td>4.8%</td>
<td>5.4%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Asia</td>
<td>Europe</td>
<td>US</td>
</tr>
<tr>
<td>12.8%</td>
<td>16.3%</td>
<td>15.6%</td>
</tr>
<tr>
<td>PME MSCI AC Asia</td>
<td>PME MSCI AC Europe</td>
<td>PME S&amp;P 500</td>
</tr>
<tr>
<td>7.6%</td>
<td>8%</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

Source: Pengana Capital ©GlobalData
Correlation risk is on the rise, and HNW investors are looking to further diversify their holdings, venturing into the alternative investment space. With an average closing price of 29.25, the CBOE VIX Volatility Index reached an 11 year high in 2020.

As we move further into 2021, volatility remains heightened – during the first three weeks of the year, the index averaged 23.3. Together, asset diversification benefits, low correlation to financial markets and increased financial market volatility already drive 40% of alternative investment allocations. Pandemic-related market upheaval is also not expected to subside within the near future, further driving investors to explore new means of diversification.

The desire for increased diversification, combined with rising financial savviness, is also motivating investors to spread their wealth across a larger number of providers to hedge their bets.

3. Investor education: A bit of handholding is needed to drive uptake of more sophisticated investment

This trend will further be supported by rising investor sophistication. 63% of wealth managers agree that HNW investors have increasingly strong knowledge of financial markets (10% disagree). This directly translates to increased openness to new investment ideas, with 65% of wealth managers reporting “somewhat” or “very high” openness to new investment ideas. Especially entrepreneurs, who are familiar with individual company risk present a growing target market. Indeed, according to a study commission by GlobalData, the entrepreneur segment tends to have a better knowledge of financial market.

The desire for increased diversification, combined with rising financial savviness, is also motivating investors to spread their wealth across a larger number of providers to hedge their bets. The average number of providers HNW investors use already increased from 2.9 in 2017 to 4.6 in 2020. Of course, HNW investors’ more complex needs may also justify the use of multiple providers that specialize in different areas, but rising investor sophistication will benefit non-traditional alternative investment providers as investors are more willing to seek access independently.

However, a certain degree of handholding is still required to convince investors to invest significant funds or commit to the long term, given the inherent complexity of alternative investments – especially when targeting segments who, on average, are less financially savvy, such as inheritors.

In fact, two thirds of wealth managers active in the HNW space believe that building trust is necessary in order to encourage investments in alternatives, according to a GlobalData study (10% disagree). This means relationship management and investors education are critical to support demand for private equity. Ultimately, clients who show a greater understanding of financial markets are more likely to opt for more sophisticated investments.
4. A perception of exclusivity: Promoting the elite aspect of private equity will drive demand

While diversification benefits and ROI are key drivers for more sophisticated investments, such as private equity, globally, the importance of a perception of exclusivity in the portfolio construction process varies across countries. As shown in Figure 8, it is of notable importance in China and Singapore. This naturally has implications when marketing alternatives to HNW investors, but it also means that being able to offer investments such as exclusive private placements are key. On the one hand, this puts wealth managers with an investment banking arm at an advantage. On the other, specialist providers, will find it easy to target this market segment, focusing on their on their niche market expertise and exclusivity.

Figure 8: A perception of exclusivity is an important driver of alternative investment uptake in China
Recovery in wealth markets is expected

High exposure to equities has opened the HNW portfolio up to swings in the market

In 2020, the Coronavirus crash devastated financial markets worldwide. And, out of all affluent groups, it is estimated that HNW individuals would have been hit the hardest. This is largely due to the group’s strong appetite for riskier asset classes, which suffered severely since Covid-19 was announced as a worldwide pandemic. By the end of 2020, worldwide liquid assets held by HNW individuals (those with assets exceeding $1m) are expected to have declined by $2.2tn (-5% vs 2019) according to GlobalData estimates, almost exclusively due to declines in publicly traded equity and funds. However, with the pandemic taking place earlier in the year, some level of recovery was also experienced towards the end of 2020 as some markets began reaching some level of normalcy, the creation of vaccines and their roll out occurred, and political uncertainties were reduced with the UK leaving the EU with a deal for example.

Although many countries were still experiencing Covid-19 related restrictions as 2021 began, the global economy and financial market is now poised to be better off than 2020. GlobalData estimates 2021 to be the year of the bounce back as economic and financial market recovery takes full flight. HNW wealth is forecast to increase by $8tn in 2021, following a $5tn loss in 2020, with the number of HNW individuals increasing by near 10%, bringing the total number of upper echelon investors to a record of over 13m. However, it must be noted that such growth will only be achieved if the light at the end of the Coronavirus tunnel is reached this year, otherwise growth could well be undersized.
In 2019, the global HNW wealth market had a standout year, growing significantly (+14%) against the previous year largely due to a reduction in political uncertainties and strong stock market performance. Unsurprisingly too, the HNW North American population came out on top due to their strong affinity to stock markets and local benchmarks like the Dow and Nasdaq reaching heights not previously seen. Liquid wealth for this demographic grew 18%. However, 2020 presented a different story due to the Coronavirus pandemic which severely hurt economies and financial markets, resulting in reduced wealth for many globally. GlobalData predicts that HNW wealth across the globe would suffer a decline of 5% in 2020 amounting to over $2tn, with HNW wealth in Latin America taking the biggest decline by 8% against 2019.

Although Q2 2020 was a devastating period for investors, towards the back end of the year recovery began and so the decline overall is not as drastic as initially expected when the year closed. This is expected to continue in 2021, which should be a promising year for the pockets of investors. All regions are expecting to achieve over 15% of HNW wealth growth in 2021, the majority stemming from North America (increase of $4tn), followed by Asia Pacific (increase of $2.5tn). North America is projected to see the largest number of HNW individuals increase in 2021, with over 600,000 entering/re-entering the demographic, followed by Asia Pacific with almost 400,000 new/previous HNW individuals falling into the group.
Mainland China held up well in the pandemic and will continue to lead on growth in 2021.

In contrast to most countries, the Chinese financial market coped well in 2020. Both the mainland benchmark and the Shanghai and the Shenzhen Composites ended 2020 up by double digits (17% and 14% consecutively). Going into 2021, more growth in the markets is expected following the country’s rapid post pandemic recovery and the IMF forecasts that the GDP will be up 8.2%. Indeed, the OECD predicts that global recovery will be led by China, and both the US and Europe are expected to contribute less to the recovery than their share of the global economy. This bodes well for HNW investors in the market, who hold a higher than global and regional average proportion (26%) of their wealth in equities, and holdings in the asset class are expected to grow more than any other asset class according to GlobalData’s 2020 Wealth Managers Survey. Chinese HNW liquid wealth is forecast to increase by $1.3tn in 2021 bringing the total held by the group to over $7tn, held by approximately 1.8m individuals, more than any other nation on earth baring the US.

Hong Kong’s HNW investor pool, battered by the pandemic and political uncertainty will grow again.

Hong Kong’s economy was hurting prior to Covid-19, and the pandemic did the market no favours in 2020. However, the Special Administrative Region of China (SAR) managed better than most markets. With vaccines arriving, allowing greater travel to the financial hub, a continued recovery seen in Q4 2020 is expected to roll into 2021 where a long-awaited bounce back is expected following China’s lead. HNW wealth in the SAR will reach just under $800bn in 2021, with HNW individuals rising by 11% to just under 200,000.

The US market will continue to rise from its Q1 2020 lows, supported by government spending on the pandemic.

US investors for the most part, have a strong affinity towards investing in riskier assets, becoming less risk averse the wealthier they are. Although the Q1 2020 declines recorded by the Dow, Nasdaq and S&P 500 will go down in the history books due to the Coronavirus crash, 2021 is set to be a strong year, and particularly
for the upper echelons of the country. HNW investors in the US will see their wealth increase by 17% (increase of $3tn), with the number of HNW individuals in the country predicted to pass 6.5m by year’s end. Despite ongoing trade issues with China, the country began 2021 with a new leader and a Biden presidency should evoke some stability to the economy too. However, it must be noted the pandemic is still taking a heavy toll on the country and a successful vaccine roll out matters more to potential growth in the US than elsewhere.

The UK had a challenging 2020 but new growth beckons in 2021 as mass vaccinations end its misery. Brexit and its uncertainty were a cloud over the UK for the past few years, stunting financial market growth along with the economy. However, as the prime minister struck a last-minute deal with the EU, and vaccinations began rolling out at pace, the UK should experience some further recovery and new growth in 2021. UK HNW wealth, which was hit hard by the pandemic’s toll on the FTSE, will increase by 8% (total to $1.6tn) in 2021, with the number of HNW individuals rising to just more than 400,000. Also, the projected growth in demand for equities and alternatives is notable among HNW investors in the UK, especially compared to global averages. It suggests UK HNW investors are expected to adopt a somewhat high-risk, high reward approach to offset losses in 2020 and low growth among other asset classes. However, similarly to the US, the promising growth for HNW investor wealth must be taken with caution as the country enters the new year in lockdown, which is expected to last until February/March.

Figure 11: 2021 will see a strong rebound in HNW individuals in most key markets

![Number of HNW individuals (000s)]

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>170</td>
<td>162</td>
<td>177</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>190</td>
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<td>France</td>
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<td>US</td>
<td>6,291</td>
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</tr>
</tbody>
</table>

Note: 2020 - 2021 data are based on GlobalData forecasts

Source: GlobalData Wealth Market Analytics
Alternatives have been challenging for distribution

Only 40% of wealth managers offer private equity investments

While most HNW investors qualify as sophisticated investors in their countries of residence, it is a struggle for the majority to access alternative investments. Adding private equity investments is even more of a challenge for the private wealth management industry around the world as only a minority of advisers can provide access in most markets, with such access more common only among private wealth managers that also cater to institutions such as pension or sovereign wealth funds. For private wealth managers that target individual wealth management, extended access to their clients has often been convoluted and uneconomic. This negatively impacts portfolio design and makes many HNW investment portfolios unduly volatile.

Barriers to private equity investment reflect its origins as a niche institutional option

Onerous due diligence requirements.
While wealth management is no stranger to regulation, the paperwork and form filling to invest in private equity or venture capital funds is often so complex that professional legal and accounting assistance is required. As much of the process is paper based, it requires prospective investors to re-key data and details that their wealth manager likely already has.

Prohibitive minimum investment size.
Minimum thresholds for investment into many funds also put the investment class out of reach for many HNW investors, who though they qualify as sophisticated or accredited investors, lack the multimillions necessary to gain access as limited partners. While some funds have minimum thresholds accessible to HNW investors, the typical $25m minimum threshold is well beyond what the bulk of HNW investors can commit.⁹

Long lock-up periods.
Even if many HNW investors can commit the money necessary to invest, many funds require a lockup of 10 to 12 years. The entire investment process was geared to institutional clients with billions of capital on hand, long time frames and in-house professional services, not something even the vast majority of HNW investors can boast.
The wealth and investment management industry has certainly been one of the slowest sectors to digitize in the financial services industry, with the more traditional private banking industry among the least open to change. However, even in this market, investors are embracing digital channels as reliance on the traditional face-to-face meeting with relationship managers slowly fades away. With the Covid-19 pandemic, it is expected there will be another large drop in face-to-face in favour of mobile and online interaction as lockdowns and social distancing restrictions preclude such activity, while wealth managers invest in improving the customer experience on digital channels. Additionally, the industry is amidst a notably large inter-generational wealth transfer, where those taking the reins of family wealth will be expecting a sound multi-channel experience, which, is likely to be the new norm in the industry. As new technology emerges, which other industries are embracing, the same will be expected from players in the wealth space. Adopting efficiency-focused technologies, such as digitization regulatory and compliance processes, as well as KYC, AML, reporting and due diligence requirements will allow wealth managers to provide their clients with a yearned for individualised experience, at speed. So, to both captivate and hold onto clientele, meeting their specific needs will be paramount. Such needs will be ever-changing of course, and in order to adapt at pace, digitalisation will be the avenue to give clients the experience they desire. For the provider, innovation will not only allow them to meet the evolving needs of investors, but also enables them to accumulate wealth from a much larger audience, spanning different regions. This is a significant opportunity that prior to this digital evolution would have required players to physically set up shops in a specific city before entering. This is on top of the operational efficiencies that come with going digital. Competition is rife at the moment and traditional players need to keep up with the digital transformation or risk getting left behind.

**Investors are increasingly settling on digital interaction in wealth management**

![Figure 12: Access to alternatives is a challenge for HNW investors outside of North America](image)

Source: GlobalData Wealth Managers survey 2020
Asia Pacific has almost as much digital interaction among affluent investors as face-to-face

Affluent investors in Asia Pacific are by far the most open to digital channels in their wealth management, with mobile apps almost equally in use as face-to-face meetings. There are several drivers for the greater uptake of digital channels in Asia Pacific, ranging from a generally younger age as well as the early adoption of entirely digital wealth management from the likes of Ant Financial, which has pushed mobile distribution of simple funds and wealth management products to the masses. Wealth managers serving the high growth markets of Asia Pacific already must be able to compete with such digitized offerings and cater to the tech savvy nature of the investor base across the region.

And, as more players in this part of the world embrace technology, competition will be high and will only place more onus on who can best deliver what clients want. Providers must prepare to be digitally adaptive and keep ever-changing consumer needs at the core of their proposition. Furthermore, wealth managers in other regions should prepare for similar levels of digital interaction in their client base in the years to come, particularly in the use of mobile apps to monitor the investment portfolio. There will be an inevitable evolution as the digital natives of younger age cohorts become financially prosperous, whether it is through inheritance or their own merit.

Figure 13: Asia Pacific investors have raced ahead in the adoption of digital channels
More wealth managers are turning to fintechs to help digitize, compete and grow

The private wealth management industry has weathered the pandemic much better than the global financial crisis of 2008, but many remain concerned about the health of their businesses. Client retention rates have tumbled as a result of the steep plunges in value seen at the start of the pandemic and the ongoing volatility in the securities markets around the world. This is a trend that many wealth managers experienced for years following the global financial crisis and one is of particular concern for the industry in Asia Pacific. For clients valuing wealth preservation, this has been a wakeup call and caused a major reconsideration in risk appetite and portfolio structuring. Once again, it is Asia Pacific wealth managers that see this as a major issue amongst their clients, but with the industry in normally bullish North America also noting this trend amongst their HNW clients.

Increasingly though, wealth managers are tackling these threats to their business via improved digital interaction, which strong majorities around the world see as helping build or, as may be necessary following the pandemic, rebuild trust with clients. Majorities, particularly in North America, have sought to improve their digital channels by partnering with fintechs that can offer their clients a better digital experience. And there is a strong expectation amongst the private wealth management industry that the joined up digital platforms which fintech specialists can bring to their clients will generate growth opportunities. There is a growing acceptance that this improves retention, a major concern currently, but will also allow for easier, more convenient onboarding of clients, taking much of the friction of getting these investors into the more sophisticated investments that they clearly value.

Since the global financial crisis, there has been a steady and growing flow of fintechs into the wealth management space, though the focus has mostly been on regtech and low-cost automated investing into the public markets, such as robo-advisers. Digital tools and software suites for advisers have been another area of focus, particularly as the private wealth management industry remains very relationship driven.

These digital improvements have helped increase the industry’s efficiency over the years and the digital channels have been invaluable during the pandemic. However, few fintechs ventured into the alternative investment space, let alone the private equity markets. This has meant little expansion in the availability of alternatives in most HNW portfolios, something that can put a wealth manager at a disadvantage. According to GlobalData’s Global Wealth Managers Survey, access to exclusive investments was the third most important reason HNW investors selected their adviser in 2020, ahead of personal relationship with the adviser or even a wide traditional investment range.

Majorities, particularly in North America, have sought to improve their digital channels by partnering with fintechs that can offer their clients a better digital experience.
Figure 14: Private wealth managers around the world see better digital services helping address the challenges thrown up by the pandemic

Only use of tech in portfolio construction will extend HNW access to private equity

As a well-balanced investment portfolio is one of the key ‘outputs’ of the wealth industry, the inability of many wealth managers to provide any alternatives to even high value clients, like their HNW investor base, is a major industry challenge. It leaves HNW clients unduly exposed to market risks, as the pandemic showed, and shut out of lucrative investments, and also hurts a wealth manager’s competitive position. With the pandemic already negatively impacting client retention, wealth managers need to quickly address such shortfalls, or risk erosion of their customer base. Partnering with some of the few, relatively new fintechs that can provide economic alternatives access is not merely useful in diversifying the portfolio, but also in helping to address some of the major challenges generated by the pandemic.
Methodology

In this review of the private equity market and its role in the private wealth management market, GlobalData has used statistics from its benchmark market sizing tools and long running global survey of wealth managers working with HNW investors.

Wealth Markets Analytics

GlobalData’s Wealth Markets Analytics enables cross-comparison of the global wealth market at a regional and country level for 73 countries and six regions. The number of individuals is split into four main affluent categories: mass market (holding liquid assets of less than $25,000); emerging affluent (holding liquid assets of $25,001–50,000); mass affluent (holding liquid assets of $50,001–1m); and HNW (holding liquid assets of more than $1m). Aggregate onshore liquid retail wealth is segmented across 13 US dollar liquid asset bands.

Sizing, segmentation and forecast of wealth markets in each country is based on GlobalData’s proprietary model establishing market specific links between wealth and income disparity. Onshore wealth refers to the local investors’ financial assets booking in a particular country, as opposed to the offshore wealth of the investors. This relied upon:

- A detailed data collection establishing the size and composition of investment portfolio assets held by individuals in the onshore market.
- Wealth and income distribution statistics collected from tax authorities and GlobalData surveying.
- Updates to estimates for 2020 market sizing and forecasts reflect the impact of the Covid-19 pandemic.

2020 Global Wealth Managers Survey

In Q2 2020, post global pandemic lockdowns, GlobalData undertook its 16th annual survey of wealth management companies from around the world. Wealth management companies from 19 countries – Australia, Belgium, Canada, China, Denmark, France, Germany, Hong Kong, India, Indonesia, Norway, Singapore, South Africa, Sweden, Switzerland, Taiwan, the UAE, the UK, and the US – were surveyed to gather their views on a variety of industry issues, as well as their HNW clients’ attitudes and behaviours. A total of 382 wealth management executives in a variety of senior roles were interviewed to complete the survey.

Secondary Sources

4. Goby (2020) Why now is the time for private equity to invest in ESG (accessed January 2021)
5. EY (2020) Why private equity can endure the next economic downturn (accessed January 2021)
About BITE Investments

BITE is an online alternative investment platform and regulated asset manager, specialising in alternative markets. We focus on opening up alternative assets and creating tech solutions for our clients, which include HNWIs and wealth managers.

BITE’s management team is supported by a world class set of shareholders and advisors and its on-the-ground team operate within the parameters of some of the world’s most respected regulatory regimes. BITE is majority owned by VCP Advisors, which is regulated in North America (FINRA / SEC), Europe (FCA, UK), Asia (SFC, Hong Kong) and Cayman (CIMA).

About GlobalData PLC

GlobalData is a leading provider of data, analytics, and insights on the world’s largest industries, including private wealth management. 4,000 of the world’s largest companies, including over 70% of FTSE 100 and 60% of Fortune 100 companies, make more timely and better business decisions thanks to GlobalData’s unique data, expert analysis and innovative solutions, all in one platform.

GlobalData’s mission is to help our clients decode the future to be more successful and innovative across a range of industries, including the healthcare, consumer, retail, financial, technology and professional services sectors.

Contact Us

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