

A 'Bite' of Private Markets

Delivering Facts, Insights & Strategies

Private Equity on The Rise

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By nature, many business owners have a higher risk tolerance than others along with a different perspective on risk and return.

Overview

The private equity market is experiencing steady growth. At the end of 2020, assets under management (AUM) were estimated to be at \$4.7tr. The latest projections are that private equity AUM will grow to \$6.4tr by 2024.

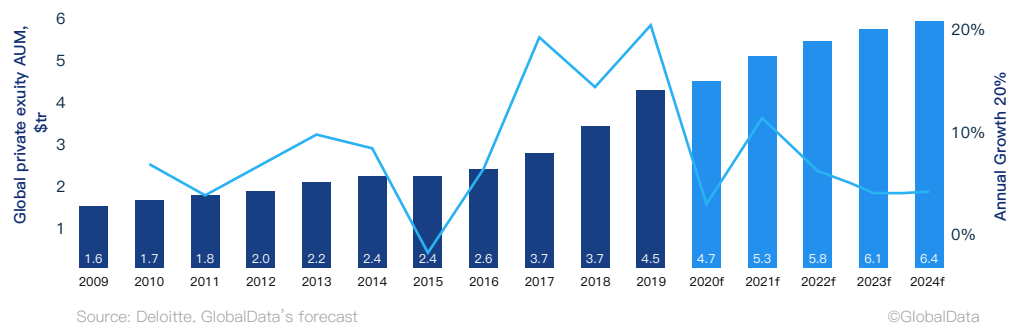
There are several factors driving this growth. For one, the number of high net worth (HNW) individuals has been increasing along with the corresponding wealth. A record 9% CAGR is forecasted for HNW wealth from December 2020 through 2024. Of that wealth, the HNW market is expected to increase private equity allocations by 4.4% by the end of 2021. There are regional differences. For example, HNW investors in the UK are already allocating 8.8% of their portfolios to private equity, while the Chinese HNW investor market is largely untapped with just 2% of the investment portfolio.

What is it that attracts HNW individuals to private equity? Consider that many HNW investors gained their wealth in C-suite roles where they faced multiple risks, ranging from liquidity and market risks to economic risks. By nature, many business owners have a higher risk tolerance than others along with a different perspective on risk and return. As such, they are frustrated with traditional asset classes and are seeking yield. This, coupled with HNW investors' increased investment sophistication and stronger knowledge of the financial markets, is making them more receptive to new investment strategies wherein private equity has taken a central role.

Behind the Numbers

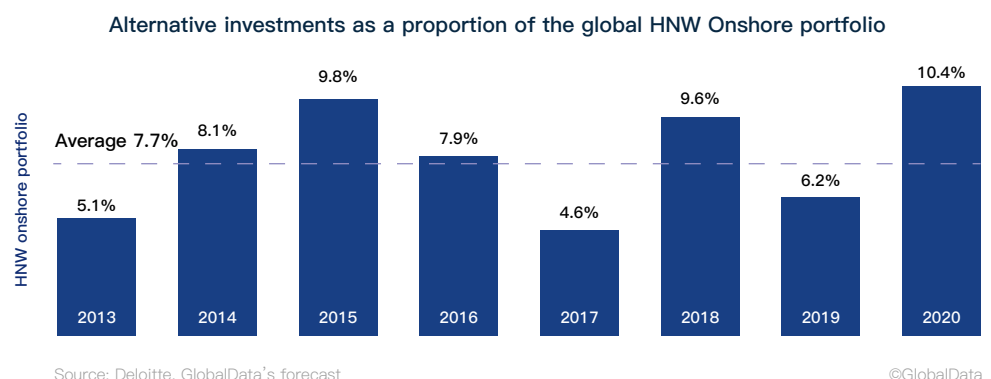
- On a global basis, HNW investors currently allocate 3.4% of their onshore wealth to private equityⁱ.
- One tenth of every HNW dollar is allocated to alternative investments onshore; an amount that is expected to increase.
- According to GlobalData’s 2020 Global Wealth Managers Survey, 44.6% of wealth managers expect global HNW demand for alternative investments to rise over the next 12 months. This is in contrast to just 13.4% projecting a decrease.
- Private equity is the dominant alternative investment in HNW portfolios.
- Private equity is believed to be the primary component in private alternatives having tripled over the period from 2007 to 2020, increasing from \$2.5tr to \$8tr based on data from Blackrockⁱⁱ.

Figure 1: Global private equity AUM reached \$4.5tr in 2019.



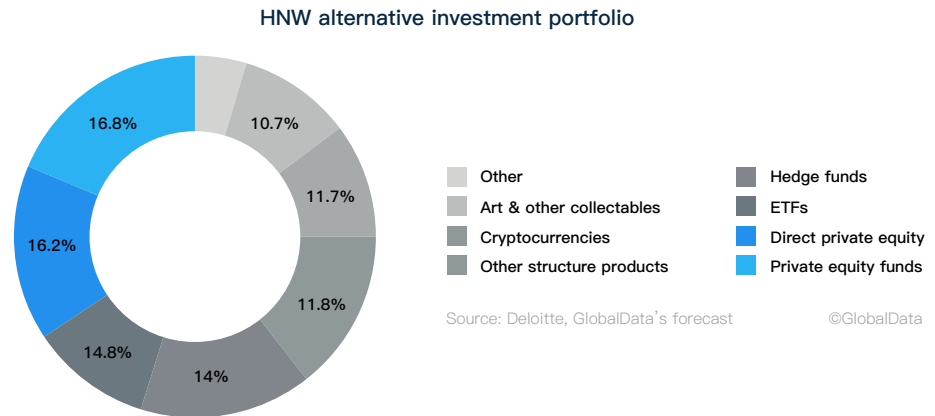
Clearly, alternative investments and, in particular, private equity, has captured the attention of HNW investors for multiple reasons: their risk tolerance, increased investor sophistication, disappointment with the low returns from other investments, and a desire for better yields and diversification to help offset market volatility.

Figure 2: HNW investors allocate 10.4% of their onshore wealth to alternatives.



ⁱ Bite Investments white paper Private Equity: A Growing Opportunity for HNW Investors (accessed March 2021)
ⁱⁱ Blackrock (2020) Alternatives are essential (accessed March 2021)

Figure 3: Private equity dominates HNW alternative investments.



Market Challenges

While private equity is in a steady growth period, it is not without challenges. One hurdle that must be overcome is that of getting more wealth managers on board.

Typically, access to alternative investments has been confined to private wealth managers serving the institutional markets.

At present, only 40% of wealth managers offer private equity investments. This is largely due to the difficulty many investors have accessing alternative investments. For wealth managers, this challenge is even more pronounced with just a minority of advisers in most markets able to provide access. Typically, access to alternative investments has been confined to private wealth managers serving the institutional markets (i.e., pension funds or sovereign wealth funds).

Another obstacle lies with the onerous due diligence requirements involved with private equity or venture capital funds. These requirements can be so complex that they require the involvement of lawyers and accountants. Adding to the burden of those without digitalized operations, are the paper-based processes involved which require prospective investors to re-key data and information they have already provided to their wealth manager.

The actual size of the investment also has been a deterrent. The minimum investment sizes, typically from \$10m, are prohibitive for many HNW individuals. Therefore, despite being qualified as sophisticated investors and accredited, they are unable to gain access as limited partners.

Presenting another challenge is the long lock-up periods many funds require. These periods can range from 10 to 12 years; a duration many HNW investors simply do not want to endure.

Market Opportunities

While some challenges exist, they are being addressed. One trend underway which is transforming wealth management is digitization. It is true that the wealth and investment management industry has been laggards when it comes to adopting digital tools, falling far behind other industries. That is, however, changing.

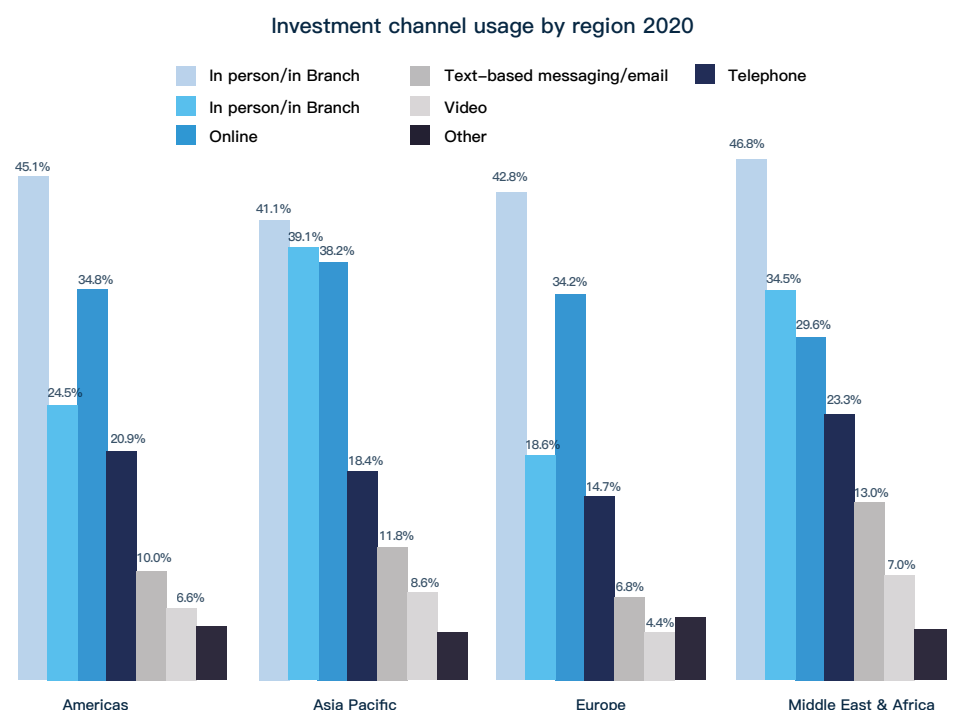
The most advanced of fintech platforms digitize the entire investment process, from client qualification and investment selection, through regulatory and compliance process, know your customer (KYC), anti-money laundering (AML), reporting and due diligence.

With more investors gravitating toward digital channels, especially the younger “digital native” generations, wealth managers are realising that offering digital platforms will no longer be an option, but rather a necessity. Those professionals that have been viewing and testing different platforms too are learning just how beneficial they can be from a service delivery standpoint. The most advanced of fintech platforms digitize the entire investment process, from client qualification and investment selection, through regulatory and compliance process, know your customer (KYC), anti-money laundering (AML), reporting and due diligence. This frees up the wealth manager to spend more value-added time strengthening their client relationships, rather than on tedious, time-consuming processes.

With a leading-edge platform giving them a competitive advantage, wealth managers will be better positioned to tap into regions where HNW investors are more inclined toward digital interaction. This is true for affluent investors in the Asia Pacific region where the use of mobile apps for interacting with their wealth managers is almost equivalent to in-person meetings.

The digital factor notwithstanding, private equity allocations are already significant in the United Kingdom (8.8%), and Germany (5.3%). In India, these allocations are projected to increase from 5.1% in 2020 to 7.6% in 2021. Chinese HNW investors are currently allocating 2% to private equity, however, that market has been and is growing rapidly.

Figure 4: Asia Pacific investors have raced ahead in the adoption of digital channels.



Source: Deloitte, GlobalData's forecast

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Leveraging Alternative Investments

For HNW investors and wealth managers alike, alternative investments offer opportunities best captured with the support of digitization and business models that alleviate the traditional obstacles.

New fintech models enables HNW investors and advisors to invest in private equity with manageable investment sizes and lock-up periods and which can be monitored conveniently on user-friendly, robust online platforms.

There also are other new fintech platforms available to wealth managers as white-labelled, in-house solutions or external solutions, both of which offer them efficient access and management of their clients' alternative investments.

About Bite Investments

Bite is an online alternative investment platform and asset manager, specialising in alternative markets. We focus on opening up alternative assets and creating tech solutions for our clients, which include HNWI's 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).



Contact Us

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