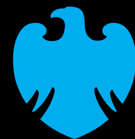

Forging new paths

How private investors are capitalising on the evolution of private markets

Private Markets Annual Report 2024

Foreword

Welcome to our Private Markets Annual Report 2024

Family offices and wealthy individuals are showing increasing interest in private markets, an asset class that historically has been largely inaccessible to non-institutional investors.

Our first Private Markets Annual Report, created with support from data provider PitchBook, explores the trends driving this evolution, and how the industry is adapting to the growing private client segment.

The report reveals why and how private investors are accessing private markets, as well as the asset types and strategies they're targeting, with a particular focus on private equity and venture capital.

It also features industry insights from BlackRock's Rob Fairbairn and Rob Kapito, and an interview with industry veteran Lord Jitesh Gadhia on the potential role that private markets can play in an investment portfolio.

I hope you enjoy reading the report.

Shenal Kakad
Head of Private Markets, Barclays Private Bank and Wealth Management

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Please note: This report is intended for readers with a solid understanding of investments. Investing in private markets is often complex and illiquid and brings higher idiosyncratic risks than investing in public markets, and as such, it is suitable only for experienced investors. Past performance is never a guarantee of future performance, and you may get back less than you invested.

This communication is also general in nature and provided for informational/educational purposes only. It does not take into account the specific investment objectives, financial situation, or needs of any particular person.

Executive summary

The strong growth of private markets over the past decade is attracting a surge of new interest and capital commitments from a diverse base of investors. Among them are high-net-worth individuals (HNWIs) and family offices, with private wealth available to deploy through both direct and fund-managed channels. Using PitchBook's own data and complementing it with other recent studies, this report examines the landscape and outlook for these private wealth investors across a variety of private markets asset types, with a focus on private equity (PE) and venture capital (VC).

Global private wealth is estimated to have reached between $140 trillion and $150 trillion as of 2022, exceeding the cumulative total of institutional capital by approximately $5 trillion[1]. Allocations to alternative assets, however, are larger among institutional investors, highlighting a sizable opportunity for greater collaboration between managers and private wealth investors.

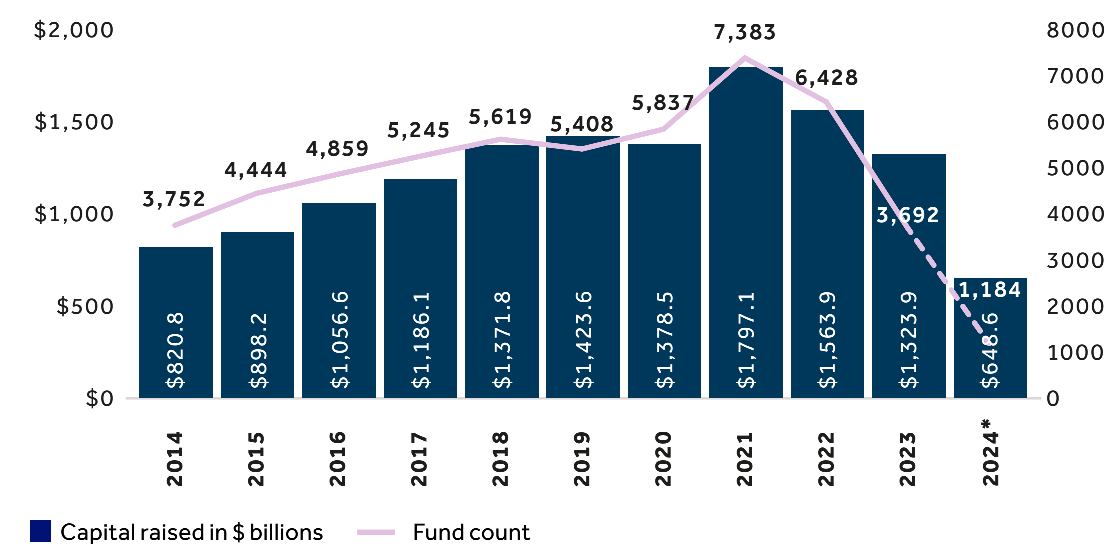
Closed-end private markets funds held assets under management (AUM) of $14.7 trillion as of 2022, and PitchBook projects this figure will reach $19.6 trillion by 2028[2]. These funds have also collectively raised nearly $2 trillion in additional fresh capital since the beginning of 2023 (Figure 1).

Private markets funds offer various benefits for private wealth investors, including outsourced management, portfolio diversification, and longer investment time horizons aligned with generational liquidity needs. Various asset classes under the private markets umbrella can offer additional unique benefits. PE funds have historically generated the highest returns across private markets (although there is no guarantee of future returns)[3]. VC funds can provide exposure to nascent industries and frontier technologies. There are, however, trade-offs in terms of both additional risks, reduced liquidity, and long-term capital commitments.

Historically, banks, advisers, and platforms have helped intermediate between fund managers and private wealth investors, showcasing traditional closed-ended funds. Outside of traditional funds, these channels now enable private wealth investors to also access private markets through new structures, such as semi-liquid funds, vintage programmes, co-investments, and angel investments.

This report expands on how and why family offices and HNWIs allocate to certain strategies and discusses catalysts for change, including fundraising trends and expanding access for investors.

Figure 1. Global private markets fundraising activity



Source: PitchBook. *Data as of 14 July 2024.

[1] "Why Private Equity Is Targeting Individual Investors," Bain & Company, Or Skolnik, et al., 27 February 2023.

[2] "Q2 2024 PitchBook Analyst Note: Private Capital's Path to $20 Trillion," PitchBook, Nathan Schwartz, Zane Carmean, and Andrew Akers, 1 May 2024.

[3] Based on 15-year horizon internal rates of return (IRR), as of 31 December 2023. "Q4 2023 Global PitchBook Benchmarks (with preliminary Q1 2024 data)," PitchBook, Zane Carmean, 11 July 2024.

Private markets trend analysis

PRIVATE WEALTH IS ALREADY ENMESHED IN PRIVATE FUNDS, WITH MORE GROWTH EXPECTED.[4]

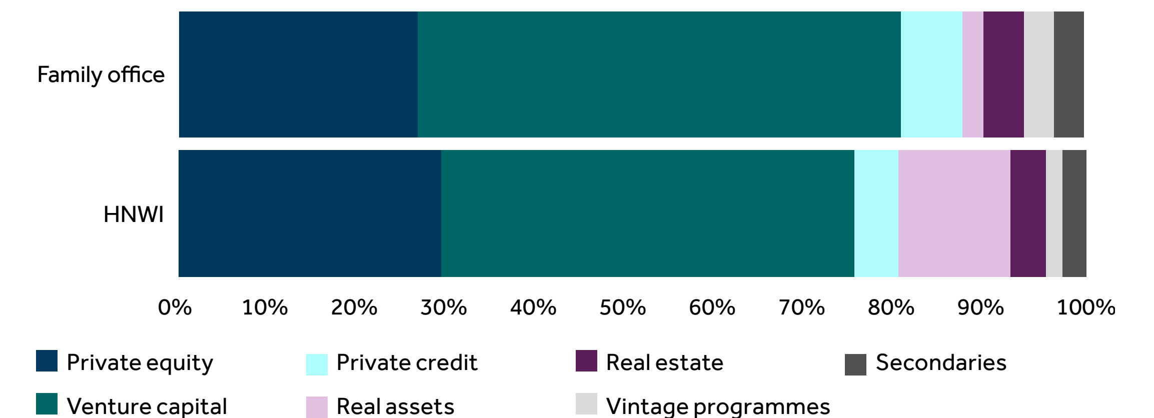
Private markets have undergone a transformation over the past decade, with a significant influx of capital, the success of disruptive technologies, and expanding access across the broader financial services sector. Private wealth investors increasingly recognise the opportunities presented through private markets funds. Broadly speaking, motivations for ultra-high-net-worth (UHNW) investors and HNWIs to invest in private markets include diversification and lower volatility for portfolios, historical outperformance of public markets, and higher available leverage, which can potentially drive stronger growth and returns.

Access to skilled investment managers can also pay literal and figurative dividends for private wealth owners (although there is never a guarantee of success). Commitments can earn higher returns, and communications with general partners (GPs) can offer valuable lessons on due diligence and operational reviews. Considering many HNWIs have created their wealth through managing businesses of their own, private fund investments offer an opportunity for information-sharing between partners.

PRIVATE WEALTH INVESTORS SHOW A PREFERENCE FOR PRIVATE EQUITY AND VENTURE CAPITAL OVER OTHER PRIVATE ASSETS, AND HAVE INCREASED THEIR TARGET ALLOCATIONS FOR THOSE ASSET CLASSES (FIGURE 2).

Private wealth investors highlight a growing preference for alternative assets and PE in particular, according to some surveys[5, 6]. Many respondents also indicate plans to double down on their PE allocations in the coming year as sentiment improves following the market correction. For example, in the 2023 Campden Wealth and Titanbay survey of 120 UHNW investors, respondents noted a three-percentage-point increase in their target allocation for PE, along with a two-percentage-point increase for public equities and a four-percentage-point decrease for cash[7]. In that same survey, 67% of respondents said their primary motivation for investing was the potential for enhanced long-term portfolio returns.

Figure 2. Share of global private wealth investor commitment count by asset class



Source: PitchBook, as of 22 July 2024. Includes commitments made between 01/01/2014 and 22/07/2024 and commitments with no known date.

[4] "Why Private Equity Is Targeting Individual Investors," Bain & Company, Or Skolnik, et al., 27 February 2023.

[5] "The Ultra-High Net Worth Private Equity Investing Report 2023," Campden Wealth and Titanbay, 2023, accessed 25 July 2024. Based on responses from 120 UHNW investors headquartered across 36 countries, with 81% being in Europe. Respondents include single-family offices (SFOs) and individual investors (81%), as well as multi-family offices (MFOs, 19%). The average assets under management (AUM) for SFOs and individual investors surveyed was $725 million, while on average, MFOs managed $256 million on behalf of each client family and serve 22 families.

[6] "The Wealth Report," Knight Frank, James Culley, et al., 2024, accessed 25 July 2024.

[7] "The Ultra-High Net Worth Private Equity Investing Report 2023" Campden Wealth and Titanbay, 2023, accessed 25 July 2024. Based on responses from 120 UHNW investors – see footnote 5 for more details.

FUND MANAGERS COULD SEE GREATER INFLOWS FROM PRIVATE WEALTH INVESTORS.

The collective AUM of family offices more than doubled over the past decade,[8] and the number of global private wealth owners is projected to rise by 28.1% by 2028,[9] representing a growing source of capital. Top PE firms could see greater inflows from private wealth channels in the coming years.

While institutional investors like pensions and sovereign wealth funds must adhere to strict investment mandates, private wealth investors may have fewer legal restrictions and can tailor allocations to adhere more closely to their personal values and liquidity preferences. This opens up greater optionality for investing in private markets.

Investment timelines are also less restrictive for personal wealth compared with institutional wealth, which typically requires regular incremental contributions and distributions to support institutional investors' liquidity needs. However, private investors may face more regulatory restrictions and hurdles to qualify for private market investment.

ACCESS TO PRIVATE MARKETS INVESTING IS OPENING UP TO A LARGER AUDIENCE.

The landscape of private markets limited partners (LPs) is growing, with a rise in non-traditional investors taking stakes to capitalise on growth potential of these asset classes. In tandem with market growth and inflation, more individual investors now meet thresholds for accredited investor and HNWI status. Assuming these individuals have a sophisticated understanding of investment risks and the capital to sustain the risk of losses, they now have more allocation options and private funds face a larger audience of prospective LPs.

[8] "Are You Harnessing the Growth and Resilience of Private Capital?" EY, Ryan Burke, Bridget Walsh, and Alex Cole, 4 April 2024.

[9] "The Wealth Report" Knight Frank, James Culley, et al., 2024, accessed 25 July 2024.

FUND STRUCTURES ARE SHIFTING TO ADDRESS INVESTORS' LIQUIDITY CONCERNS.

Semi-liquid or evergreen funds and other open-ended vehicles have emerged in response to investors' concerns around the long-term illiquidity associated with private fund investments. Semi-liquid structures feature in-built liquidity levers, which allow investors to access some of their capital at set intervals during the investment period. They offer a more flexible means to release cash during the investment lifecycle – which can exceed 10 years – than the secondary markets.

There are, however, risks associated with these vehicles, which are still relatively illiquid when compared to cash or stocks. Redemptions are limited and can take time to realise through several transactions - and may not be fulfilled in full during periods of high demand or market stress. The need to provide additional liquidity to investors may result in lower returns over the investment period.

Digital platforms have also expanded to facilitate access to private investment offerings[10] and often include educational components to guide users. These developments are a testament to the importance of strong and adaptable GP-LP relationships, especially in a strained fundraising environment.

MACROECONOMIC CONDITIONS HAVE CAUSED A SLIDE IN PRIVATE MARKETS FUNDRAISING SINCE 2022.

Private markets fundraising value has declined by more than 10% in the past two years, with greater concentration of capital across select funds in 2023. Year-to-date (YTD) activity reveals this slower pace has continued well into 2024, but as of yet, no further significant declines have materialised.

The concentration of new commitments among fewer funds is driving up fund sizes and competition across all asset classes. On the other hand, a more difficult fundraising environment can place more power in the hands of LPs and inspire more creative approaches like co-investing and committing to emerging managers. Stronger alignment between GP and LP interests is an important factor in successful fund investing.

[10] Private Equity International, "Digital wealth platforms for private markets: Who's offering what?", 24 July 2024

Industry insights: Q&A with BlackRock

BlackRock's Rob Fairbairn, Vice Chairman, and Rob Kapito, President, share their perspectives on the innovations and developments helping to broaden access to private markets, and how private investors are responding.

Please note: This article reflects the opinions and experiences of the authors, who are experienced professional investors. It is included for informational/educational purposes only and is not intended as investment advice.

Over recent years, we've seen a noticeable shift in allocations toward private markets by family offices and high-net-worth investors (HNWIs). What do you believe is driving this trend?

RF: Today, the average family office portfolio allocation to private market investments is around 45%. We see this increasing over time, driven by factors including:

- **Return potential:** Over the long term, private markets have demonstrated an ability to outperform public market equivalents.
- **Diversification:** Investing in private markets can reduce overall portfolio volatility, as changes in private asset valuations tend be gradual and less volatile than public market investments, which have become both more volatile and correlated in recent years.
- **Access to opportunities:** The universe of private market companies far exceeds that of listed companies, and includes, for example, early-stage companies, private real estate and specialised sectors which may not be available in public markets.
- **Control and influence:** Family offices have an increasing preference for direct investments, as they can exert greater control and influence their decision-making, foster closer relationships with the management teams, and align their investments to specific industries or sectors to reflect their interests.

And for HNWIs:

- **Beyond 60/40:** Private investors are looking beyond the traditional 60/40 portfolio, and considering private assets to enhance the risk/reward profile of their portfolios. Bain & Company project that individual wealth invested in alternatives will grow 12% annually over the next decade (2022–2032), compared to 8% annually for institutional investors over the same period[1] .
- **Evolving regulation:** Globally, regulation enabling HNWIs to access the private markets is evolving. Most recently in Europe, we have seen the European Long Term Investment Fund (ELTIF) 2.0 regulation act as a transformational step towards the democratisation of private market funds, as it seeks to improve access by introducing an evergreen, open-ended ("semi-liquid") structure, with lower minimum ticket sizes and a simplified distribution process.
- **Product innovation:** The opening of private markets to HNWIs, which have historically been the preserve of institutional clients, has accelerated in recent years, driven by innovation in the range and type of products available.
- **Technology and platform growth:** The increase in the range and type of technology-enabled solutions to facilitate access to private markets by HNWIs has also gathered pace in recent years.

How has that varied from institutional investors investing in the asset class?

RF: A recent report by Novantigo highlighted that HNWIs are significantly under allocated to private markets, often investing less than 5% of wealth into private assets, whereas the 2023 BlackRock Institutional Private Markets survey identified that Institutions typically allocate around 24% to private markets[2].

[1] Global Private Equity Report 2023, Bain & Company
[2] "2023 Global Private Markets Survey", BlackRock

Traditionally, private markets have been the domain of institutional investors. How has the broadening of access to this asset class influenced the behaviour of family offices and HNWIs?

RF: Family offices are increasingly institutionalising their approach to private markets, building in-house specialised investment teams, adopting comprehensive due diligence processes, implementing more formal governance structures and engaging more in direct investments (rather than solely on funds), which allows them more control and alignment with specific investment objectives.

The influx of capital from family offices and HNWIs into private markets has also contributed to changes in market dynamics, with many asset management firms adjusting their strategies to cater to these investors, offering tailored co-investment opportunities, more flexible fund structures, and lower minimum investment thresholds. More capital means more competition for high-quality deals, so there is a greater emphasis on sourcing and selectivity.

Do you see any trends around where family offices and HNWIs are allocating within private markets?

RF: In general, we see family offices increasing and diversifying their private market allocations, reflecting a desire to capture higher returns and align investment with personal values or global trends.

- Within **private equity**, there is a strong focus on growth-stage companies and buyout opportunities, particularly in sectors like technology, healthcare and consumer. Private equity secondaries are also popular.
- **Private credit** has been an increasing area of focus given the step change in interest rates over the last 24 months and the structural retrenchment of bank lending.
- Family offices are showing a greater interest in **infrastructure investments** than ever before. In BlackRock's 2023 Family Office survey results, infrastructure was the number one alternative asset class they intended to increase allocations to.
- Finally, **emerging private market investments** are gaining popularity. These may include investments such as music royalties, sports rights, litigation finance and insurance financing. We expect this trend to continue as family offices seek more innovative opportunities.

How have the expectations and needs of private wealth investors evolved in terms of private market investments?

RK: In recent years, "private markets for private wealth investors" have been at the nexus of three key innovations:

- **Regulators** have recognised the need for new structures, which offer General Partners (GPs) more flexibility to design products and strategies tailormade to this segment. We have seen this trend across different markets, including the EU, the UK and France.
- **Evergreen** strategies are increasingly in focus, as they combine the potential benefits of private markets, with the flexibility of a mutual fund due to their inherent liquidity. They afford investors the ability to receive immediate exposure to private markets, manage their allocation over time, and even redeem their holding at regular intervals. This also opens up new distribution channels, including discretionary distribution as well as digital.
- **Education** is becoming a differentiator to drive commercial success, with advisers in particular requiring deep educational resources in order to best serve their investors.

What are some of the key challenges in expanding private markets access to private investors?

RK: Some of the common pushbacks we hear for expanding private markets to wealth investors include illiquidity, dispersion, complexity, transparency, and access. The performance of private market investments can vary widely, and they don't come with the same disclosures or real-time trading prices that publicly traded securities do. Historically, private market strategies required long-term commitments, which made it harder to withdraw money. Other challenges include high investment minimums, regulatory and location restrictions.

However, with product innovation, advances in technology, and developments in the policy space, some of these issues are being solved. For example, fund structures like ELTIFs offer investors the ability to regularly enter and exit their positions. They also help reduce operational complexity and simplify the product offering.

Private equity maintains momentum

PE CONTINUES TO ATTRACT THE HIGHEST LEVELS OF INVESTOR CAPITAL ACROSS PRIVATE MARKETS.

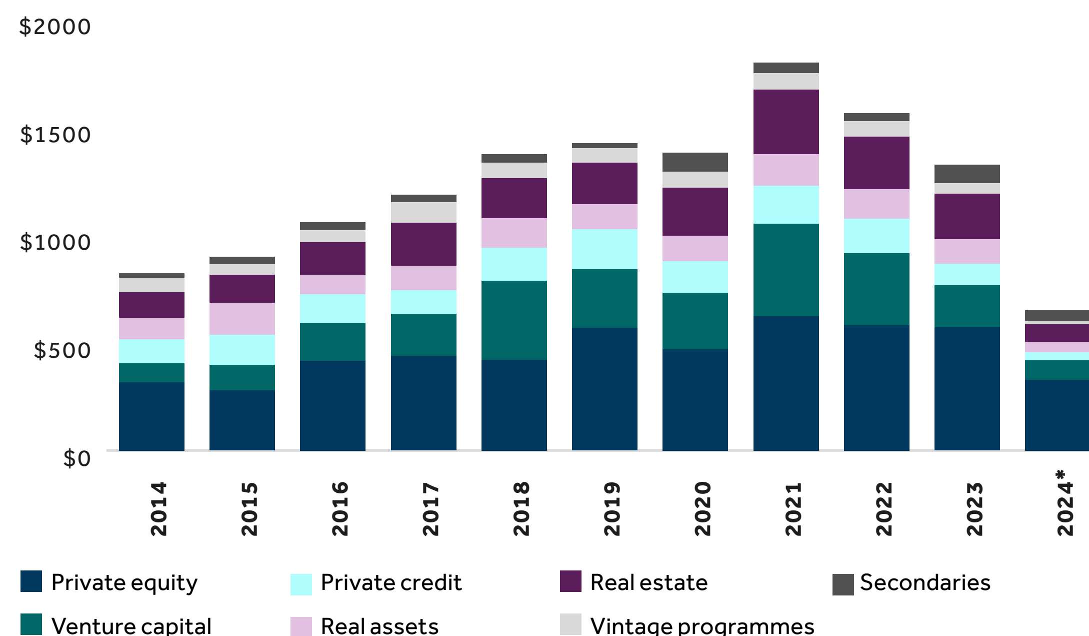
PE is the single largest driver of private markets fundraising. A favoured strategy among pensions and endowments, which demand predictable cash flow streams, PE could be an option for private wealth investors looking to support their own endeavours, including family enterprises and philanthropy. The typical 10-year PE fund lifecycle often aligns with the longer investment horizons that these investors seek for a certain share of allocations.

Illiquidity is one of the challenges for these investments, with commitments locked away for a decade or longer. The 2023 Campden Wealth and Titanbay survey of 120 UHNW individuals and their family offices revealed that 84% of respondents were already investing in PE, and an additional 10% were interested in doing so.[11]

The share of private markets fundraising attributed to PE funds has increased each year since 2020, hitting a record 50.5% YTD (Figure 3). These funds showed resilience against a broader fundraising slowdown, raising nearly as much capital in 2023 as in 2022. The number of funds driving that total, however, dropped by more than half. With fewer funds maintaining or increasing their purchasing power over the past 18 months, future PE deal flow and returns will be weighted towards the stalwart funds. This could exacerbate competition among LPs seeking out top GPs.

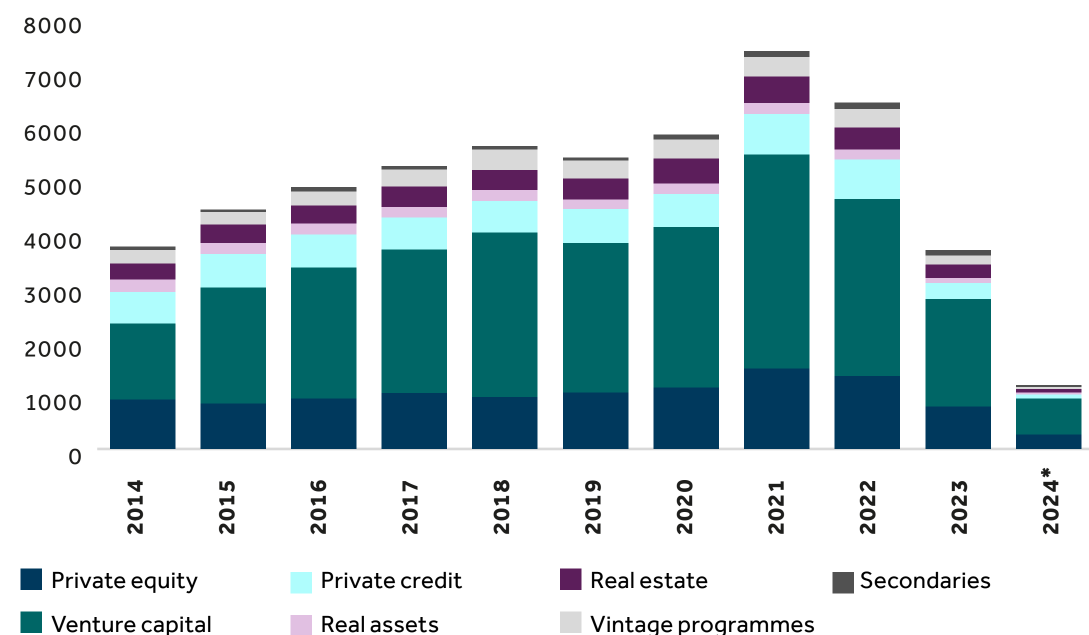
[11] "The Ultra-High Net Worth Private Equity Investing Report 2023," Campden Wealth and Titanbay, 2023, accessed 25 July 2024. Based on responses from 120 UHNW investors – see footnote 5 for more details.

Figure 3. Global private markets capital raised ($ billion) by asset class



Source: PitchBook, as of 14 July 2024

Figure 4. Global private markets fund count by asset class



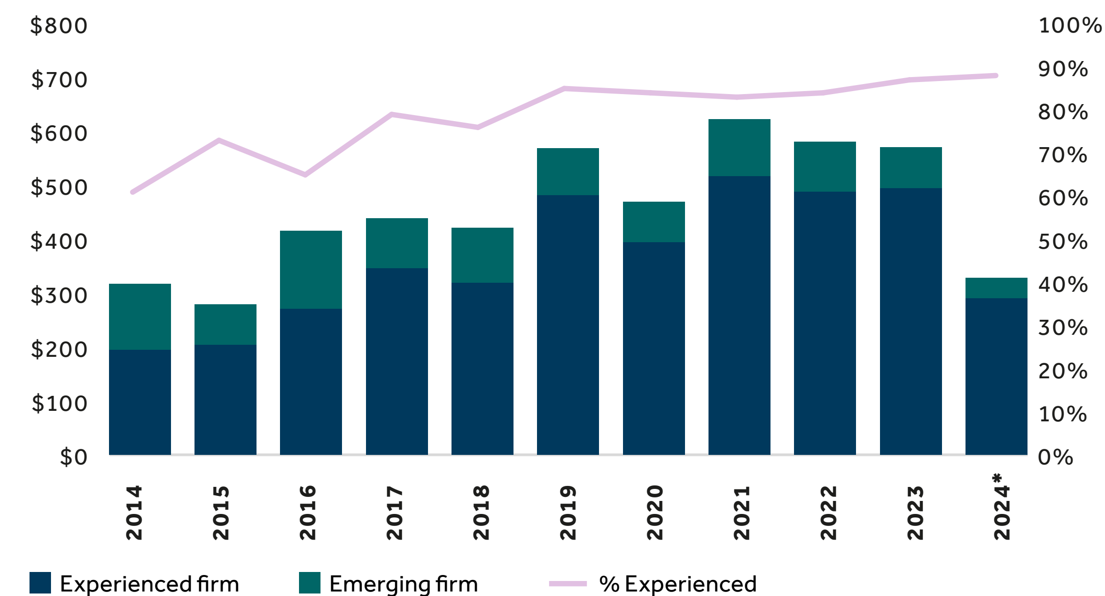
Source: PitchBook, as of 14 July 2024

EMERGING MANAGERS FACE AN UPHILL BATTLE, BUT OPPORTUNITIES REMAIN.

Manager selection is as important as ever, and LP preference for experienced PE managers (firms that have launched at least four funds) is also on the rise. In each year since 2019, more than 80% of all new PE dollars raised were closed by experienced managers, and this percentage has risen to 88% YTD (Figure 5). Top-tier firms have established LPs that often return for subsequent fundraising rounds, thereby limiting the entryway for new investors. Private banks, advisers, and platforms may be able to assist in obtaining allocations to highly sought-after funds by aggregating client capital and creating vehicles and solutions, such as feeder funds and vintage programmes.

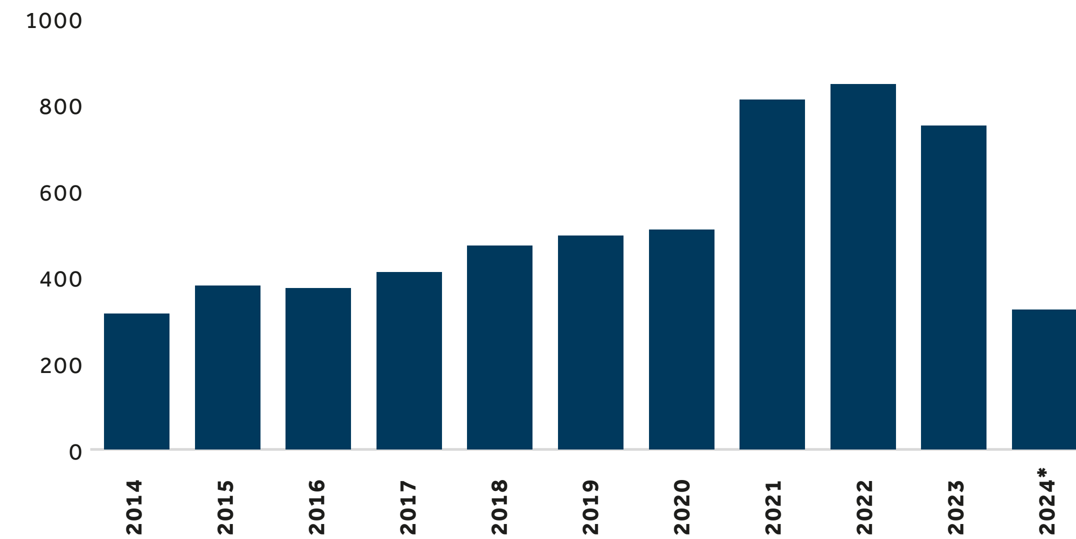
That said, there are still opportunities to invest with emerging managers. One option is to select individuals who break off from established firms and retain loyal LP relationships while opening doors for new ones. The number of emerging PE funds raising new capital corrected in 2023 and remains low, but more than 100 such funds have managed to fundraise YTD.

Figure 5. Global PE capital raised ($ billion) by manager experience



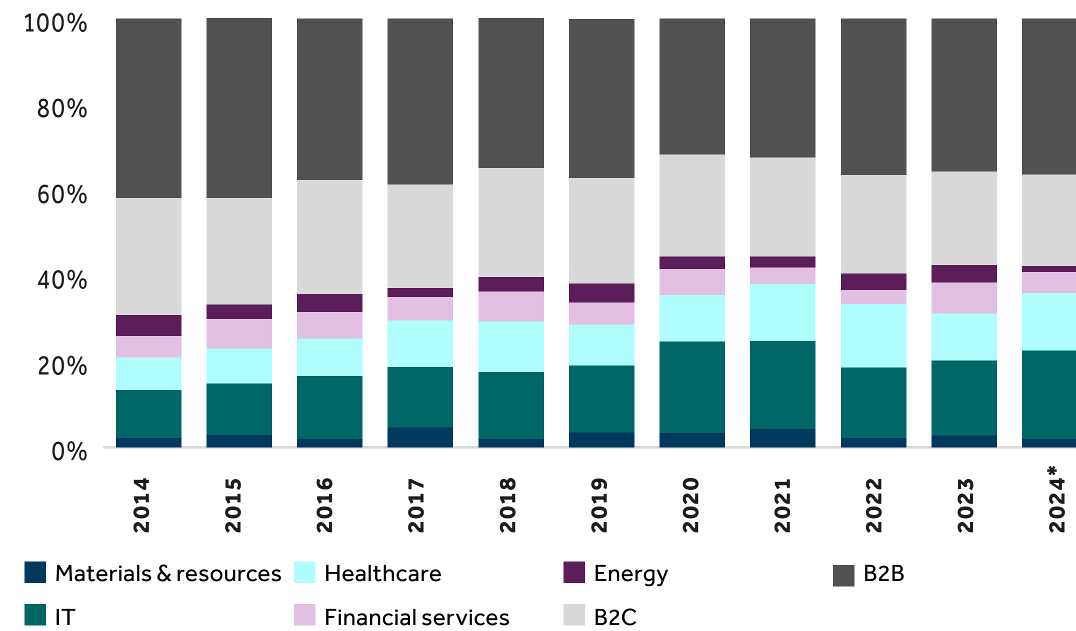
Source: PitchBook, as of 14 July 2024

Figure 6. Family office co-investment PE deal count



Source: PitchBook, as of 14 July 2024

Figure 7. Share of family office co-investment PE deal count by sector



Source: PitchBook, as of 14 July 2024

CO-INVESTMENTS MAY OPEN DOORS FOR NEW RELATIONSHIPS BETWEEN INVESTORS AND MANAGERS.

A co-investment occurs when an LP invests directly in a company alongside the GP, rather than through the GP. The GP may offer a co-investment opportunity to select LPs, including sophisticated investors and HNWIs. GPs have cited co-investment offerings as a strategy to attract more LPs[12], who in turn have the option to further tailor their risk/return preferences through additional investments with potentially lower fees. In a more competitive fundraising environment, co-investments can increase investors' access to deals and facilitate information-sharing between LPs and GPs.

The one-off nature of direct co-investments involves more in-depth due diligence from all parties. Family offices have increased their co-investment activity since 2020, making over 750 direct investments alongside PE transactions each year since then (Figure 6), with a preference for the B2B, B2C, and IT sectors (Figure 7). HNWIs also occasionally make direct PE co-investments outside of their family offices, though on a smaller scale, and they are typically limited to those with professional investing roles and particular areas of expertise. Heightened responsibilities in the due diligence phase, and additional fee economics, are important factors for those considering co-investments.

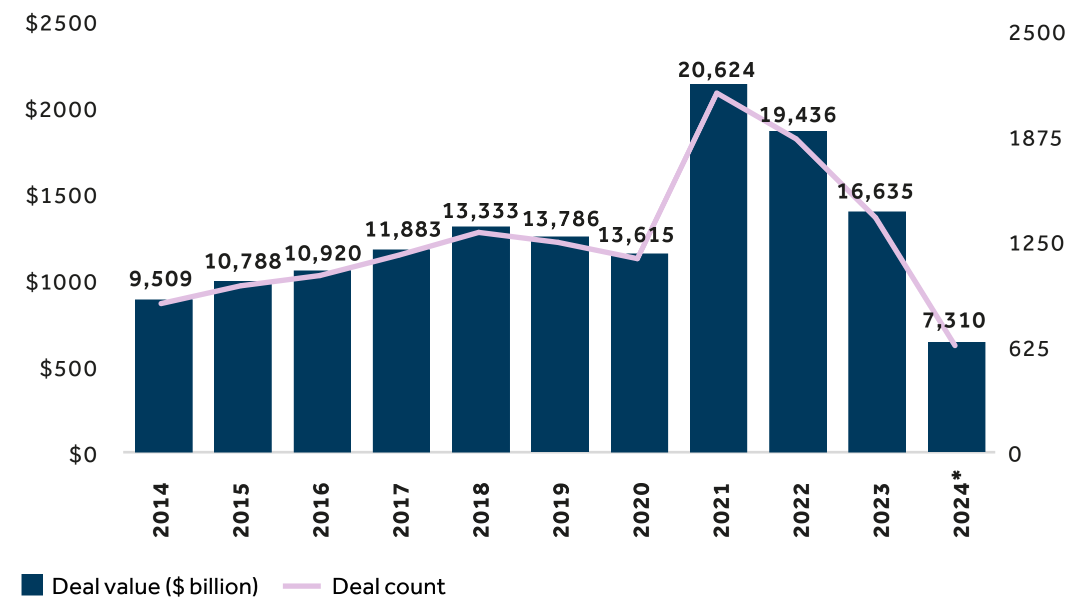
[12] "Smaller GPs Offer LPs Co-Investments to Build Trust," PitchBook, Jessica Hamlin, 16 November 2023.

A CONSISTENT VOLUME OF PE DEALMAKING COULD SET THE TONE FOR INVESTORS' FUTURE RETURNS.

PE dealmaking remains slightly higher than pre-2021 activity on a quarterly basis, even after two consecutive years of decline (Figure 8). Recent catalysts for the increased activity include company valuation cuts over the past 18 months and, tangentially, an unreceptive public listing environment. Firms have capitalised on more opportunities for buyouts under these conditions, which may fortify their upside potential in the coming years.

Rising interest rates have applied downward pressure on dealmaking, but rate cuts are beginning – or least expected – in several of the world's largest economies before year-end. This monetary policy dynamic may bolster dealmaking once again and improve return prospects for private wealth portfolios with PE allocations. Dealmaking and subsequent exits ultimately determine cash flows for individual LPs, which in turn inform asset allocation strategies. Much like fundraising and dealmaking activity, PE exit activity held steady after the post-2021 sharp declines compared with other strategies.

Figure 8. Global PE deal activity



Source: PitchBook, as of 14 July 2024

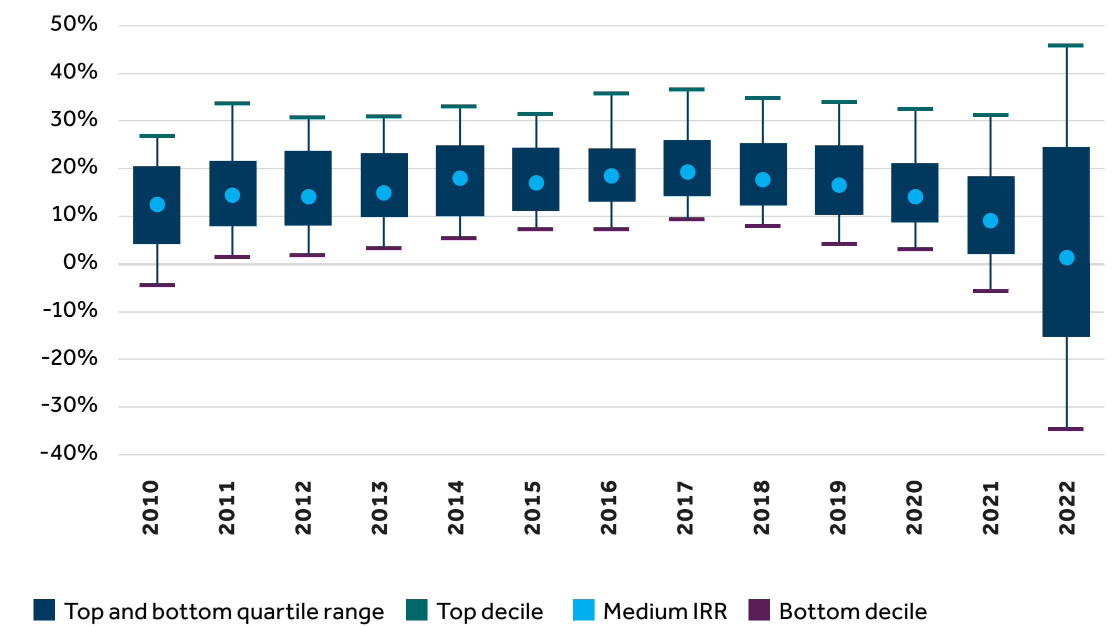
PE FUNDS HAVE HISTORICALLY GENERATED HIGHER RETURNS COMPARED WITH OTHER PRIVATE FUND STRATEGIES.

Examining historical performance for select strategies reveals comparative strength for both traditional buyout and minority-stake PE funds, with the highest 15-year horizon internal rates of return (IRRs) of 14.4% and 15.5%, respectively[13]. Data also shows that PE fund vintages from 2011 to 2022 have outperformed the S&P 500 benchmark[14], and even bottom-decile vintages between 2011 and 2020 managed to secure positive IRRs (Figure 9). However, the median PE IRR has declined for each vintage year since 2017 and dropped below 10% for 2021 vintages that bought in at peak valuations.

Manager selection is a key consideration here as skilful portfolio management may be a strong factor in generating excess returns (Figure 9), and a manager's tenure will often outlast a market cycle. Performance for more recent vintages is still taking shape, though market conditions may benefit post-2021 vintages in particular following broader valuation corrections since. Funds now typically invest less cash up front, which increases the upside return potential for their eventual exits, assuming the exit environment continues to improve and operational efficiencies are executed well. Identifying managers with the best ability to navigate market cycles often involves analysis of factors beyond fund performance, including investment team construction, preferred sectors and strategies, and fee structures.

Timing the market remains an elusive task, but consistent fund allocations can provide related advantages over one-time commitments. A 2023 Vanguard report found that a hypothetical investor who maintained a consistent annual $500,000 commitment to PE outperformed hypothetical investors who reduced or eliminated their PE commitments in years of economic uncertainty, by 17% and 34%, respectively[15]. With their longer lifecycles, fund investments can withstand temporary market fluctuations, and their lower correlation to public equities may provide additional insulation for wealth portfolios during these periods.

Figure 9. PE IRR dispersion by vintage



Source: PitchBook, as of 31 December 2023

[13] "Q4 2023 Global PitchBook Benchmarks (with preliminary Q1 2024 data)," PitchBook, Zane Carmean, 11 July 2024. Based on responses from 120 UHNW investors – see footnote 5 for more details.

[14] Ibid.

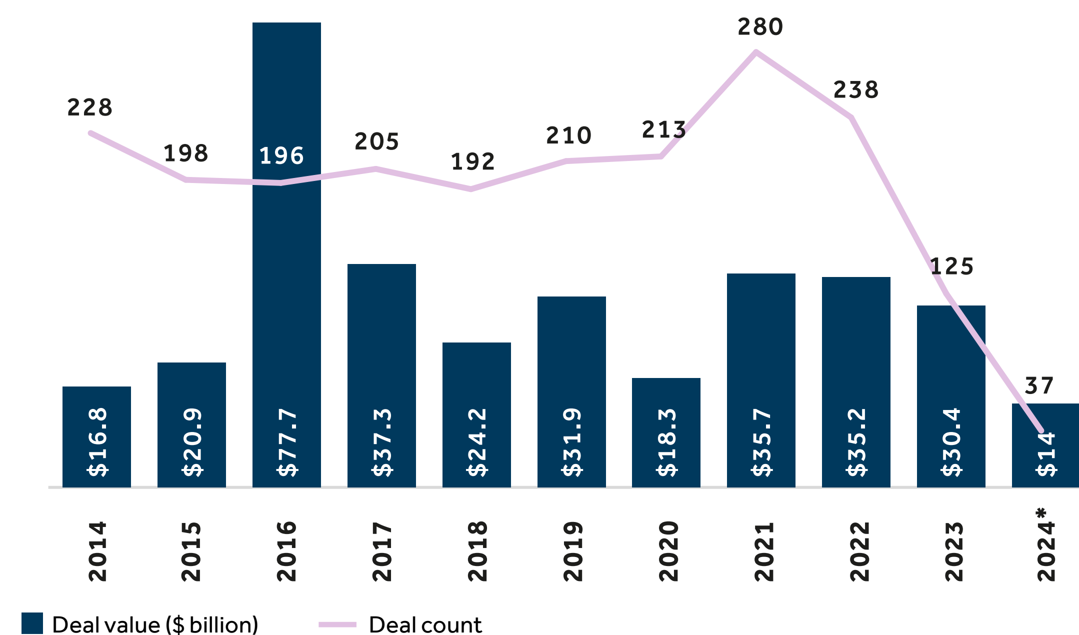
[15] "Potential in Persistence: Staying the Course With Private Equity Commitments," Vanguard, April 2023.

MANAGERS LOOK TO EXPAND ACCESS TO PE FOR PRIVATE WEALTH INVESTORS.

There is no standard minimum investment size for PE funds, but non-institutional investors can expect to commit upwards of $10 million for larger, established funds, with anchor LPs that may set a soft threshold for other LP cheque sizes, or at a smaller scale within a range of $250,000 to $1 million for smaller or emerging funds. While the number of first-time PE funds successfully raising fresh capital has dropped significantly over the past two years, the cumulative level of new funds closed has been comparatively steady, indicating LP receptiveness to select smaller funds (Figure 10).

New considerations are being made for non-institutional investors who can provide meaningful capital for investment, but may be overshadowed by institutional LPs with larger sums of collective liquidity. The most recent data from the US Securities and Exchange Commission (SEC) reveals that individual investors account for a small yet material share of aggregate beneficial ownership in large PE firms[16]. This percentage has declined in recent years from 7.8% in Q4 2021 to 6.4% in Q4 2023[17]. Despite these declines, firms recognise the opportunities presented to them in the form of private wealth and are adjusting product lines to adapt.

Figure 10. Global PE first-time fundraising activity



Source: PitchBook, as of 14 July 2024

[16] "Private Fund Statistics: Fourth Calendar Quarter 2023," Division of Investment Management, Analytics Office, 2023, accessed 19 August 2024. Note that percentages stated include both US individuals and non-US individuals and refer to the percentage of funds' aggregate net asset value.

[17] Ibid.

Several prominent asset managers have established funds specifically targeting to HNWIs for LP slots[18]. Aggregating wealth through multi-family offices, or more directly through wealth managers, can also provide access through smaller cheque sizes. Top PE firms are strengthening relationships with banks, which can provide an entry point or introduction for new non-institutional PE allocators[19].

The PE industry's efforts to appeal to a broader array of investors are also demonstrated through new product types and formats. For private wealth investors, who cite illiquidity and risk management as their top concerns in PE investing,[20] these offerings may facilitate a greater volume of commitments and support new relationships with GPs.

Semi-liquid funds operate between a traditional closed-end fund and an open-ended fund. The funds include features that appeal to LPs that want the option to withdraw liquidity, like partial exposure to a more liquid asset class or cash.[21] They may also offer shorter incremental subscription and redemption periods, thus further expanding access for a broader range of individuals. Evergreen or tender offer funds can also provide exposure to PE with a lower upfront commitment and potentially shorter liquidity timelines, which reduce the cash flow planning required for traditional PE allocations.

Vintage programmes, which pool capital commitments into a single channel to invest in multiple other funds, can also provide further diversification and expedited access to top-tier PE funds while reducing the burden of networking and due diligence placed on allocators. The size and number of capital calls for a vintage programme is lower compared with separate, direct commitments for each underlying fund. Vintage programmes incur an additional layer of fees in exchange for these benefits, which is an important consideration for potential investors. Another factor to note is the potential blind pool risk, as portfolio investments are likely to occur after committing to invest.

[18] "Why Private Equity Is Targeting Individual Investors," Bain & Company, Or Skolnik, et al., 27 February 2023

[19] Ibid

[20] "Blackstone's First Private Equity Fund for Rich Individuals Gets $1.3 Billion," Bloomberg, Dawn Lim, 8 January 2024.

[21] "Semi-Liquids: Mapping the Universe of PE Wealth Products," Private Equity International, Alex Lynn, 28 September 2023.

Venture capital: Investors seek exposure to innovative and sustainable technologies

VC OFFERS A WIDER ENTRY POINT TO THE PRIVATE MARKETS, BUT FUNDRAISING HAS DECLINED.

According to PitchBook data, nearly half of all known private markets fund commitments made by private wealth investors in the past decade were made to VC funds, highlighting the importance of VC and its prevalence in non-institutional portfolios (Figure 2). With nearly 4,000 open VC funds globally, this asset class offers more opportunities for new LP entrants compared with the smaller population of fewer than 600 open PE funds. However, like PE funds, the number of VC funds actively raising fresh capital has declined since 2022, meaning accessibility has recently decreased[22].

Experienced managers have commanded an increasing share of new VC commitments due to demand for managers with the best track records amid an uncertain macro environment (but past performance is never a guarantee of future performance). However, with more than 650 VC funds successfully raising as of July 2024, many opportunities remain (Figure 4). Emerging managers may provide a timelier avenue for private wealth investors seeking VC allocations in the near term, as these managers seek out new LP bases. The risk/return profile for emerging managers may be higher without a historical track record, but incurring greater risk for higher potential returns is in many ways the essence of VC.

[22] PitchBook, as of 14 July 2024.

GREATER RETURNS VOLATILITY IS AN IMPORTANT CONSIDERATION FOR POTENTIAL VC INVESTORS.

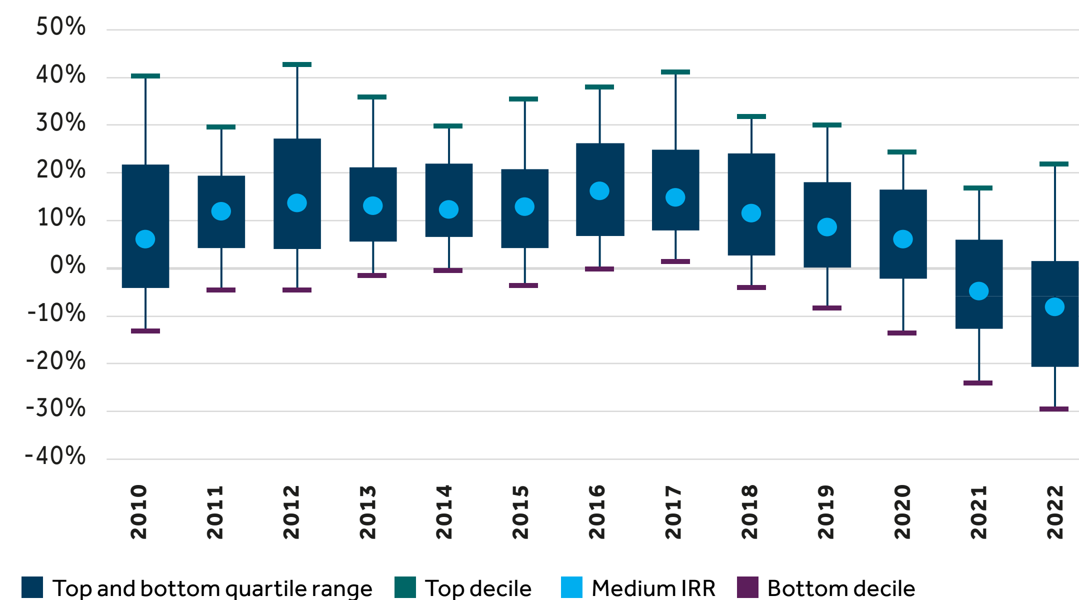
VC managers must target an exit multiple in the range of 10x an initial investment to justify the higher risk associated with earlier-stage bets, which are more prone to failure than later-stage ones. Returns data reveals a more volatile track record compared with PE, and volatility re-entered the spotlight following 2021 exuberance and the subsequent correction. VC funds were dealt significant blows in 2022 with a horizon IRR of -16.8% – a far cry from the record-breaking 56.1% they enjoyed the year prior.[23] On a longer historical basis, however, VC funds exhibit stronger returns, with an 11.8% 15-year IRR. The variability of shorter-term returns may deter certain investors, especially considering that with a typical seven-to-10-year fund lifecycle, VC fund returns will likely impact current generations.

The minority-stake nature of VC investments requires less leverage and overall smaller cheque sizes compared with PE. Individual commitments from non-institutional investors can range from hundreds of thousands to several million dollars.

Top-tier funds are naturally at the higher end of this range, and barriers to entry are substantial as well.

For funds in the US, the SEC limits the number of VC investors per fund depending on the fund's size and the accreditation of the individual investors.[24] A family office with more than $5 million in assets, for example, may qualify as an accredited investor, meaning US VC fund allocations may be more accessible if made through a family office. However, for HNWIs who are accredited investors themselves, VC allocations can be made to directly access their areas of interest or expertise. With a limited number of investors per fund and consolidation of recent fundraising into fewer funds[25], the accessibility of VC funds will likely remain narrower moving forward.

Figure 11. VC IRR dispersion by vintage



Source: PitchBook, as of 31 December 2023

[23] "Q4 2023 Global PitchBook Benchmarks (with preliminary Q1 2024 data)," PitchBook, Zane Carmean, 11 July 2024.

[24] "Accredited Investors," US Securities and Exchange Commission, n.d., accessed 25 July 2024.

[25] PitchBook, as of 14 July 2024

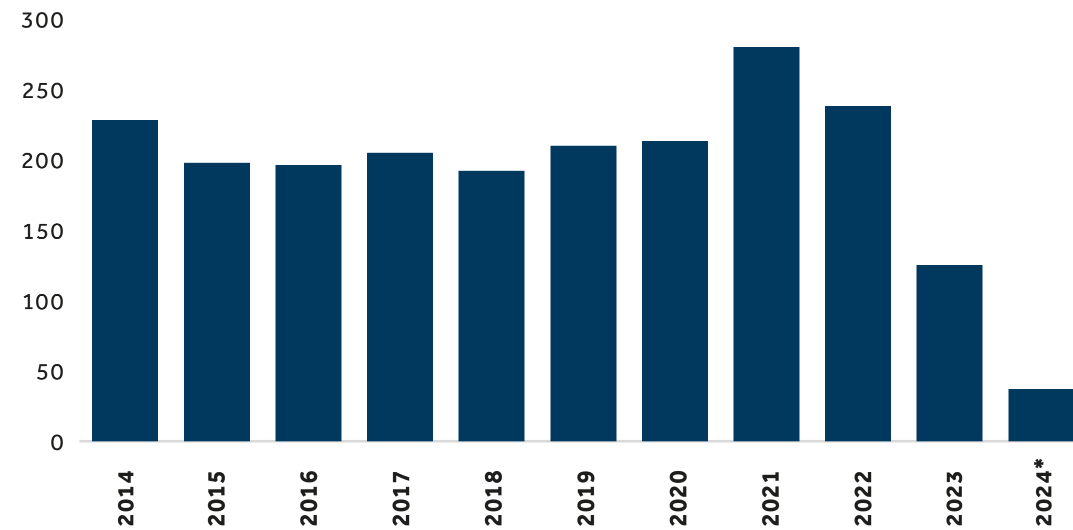
VC ALLOCATIONS OFTEN FACILITATE SECTOR-SPECIFIC OR VALUES-BASED INVESTING.

One of the primary draws for VC managers is their close working relationships with innovative and rapidly growing companies. VC allocations may allow an LP to benefit from the rise of artificial intelligence, for example. The upside potential for disruptive technologies is hypothetically limitless, and potential exposure to future industry leaders is highly valued for wealth investors with larger risk appetites.

Sustainability and other impact investing topics are also cited as common interests among private wealth investors. VC investments are a common financing channel for more nascent technologies like climate technology, and a growing number of funds define themselves as "impact investors," catering to various investor preferences and values through dual goals of financial returns and positive social or environmental results. PitchBook's 2023 Sustainable Investment Survey of private markets investors (including LPs, GPs, and other allocators) globally found that respondents grew more divided on integrating sustainable investment programmes between 2021 and 2023, but more than half of LP respondents believe it is "extremely important" or "very important" that their GPs measure impact in their portfolios.[26]

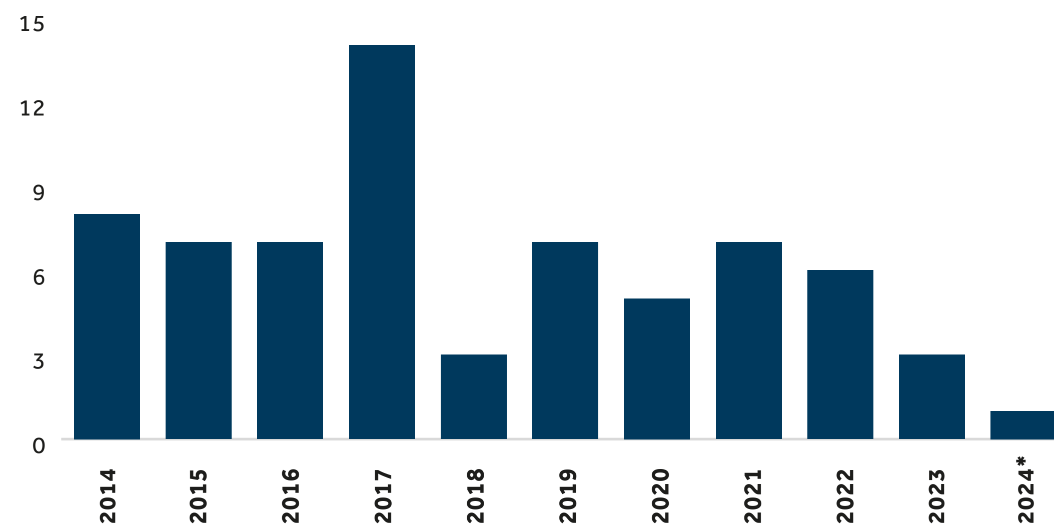
[26] "2023 Sustainable Investment Survey," PitchBook, Hilary Wiek and Anikka Villegas, 5 July 2023. Based on answers from 419 respondents who completed the survey, and 821 who completed at least one response.

Figure 12: Global angel deal count with HNWI participation



Source: PitchBook, as of 23 July 2024

Figure 13: Global angel deal count with family office participation



Source: PitchBook, as of 23 July 2024

PRIVATE WEALTH INVESTORS HAVE ADJUSTED THEIR APPROACH TO ANGEL INVESTING AS MARKETS EVOLVE.

Angel investing is another option for private wealth investors that have a passionate commitment to a particular company or founder. These direct investments naturally incur greater risk and are more likely to be made on a one-off basis compared with fund strategies that facilitate consistent deployment.

HNWIs are historically active participants in angel deals, providing critical start-up capital for founders who can provide exponential returns. These stories are more common in technology sectors, but even on a smaller and more common scale, angel investments are an option for an investor's preferred allocation to higher risk/reward profiles. HNWIs have pulled back somewhat from direct angel investments over the past decade, as the wider private markets industry has evolved to allow private wealth investors to invest in more mature and established companies via funds or direct channels (Figure 12).

In addition, newly organised channels like angel groups, incubator and accelerator programmes, and crowdfunding have emerged. These programmes represent the maturation of the VC industry and expansion into multi-functional platforms to support innovation ecosystems worldwide. The role of private wealth investors in these spaces is likewise evolving.

The expansion of institutional offerings for entrepreneurs has democratised the start-up scene to a degree, and private wealth investors may opt to invest in early-stage companies through more structured channels to incur less risk and spread resources across a broader network. Angel investors will likely remain a staple of the early-stage VC space, though perhaps through fewer direct speculative transactions moving forward and with greater emphasis on mentorship and guidance into institutional programmes.

In conversation with Lord Jitesh Gadhia

Read the insights of industry veteran Lord Gadhia, as he reflects on the growing interest in private markets, as well as some of the intrinsic risks.

Please note: This article reflects the personal opinions and financial situation of an experienced investor. It is included for informational/educational purposes only and is not intended as investment advice.

We spoke to Lord Jitesh Gadhia, who has over 30 years' investment banking and financial services experience, about the potential role that private markets can play in an investment portfolio.

Why did you start investing in private markets, and how does this asset class fit into your broader investment plans?

It was a combination of my time working at Blackstone and serving as a Trustee of some large endowments which convinced me that the illiquidity premium commanded by private markets is both real and compelling. Even more so when you compound the return potential compared to public markets, over a long duration.

As an experienced investor, I allocate 30–40% of my portfolio to various types of private assets, ranging from private equity and venture capital to real estate, infrastructure and private credit. This is based on my personal circumstances and goals.

In terms of my broader plans, I find it helpful to triangulate between lifestyle, liquidity and legacy. This is a good way of thinking about some of the trade-offs inherent in allocating capital. Other than two growing children, we don't lead a resource-intensive lifestyle, nor do we require a large buffer of liquidity, so maximising legacy is top of our agenda. This conscious choice should hopefully benefit future generations of our family and the philanthropic causes we are passionate about.

How did you begin investing in private markets?

My original access was through a previous employer, where I was able to make side-by-side investments. Subsequently, I have worked with my wealth manager to identify opportunities for diversification and improving returns, in the context of my wider investment portfolio.

These might be through tax-efficient schemes or institutionally managed funds, which are increasingly being made available to the private client market.

Are there any misconceptions about investing in private markets you would highlight?

There is a wide spectrum of intrinsic risk and duration across different private asset classes. For investors unfamiliar with private markets, it may help to be guided on the journey by a wealth manager, to understand the potential options and risks involved.

You can never start too early to allocate to private markets. Unless you are buying into a secondaries fund, it takes time to put the money to work, so there isn't instant gratification – known as the J-curve effect.

How has your own perception of private markets evolved over time, and especially since you've been an investor in the asset class?

Asset allocation is something which comes more naturally to pension funds, endowments and foundations, who are typically advised by consultants. In my opinion, for private clients, the role of a wealth manager can be useful for unlocking those opportunities, especially accessing the highest-quality managers.

The ability to conduct due diligence on those managers and to integrate reporting are also important. Again, a wealth manager can be well placed to offer this service, provided they have the in-house capability and deep expertise required.

Alternative asset managers are increasingly focusing on private clients within their business model. As a result, they are making it easier for private clients to access and understand the asset class, and are becoming more transparent in the information they share.

Looking back on your experience, how do you feel private markets have impacted your overall investment goals?

So far so good, but it's something you have to stick with over a long period. I am almost getting to the point of achieving a self-funded portfolio where my distributions fund new capital calls. This is a great position to be in and it's the closest thing in investment to a perpetual motion machine!

It's also important to continually review the mix of private assets and how they interact, to ensure you have enough diversification in your portfolio. There are many ways to diversify – by asset class, manager and vintage. The economic and business cycle naturally influences different vintages, so you need to ensure you avoid a 'one and done' approach.

As more individual investors move into private markets, what changes or developments would you like to see in this space?

I'd like to see greater awareness of, and access to, opportunities in private markets, but also realism about the timeframes involved. The source of the illiquidity premium is ultimately duration.

As private markets are democratised, it would be great to see the asset class incorporated into default pension fund allocations for individuals, such as auto-enrolment schemes. Pension funds are long-term investments and so in theory align well with the long-term horizon and objectives of private markets funds.

About Lord Jitesh Gadhia

Lord Jitesh Gadhia has been a Member of the House of Lords since 2016. He was previously Senior Managing Director at Blackstone and has over 30 years' financial services experience, having also held senior positions at Barclays Capital, ABN AMRO and Baring Brothers.

Lord Gadhia currently serves on the boards the Bank of England, Rolls-Royce Holdings plc, Taylor Wimpey plc and Compare The Market Limited. He was a board member of UK Financial Investments Limited (UKFI) and UK Government Investments Limited (UKGI), between 2014–2022. He is also Chair of The British Asian Trust, a charitable foundation established by His Majesty King Charles III.

Conclusion

Private markets can provide diversification and fund management needed to secure long-term wealth preservation and growth for investors. The growth in private funds' collective AUM over the past decade underscores their value and prominence in both institutional and personal portfolios. There is a variety of different private channels that can help investors achieve their goals, though PE and VC are the leading drivers of the increasing interest in private funds based on their strong long-term performance, network of opportunities, and sheer size reflected in AUM figures.

For many investors, historical fund returns make a strong case for continued allocations to PE funds, as well as VC for those willing to withstand greater volatility. Established managers maintain entrenched networks that create pipelines of investment opportunities and operational expertise to support returns. Emerging managers may expand access for new investors and provide further diversification and additional upside potential.

Institutional asset managers are responding to the growing presence of global private wealth owners and individuals that are actively involved in their investment decisions. New fund structures are forming to cater to their unique needs, including semi-liquid funds that offer more frequent liquidity options.

Portfolio allocations of HNWIs and family offices into private fund strategies continue to evolve with three primary drivers: fund performance, structural changes in private markets infrastructure, and personal priorities. The existing preference for PE, VC and experienced managers is likely to continue in order to manage risk, but manager selection and due diligence have become more active choices for many, and HNWIs and family offices must carefully consider the growing menu of options for their private markets investments.

Methodology

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Unless otherwise specified, datasets are provided by PitchBook and utilise standard PitchBook methodologies. In this report, private markets comprise private equity (PE), private credit, venture capital (VC), real assets, real estate, private debt, vintage programmes, and secondaries fund types. "Open funds" refer to those currently in a fundraising state and that are soliciting and accepting commitments.

PitchBook defines "high-net-worth individuals (HNWIs)" as individuals who have a net worth of at least $2.5 million (approximately £1.95 million) or an annual income of at least $200,000 (approximately £155,800), and commitments data is limited to those with tracked investment data. Third-party data cited may use different thresholds for HNWIs and UHNW individuals. Datasets include commitments made from 1 January 2014 to 22 July 2024 and commitments with no known date. Geography is global unless otherwise stated. Sample sizes vary for each metric and are based on available PitchBook datapoints. Private markets fundraising count for 2024 was 1,184, including 274 PE funds and 662 VC funds. HNWI and family office commitments data is limited to profiles tracked via PitchBook, including 23 commitments YTD 2024 and 121 commitments in 2023.

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Acknowledgments

BARCLAYS

Caroline Arnaud

Shenal Kakad

Roxane Liu

Dayo Ologbenla

Nikhil Patel

Jack Perkins

Bethan Zagame

BLACKROCK

Sir Robert Fairbairn

Rob Kapito

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