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MARKETS

Blackstone, Other Large Private-Equity Firms Turn Attention to Vast Retail Market

Firms court individuals with $1 million to $5 million in investible assets

By Miriam Gottfried Follow

June 7, 2022 8:00 am ET

Blackstone launched its first perpetual vehicle aimed at individuals in early 2017. PHOTO: ANGUS MORDANT/BLOOMBERG NEWS

Private-equity firms have spent decades raking in giant sums from pension funds and other big institutions. Now they are going hat in hand to a different kind of investor: everyday millionaires.

Some of the biggest firms, including Blackstone Inc., BX **-0.96%** ▼ Blue Owl Capital Inc., OWL **-0.32%** ▼ Apollo Global Management Inc. APO **2.35%** ▲ and Ares Management Corp., ARES **0.10%** ▲ have created a host of new products aimed at people with $1 million to $5 million in investible assets and are hiring armies of staff to market them to private banks and independent financial advisers.

Behind the effort is the recognition that institutions, which committed nearly $1.3 trillion to private markets in 2021, according to PitchBook, have all but filled up on them. Historically low interest rates since the 2007-09 financial crisis led many to swap a portion of their public stock and bond portfolios for higher-returning investments in private equity, real estate, infrastructure and credit.

That shift is now largely complete. Pension funds and sovereign-wealth funds had an average of 26% and 35%, respectively, of their portfolios in those asset classes as of the end of the year, according to Preqin. Some are even dialing back their private-equity allocations after the recent drop in public markets left them overexposed to it.

So private-equity firms are now looking at another opportunity that is potentially even bigger involving the so-called mass affluent. Individuals worth $1 million or more held $79.6 trillion in investible assets globally in 2020, according to a 2021 report by consulting firm Capgemini SE CAP **-0.05%** ▼ . And private-equity firms estimate that less than 5% of that is currently invested with them.

Unlike the typical buyout fund, products for individuals are perpetual or evergreen, meaning the capital is never fully returned. That has made them particularly attractive to publicly traded private-equity firms whose shareholders prize steady growth in management fees.

The upshot has been a scramble to win over the wealthy.

“It’s a land grab,” said Matt Brown, chief executive of CAIS, a platform that gives independent financial advisers access to so-called alternative investment products. “You’re seeing the mutual-fund boom 2.0,” he said, referring to the rise in popularity of mutual funds during the 1990s.

There is no guarantee the effort will succeed. For one thing, it depends on continuing investor confidence, which could be shaken by recent market choppiness, adding to the allure of liquid assets that are perceived to be less risky. Firms say the current environment will demonstrate the stability of their products over the long run.

While institutions can choose from thousands of private-equity funds, many firms are betting that advisers to the wealthy won't want a long menu of products to evaluate. They argue that moving quickly and spending big now will give them a lasting edge over rivals.

Blackstone, the industry behemoth that launched its first perpetual vehicle aimed at individuals in early 2017—a lower-cost nontraded real-estate investment trust—now sources nearly a quarter of its $915 billion in assets from private wealth. The firm has since added two more funds targeting individuals: a nontraded business-development company and a real-estate vehicle focused on Europe.

Blackstone, which expects to reach $1 trillion in assets this year, said in April it gets $4 billion to $5 billion of inflows a month from the three products combined.

"Our great insight was bringing the fees way down and bringing our quality of investment performance to this space," said Blackstone President Jonathan Gray.

The firm built a team of 278 people, many of whom educate advisers on its products and service clients. In May, Blackstone filed with the Securities and Exchange Commission to launch a fourth fund, designed to offer individual investors access to its private-equity business, which would for the first time give them a slice of the big corporate leveraged buyouts the firm is famous for.

‘It’s not lost on distribution partners—who are being approached by everyone under the sun—that competitors have seen Blackstone’s success and are jumping on the bandwagon,’ said Joan Solotar, the firm’s global head of private-wealth solutions. PHOTO: JOSE A. ALVARADO JR. FOR THE WALL STREET JOURNAL

Though much smaller than Blackstone, Blue Owl was also an early mover in catering to individuals, beginning in 2016. The firm said recently it got an average of about $700 million a month in inflows in April and May from its two evergreen credit funds.

Others are striving to catch up. Soon after becoming Apollo’s chief executive last year, Marc Rowan made expanding the firm’s private-wealth business a top strategic priority. Apollo now has three products and 145 people dedicated to the effort, thanks in part to its December deal to buy the U.S. wealth-distribution and asset-management businesses of Griffin Capital Co.

Apollo in April said it got over 10% of its asset-management fundraising from private wealth in the first quarter and announced plans to introduce one to two new products each quarter over the subsequent 18 to 24 months. Mr. Rowan said 50% of a client’s portfolio could one day be invested in alternatives to publicly traded stocks and bonds.

New products in the pipeline tap Apollo’s traditional investing strengths such as credit, said Stephanie Drescher, the firm’s chief client and product-development officer, who is overseeing the effort.

Ares in April launched one new product for individual investors and filed for another. The firm said it raised $2 billion from wealthy individuals during the first quarter and said it had 105 employees dedicated to the effort.

Blackstone is confident in its first-mover advantage, said Joan Solotar, the firm's global head of private-wealth solutions.

"It's not lost on distribution partners—who are being approached by everyone under the sun—that competitors have seen Blackstone's success and are jumping on the bandwagon," she said.

Write to Miriam Gottfried at Miriam.Gottfried@wsj.com

Appeared in the June 8, 2022, print edition as 'Private-Equity Firms Now Woo Millionaires'.