

KEYNOTE INTERVIEW

Broadening access to private equity



The asset class should welcome more private individual investors, but products must be carefully tailored to their needs, say Neuberger Berman's Peter von Lehe, Maura Reilly Kennedy and José Luis González Pastor

Q Where does Neuberger Berman sit in the private markets ecosystem and how does that inform your perspective on meeting the needs of individual investors?

Peter von Lehe: Neuberger Berman has been in the investment business for around 80 years, and we currently manage around \$408 billion of assets, including \$134 billion of alternatives, \$105 billion of which is in private markets. We are 100 percent employee-owned, with more than 600 of our 2,500 employees holding a share of the business. That is a key feature of our firm, because we think it allows us

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to take a long-term view, rather than managing to quarterly reporting cycles.

We have been in the private markets business for more than 35 years, partnering with top-tier managers around the world. We invest in those managers on a primary basis; we invest directly into their portfolio companies through our co-investment business; we buy interests in their older or continuation funds through our secondaries business; and we lend money to their portfolio companies through our credit business.

Importantly, Neuberger Berman as a firm, since inception in 1939, has been managing money for private individuals. In private markets, we have been designing and managing solutions for individual investors for more than 15 years.

Q The benefits of the democratisation of PE have long been discussed, but what are the impediments to individuals accessing the asset class?

Maura Reilly Kennedy: Private equity investors have been able to benefit from the return premiums and

diversification of the asset class for the last 20-plus years. These beneficiaries, however, have tended to be large institutional investors, including public and private pension funds, endowments, sovereign wealth funds and family offices. The traditional high-net-worth investor has not had meaningful exposure to private equity, with allocations typically being no more than a low single-digit percentage of their portfolios, if anything.

That is partly because there are real barriers to entry, including high eligibility requirements and high investment minimums. Even if a traditional private equity offering has a minimum commitment of \$500,000, which may be considered low, sometimes an individual investor may meet the eligibility requirements but still consider that level of commitment to a single fund to be too high for them to maintain a diversified portfolio.

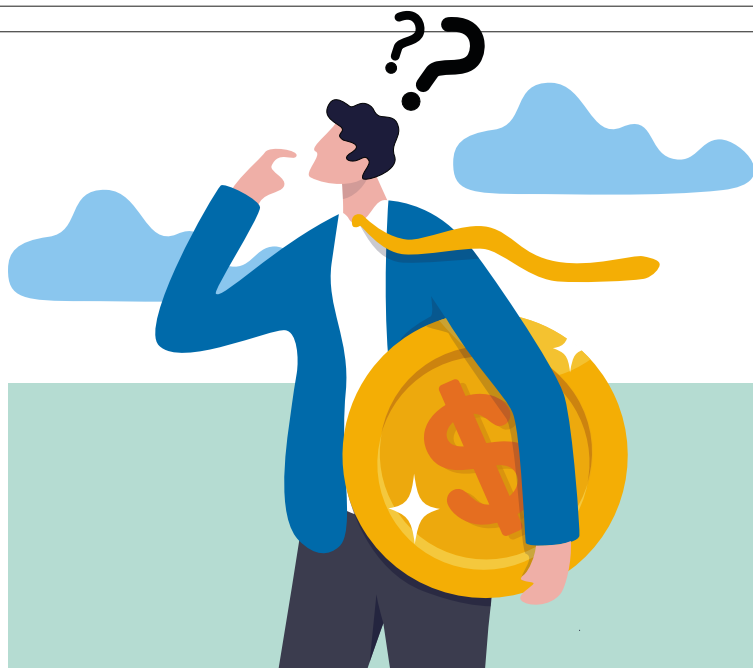
Equally, the typical capital call, self-liquidating, 10-year duration private equity structure raises questions for many individual investors about the timing of inflows and outflows, and often presents complicated tax issues for private individuals.

We are focused on the democratisation of private equity as an asset class, but we are sensitive to doing that in a way that can offer institutional quality to individual investors.

Q What are some of the newer solutions available to individual investors seeking access today?

PvL: Building high quality private equity portfolios means delivering them in a way that is suitable both for each client's particular needs and for the fundamental characteristics of the asset class. That often means releasing clients from the tyranny of the traditional LP structure; for some investors that LP structure is fine, but it is not the only way to do it.

We are seeking to deliver our capabilities in the asset class in a format



Q What should be the key considerations for individual investors when evaluating private equity opportunities?

PvL: First, the focus needs to be on the quality of the manager and whether that manager is good at investing in private equity.

The second question we would suggest investors ask is whether the fund they are being given the opportunity to invest in is of the same quality as what is being offered to institutional investors.

Third, does the manager have all the other capabilities necessary to successfully manage and support these vehicles? They should consider whether the manager has the right risk management in place, and if it has the operational infrastructure and the ability to provide the education necessary to support individual investors.

MRK: Central to this is that the democratisation of the asset class needs to be focused on developing structures that are appropriate for individual investors and delivering portfolios that give clients a good long-term investor experience. This absolutely should not be about how quickly managers can grow assets under management in private equity by tapping a new investor base.

PvL: We are long-term believers in the democratisation of the asset class and think the benefits of investing in private equity should be open to more investors, beyond just institutions and ultra-high-net-worth individuals. Over the long term, private equity shows strong performance and it can give investors access and exposure that they cannot get elsewhere.

There is a real growth opportunity here for the industry, but we are focused on that occurring because a broader range of people are experiencing those positive benefits and having that build over time in a properly risk-managed way, as opposed to it just being the 'hot' new thing. This is a long-term asset class and a long-term exposure, not a trade, so investors need to approach it accordingly.

that meets the actual needs of investors, rather than just echoing the way things have always been done. In practice, that means we do use traditional structures but sometimes those may have shorter or longer investment periods. We also use open-end vehicles, with a strong focus on risk management, which is important when you include illiquid assets in that type of vehicle. We use exchange-listed, closed-end funds as well.

As Maura mentioned, high eligibility requirements are one of the barriers to entry, so we focus on understanding local regulations across various jurisdictions to develop solutions that offer lower eligibility requirements in full compliance with local laws.

It is important to recognise that, for many investors, these vehicles may be their only private equity investment. While we focus on building portfolios of the same quality for institutional clients investing hundreds of millions of dollars as we do for private investors who might be investing \$10,000 or \$50,000, we need to make sure the portfolio we deliver is well diversified and appropriate for someone with limited exposure to the asset class.

Education is a critical element of the democratisation of private equity – investors need to fully understand what they are investing in, not just in terms of the asset class but also in terms of structures, as well as risks. We believe private equity is an asset class that should be available to a much broader range of investors, but we and the industry need to prioritise the education component. Most of the time we are partnering with intermediaries such as private wealth firms or private banks to reach the individual investor. We prioritise education and seek to provide a high level of support to our intermediary partners and their clients.

Q What are the challenges around offering these solutions? What capabilities does a manager need in order to do this successfully?

“The traditional high-net-worth investor has not had meaningful exposure to private equity”

MAURA REILLY KENNEDY

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PETER VON LEHE

José Luis González Pastor: On the structure side, we operate multiple funds across different regulatory frameworks and jurisdictions, and it is an incredibly complex process that entails putting together many elements at the same time. It requires deep skill and expertise, and it requires scale in many functions and in many areas.

On the investment side, a manager needs to have a wide range of capabilities to design the right products for each client, to make sure they have a good experience with the appropriate solution. For instance, if you design an open-end vehicle in private equity where the client is putting all their capital in upfront, you need to design an investment strategy that is focused on capital efficiency, for example. In addition, because it is an open-end vehicle,

you need to include liquid or semi-liquid strategies to manage redemptions, which goes back to the challenge of risk management.

In addition to structure and investment, we find managing vehicles for the individual investor to be a very resource intensive activity. You need to navigate different regulatory frameworks and you need sophisticated in-house tax and regulatory expertise, in addition to finance and operations teams that understand the structures and needs of the individual investor. Operationally, you must be able to support different vehicles in different jurisdictions, and you need management companies in different jurisdictions. We have a US manager for our US vehicle and a European manager for our European vehicle, for example, otherwise it would be difficult to market those products.

The final element is providing the support on the reporting side and delivering educational content when launching the vehicle so that investors are clear about the product and what they need to consider.

All in all, it is incredibly complex and requires scale and expertise in multiple areas and multiple functions.

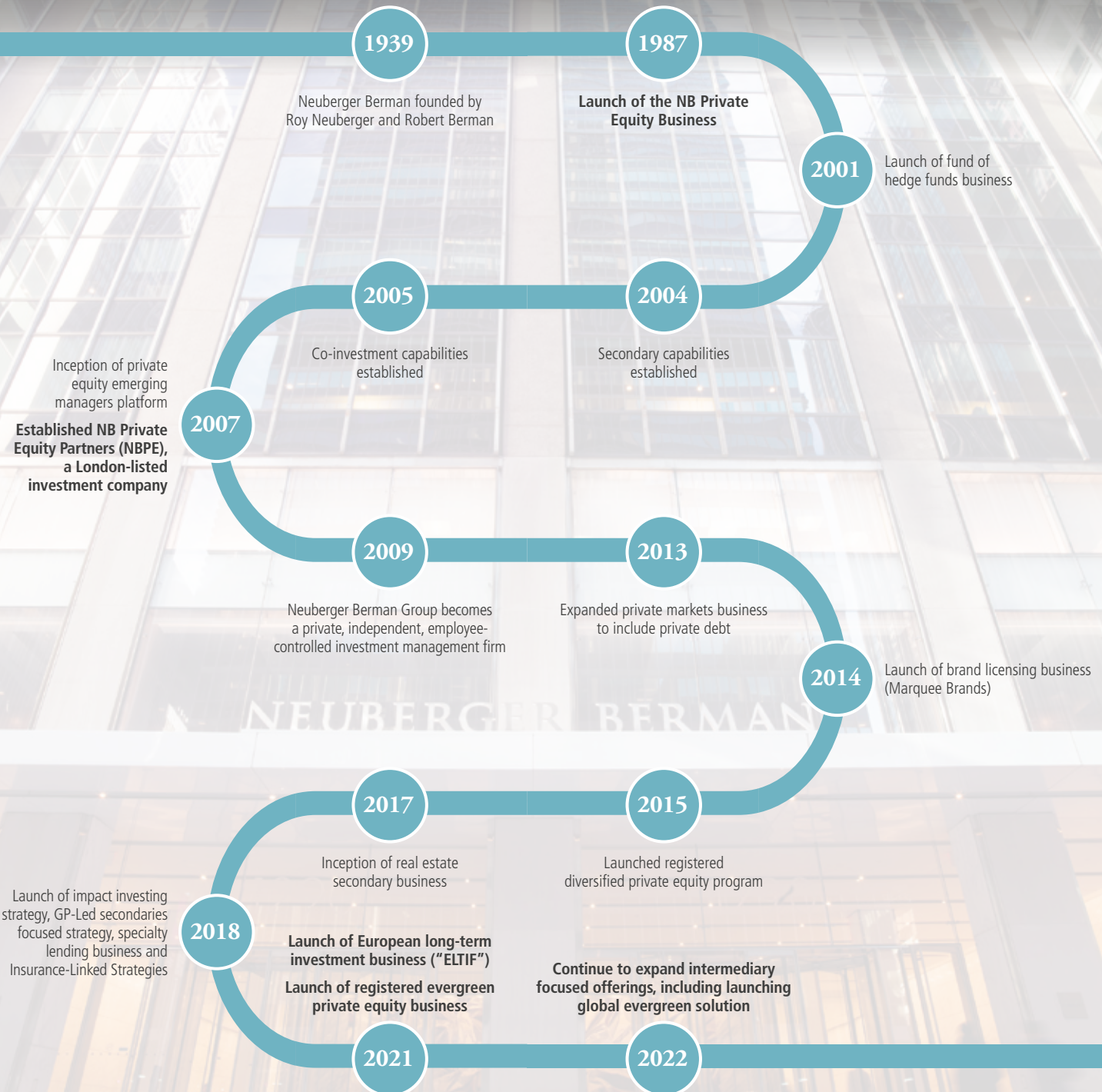
PvL: Most private equity managers do not manage funds with thousands of underlying investors in them, and they do not have the systems and capabilities available to interact with that number of investors. That is where we are lucky to be part of a broader asset management firm that has been managing capital for the individual investor for more than 80 years across traditional equities and fixed income. ■

Peter von Lehe is head of investment solutions for private equity, and Maura Reilly Kennedy and José Luis González Pastor are managing directors at Neuberger Berman

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Neuberger Berman

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The above timeline reflects strategies within NB Alternative Advisors LLC.

¹ As of September 30, 2022.

² As of September 30, 2022. Represents aggregate committed capital since inception in 1987, including commitments in the process of documentation or finalization.

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