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Blackstone Preps for Booming Retail Asset Growth

By Tom Stabile October 5, 2016

Blackstone Group's major retail channel sales push of recent years may soon kick into even higher gear, as an executive at the $356 billion alts manager last week said the firm expects capital managed for advisors and other wealth management outlets should rise to 50% of its total assets. That asset share today is likely closer to 10% to 15%, the typical percentage that retail makes up in Blackstone's total annual sales.

Blackstone last year unveiled an initiative to develop products for markets where it doesn't have a big presence, such as independent registered investment advisors, independent brokerages, and family offices, said **Joan Solotar**, head of multi-asset investing, external relations and global corporate services, at a **JMP Group** conference.

Those new products and markets, along with Blackstone's existing wirehouse brokerage distribution effort launched in 2009, should help propel assets from retail sources upward, she said in response to a question about where that part of its business might be in five years.

"Ultimately if you're thinking about the long term, this could be equally large to our institutional business," she said. "There's no reason that it couldn't or shouldn't."

The build-out won't come overnight, but will have legs to go far, Solotar added.

"These will come over several years, so this isn't to suggest that over the next year or two we're going to fully penetrate and build out all of the distribution and product," she said. "But it's clear that there's a need in every one of those channels."

A Blackstone spokeswoman declined to provide a current figure for its total retail assets. Still, the company has made clear in past announcements that the retail market is a new area of growth alongside its institutional base.

Retail sales made up about 17% of the $70 billion Blackstone raised in the 12 months ending June 30, roughly the same percentage it has raised from that channel over the last several years. Estimating that Blackstone's total retail assets also are somewhere in the 10% to 15% range would put its retail asset figure at around $35 billion to $50 billion. So Blackstone's retail channel growing to half of its total asset base, assuming it does not lose institutional capital, would mean it brings in more than $300 billion – which also suggests the annual sales percentage for retail would likely rise dramatically.

But the appetite for greater retail sales is not rooted in "a goal to just raise as much money as we can," Solotar said, noting that it raised $15 billion last year for its global flagship real estate fund, even though it saw demand to take on an additional $10 billion from investors.

More retail sales instead will likely flow from two main sources, Solotar said. One is upping the percentage of alternatives in the typical individual investor's portfolio – from today's 1% to 2% to industry standard wealth advisory targets of 10% to 20%. The other is tapping into new markets, including the $4 trillion in assets run by independent advisors and the $3 trillion at independent brokerages, she said.

"Penetration to date [in retail channels] is quite small," she added. "And given our product set and our scale and the ability to service those platforms, I think the potential is going to be very large."

Getting there will involve a significant amount of product development, particularly of funds tailored to different liquidity, return, and sector targets, Solotar said.

"There are several products where we have real scale opportunities and still quite a lot of capacity, and so you'll probably see more money initially flowing into those," she said.

The concept of retail assets equaling institutional levels is not likely to apply across the entire private equity market, but instead mainly at the largest firms that have the ability to build products in multiple asset classes, such as buyouts, credit, real estate, and hedge funds, says **Kevin Albert**, managing director at Pantheon.

"It's Blackstone and KKR and **Carlyle** [**Group**] and maybe a few others like **TPG** [**Capital**], because of all the products they have," he says. "They can attack the retail market in four or five different ways. If you're a [private equity-focused] **Clayton Dubilier & Rice** or a Warburg Pincus, a 50% [retail] goal is probably not realistic."

Defining retail assets more broadly than just individual brokerage and retirement savings portfolios managed by advisors also may determine whether some alts firms ever get to the 50% mark, Albert says. For instance, including the prospect of private equity mandates in target date funds within defined contribution plans – a potentially large future opportunity for managers – would be a big contributor of assets, Albert says.

Getting to much higher levels of retail assets at the big alts shops is a likely future outcome based on many of the market's current trends, says **Lawrence Manson**, CEO at **NexTier Consulting Solutions**. A broader expectation that individual investors will increase their allocations to alternatives – combined with ongoing demand for products that deliver greater yield, and more fee pressure from institutional investors – means that alts fund managers aiming for retail are simply "meeting the market," he says.

"The firms that have the ability to make and distribute the products will prevail," he adds.

To succeed, however, firms will need a breadth of options that can appeal across the retail landscape, Solotar said.

"We can really build bespoke product that's tailored to the channel," she said. "Being able to go to the high-net-worth channel and design a multi-asset drawdown structure that gives them a diversified portfolio and access to funds that frankly they wouldn't otherwise have had access to; being able to meet the needs of someone who wants high single-digit net return with a liquidity mechanism – we can pull from a lot of different areas to create that."

Alts managers aiming for the retail market may need to look beyond just product design to also consider advanced financial technology for sales, investor communications, and reporting, says **Tanya Williams**, senior consulting principal at NexTier.

“I believe the Blackstones and Carlyles are seeing that they have to do this to stay ahead of the game, especially for how the millennials will be accessing investment opportunities,” she says. “They want to find this information on their iPhones and computers.”

The pressure on most alts managers may be less to reach the retail customer directly, and more to provide intermediaries, such as advisors, with the reporting and data tools needed to serve individual investors, says **Kevin Kelly**, CEO at **Altvia**, a private equity software provider. His outfit is seeing more requests from private equity managers to help aggregate data for advisors that have multiple investors in a fund.

“We’re seeing a general movement for managers to build out more systems that are data-driven,” he says. “Private equity has not been… used to exposing data to the investor, but with 150 to 250 [limited partners], you can get away without scaling. [With retail], there are going to be different and increased demands on [fund managers] to provide data and insights, whether it’s wholesale to advisors or interfacing with investors.”