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Blackstone's High-Net-Worth Sales Jump to $13B

By Tom Stabile April 13, 2016

Blackstone Group's sales to high-net-worth investors mushroomed last year to $13 billion, highlighting the wide distribution edge it has built since it first took aim at the advisor marketplace in 2008.

The tally – built largely on Blackstone's sales to wirehouse brokerages such as Morgan Stanley Wealth Management and Merrill Lynch, and private banks such as J.P. Morgan – tops the $11 billion the alts fund manager raised in 2014 and the $8 billion in 2013, according to a source familiar with the results. It puts Blackstone squarely in the lead among its peers as private fund firms jockey for position in the last major asset class to develop a retail client base, says **Larry Manson**, CEO and chairman of **NexTier Consulting Solutions**, a strategic consultant on business development and other matters.

"It's a huge opportunity, and just a few firms like Blackstone are getting out in front of it," he says.

Upside

Blackstone's new alternative asset sales in billions of dollars to high-net-worth investors

2013	$8B
2014	$11B
2015	$13B

Source: eVestment

Blackstone and a small cadre of peers, such as Carlyle Group and KKR, see a big opportunity to bring in fee-based assets in the advisor marketplace, Manson says. "They are starting to see fee compression everywhere else," he adds.

But the path is daunting for managers that can't pony up big resources or aren't willing to adopt and adapt the traditional asset manager sales model for retail alts distribution, Manson says. "Only the biggest can do it now," he says.

For most alternative fund managers, retail sales is a foreign concept, says **James Waldinger**, CEO at **Artivest**, a platform that delivers private equity to independent advisors and wealth management firms. "It's really hard to build a new retail [sales] team for any alternative manager, because it tends not to be part of their DNA," he says.

Blackstone's advantage in the retail market hasn't come on just one front, however, says **Cornelia Kiley**, partner at **Judson Partners**, an executive search firm.

"There are fundamental things Blackstone got right," she says. "They did it early and did it right."

Most market watchers agree Blackstone was first out of the gate among its peers as it started its retail distribution strategy in 2008, when it had about $600 million in sales to high-net-worth clients. It chose to mimic parts of the classic mutual fund sales approach, hiring executives to face off with platform gatekeepers at big wealth firms and a field team of wholesalers, though tailoring the approach to primarily target elite advisors stocked with wealthy clients.

Blackstone rapidly grew its asset base, hitting $8 billion in annual sales by 2013, its fifth year of working in the channel. That made up roughly 13% of the $60 billion in total new sales the manager brought in that year.

It zoomed forward in 2014, logging $11 billion in sales, a whopping 19% of the $57 billion Blackstone brought in that calendar year. Last year's $13 billion tally brought its share of the year's inflows back down to 14% during the alts manager's biggest sales year ever, when it hauled in $93.6 billion on the back of two flagship funds in the market.

That $13 billion sold to high-net-worth investors alone last year was more than half of the total firm-wide assets hauled in by Carlyle, KKR, or Oaktree Capital Management, its nearest competitors in retail market distribution.

The $13 billion had several ingredients, including roughly 15% of the $17 billion raised for its global buyout fund and $15.8 billion for its flagship real estate fund, or about $4.9 billion combined, according to an estimate provided in January by **Brendan Boyle**, Blackstone's senior managing director for private wealth management distribution. It also raised $714.2 million in its Blackstone Total Alternatives Solution product, which packages access to multiple private funds for advisors, as well as big sums from independent advisors through its GSO credit unit's partnership with **Franklin Square Capital Partners**, the market's largest business development company with $15.5 billion.

The 2015 totals did not factor in troubles for one of Blackstone's multi-manager liquid alts products, a $1.2 billion fund that hit a big bump last month when Fidelity Investments opted to pull out of its relationship, leading the private equity fund manager to announce it would shutter the product next month.

But Blackstone's advantage is not dependent on one product, says **Jeff Hudson**, partner at **Cedar Ridge Partners**, a $150 million alts funds manager that distributes mutual funds and separately managed accounts.

"They've done a brilliant job with it," he says. "They're using the best practices of the traditional mutual fund industry and just shooting the alternative sleeve through it."

It hit the mark on multiple fronts, Kiley says, including its extensive Blackstone University advisor education program; hiring an experienced alts sales team modeled on traditional distribution; having a consistent flow of products; building relationships with the biggest wealth firms; and centralizing sales across its internal units, she says.

"They are building a kind of muscle memory in the distribution platform," she says. "There has not been a time in the last couple of years that there has not been an open and available Blackstone product [for advisors to access] in several different kinds of strategies."

In addition, Blackstone's wholesaler team of around 15 internal and external sales professionals is several times bigger than any of its rivals. It also strategically hired key executives who formerly handled alts and advisor distribution at the wirehouses, Kiley says.

And it managed to work the retail team around internal "product fiefdoms" common in private equity where individual units "own" their client relationships, she says.

Those kinds of advantages make it difficult for other alts managers today to break through into new relationships with the wirehouses, forcing them to figure out other strategies to compete on the retail front, Artivest's Waldinger says. Some fund managers are deciding whether to outsource distribution efforts or tap into technology platforms for efficiencies of scale, he says.

Other managers aim to tailor their distribution to products that might complement what a Blackstone brings to the market. That's partly the approach for **Angel Oak Capital**, says **Erlend Bo**, head of distribution at the $6 billion alts firm. "Blackstone's success with private equity funds and real estate funds really helps us out in our discussions with advisors," he adds.

Another approach is simply going where the distribution picture is still taking shape – the independent advisor market, which Cedar Ridge has targeted through relationships on the Fidelity, Charles Schwab, and TD Ameritrade platforms, Hudson says. "You don't attack that market with traditional wholesalers," he says. "It's more of an old, consultative sales approach, a lot of referring off of existing clients."

Many managers see the independent market as the best option for retail sales growth, Waldinger says. "These shops realize that as there was [with the wirehouses], there is a huge first-mover advantage," he says.