IMpact: An investment management podcast series

Episode 16: Meaningful private capital exposure could reach one in six US retail investor funds by 2030

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Reese Blair: *Hello, everyone. I'm Reese Blair, your host of IMpact, the investment management podcast series from Deloitte. In every episode, we come together to explore the issues shaping the industry, whether it's regulation, recession, or resiliency. By diving deep into the latest news, trends and challenges, we'll discover how collaboration and shared insights can drive progress for professionals across investment management. So, tune in, learn something new, and walk away with insights that can help you make an impact on the investment management industry and the world around you.*

Reese Blair: IMpact listeners, for this episode, we're looking at a potential shift in retail investing: private capital becoming a more common feature in US registered funds. Analysis from Deloitte's Center for Financial Services suggests that meaningful private capital exposure could rise from about 1.5% of US registered funds at the end of 2025 to just under 16% by 2030. That's nearly one in six funds. That headline certainly gets your attention, but it's only the starting point.

To help us work through all of that, I'm joined by Lananh Nguyen, who leads research at the center. Lananh, welcome to the IMpact Podcast. It's great to have you with us.

Lananh Nguyen: Thanks, Reese. I'm glad to be here. So, in the prediction, my colleagues, Eric Fox, Amanda Nelson, Doug Dannemiller, and Mohak Bhuta, look at how private capital could move from a niche to a more common feature in registered funds.

Reese Blair: I think that's a good place to start. I think the headline is simple, the mechanics are clearly not as simple. Private capital has long been a part of institutional portfolios, but it hasn't been broadly available to retail investors. What's changing, and why should investment management professionals pay attention?

Lananh Nguyen: Investor demand and manager acceptance are starting to gain momentum.

Reese Blair: And the picture also includes regulation and product innovation, right?

Lananh Nguyen: Right. With technology and partnerships reinforcing that shift. So, taken all together, this could really broaden retail access.

Reese Blair: So, this isn't just about access; it's about how access is designed and distributed.

Lananh Nguyen: Fund structure and distribution should align with the operating model and governance. And that's going to help to determine whether private capital becomes a bigger part of retail investors' portfolios in the long term.

Reese Blair: Got it. Before we get into the implications though, I think we should probably talk about the forecast. So, when the prediction refers to private capital and meaningful exposure, what does that actually mean?

Lananh Nguyen: Private capital includes private equity, private credit, and other private assets accessed through registered fund structures. And our analysis defines meaningful exposure as at least 5% of a fund's portfolio allocated to these assets. So, if you think about it as the difference between a cameo and a supporting role in a movie, it isn't the whole portfolio, but it's large enough to make a difference.

Reese Blair: Love that. A supporting role, not a fleeting appearance. I think that distinction is very helpful.

Lananh Nguyen: Exactly. Meaningful does not mean dominant, but it means that the allocation is large enough to matter.

Reese Blair: So, the prediction suggests that it could move from about 1.5% of funds today to nearly one in six by 2030. And so, for the avoidance of doubt and to be clear, that does not mean 16% of all retail fund assets would be invested in private capital.

Lananh Nguyen: That's right. It means nearly one in six registered funds could have at least 5% of its portfolio allocated to private capital. So, the prediction is measuring how common meaningful exposure will become across funds.

Reese Blair: That's helpful. Now, let's look at the starting point because private capital isn't evenly distributed across fund structures today. Where would you say is most of the existing exposure?

Lananh Nguyen: So, it's concentrated in closed-end fund structures, Reese. More than three-quarters of funds with meaningful private capital exposure are interval funds, tender offer funds, or other closed-end funds. Those structures are designed to hold less liquid assets and manage investor redemptions.

Reese Blair: So, the structure really is doing all of the work here.

Lananh Nguyen: Yeah. And by contrast, fewer than 50 mutual funds and ETFs out of more than 10,000 available have meaningful private capital exposure. So, as we discussed earlier in the analysis, we define meaningful as at least 5% of a fund's portfolio allocated to these assets.

Reese Blair: And I would argue that the core analysis doesn't include business development companies, or BDCs, but I would imagine they're still relevant to this market, correct?

Lananh Nguyen: Yes. BDCs are another important way that retail investors can access private capital. And while they sit outside the core data set, many of them have the same demand, distribution, and regulatory trends that affect them.

Reese Blair: Got it. So, the starting point is still relatively small, and the opportunity looks very different depending on the fund structure. A closed-end fund can obviously accommodate private assets in ways that a daily traded mutual fund or ETF may not. So, look, we've talked about access. Now let's turn over to the demand side. Now, that interest that's coming over, is that coming directly from retail investors? Is it coming from advisers, wealth platforms, a combination?

Lananh Nguyen: Reese, it's a combination. So, retail investors generally have less exposure to private capital than institutional investors. And at the same time, advisers and wealth firms are introducing these strategies as ways to diversify portfolios and provide differentiated returns.

Reese Blair: And the prediction also looks at the traditional 60/40 portfolio. I know for a long time, investors looked to stocks for growth and bonds for diversification. Now, that's what I've done throughout my investing tenure. So, what's changed?

Lananh Nguyen: Well, in recent years, stocks and bonds have moved more closely together, and that's reduced some of the diversification benefits that investors traditionally expected from a 60/40 portfolio.

Reese Blair: So, is the tried and trusted 60/40 less reliable?

Lananh Nguyen: Yes. So, investors and advisers may be looking for other potential sources of return and diversification.

Reese Blair: Got it. The analysis also includes an illustration showing that even a modest private equity allocation could affect portfolio outcomes. Curious, Lananh, why is that?

Lananh Nguyen: So, it replaces part of a public equity allocation with a 5% to 10% private equity allocation. And in that example, the returns increased modestly and volatility declined. But it's an illustration and not a guarantee. So, the investments obviously and the fees really matter here.

Reese Blair: So do timing and the broader portfolio. So, an illustration can inform the conversation; it certainly can't finish it.

Lananh Nguyen: Exactly. It gives advisers a starting point, but not a script.

Reese Blair: And advisers sound central to turning that interest into actual allocations. But many investors may not walk into a meeting asking for an interval fund.

Lananh Nguyen: No, and they may not use terms like private equity or private credit. They may just be asking for income or diversification.

Reese Blair: Or access to different sources of return.

Lananh Nguyen: Right. So, the need of the investor comes first and then the products follow. That's why wealth managers can help to create this demand and not just respond to it. Advisers can connect the investor's objective with the product and explain where that exposure might fit into the broader portfolio.

Reese Blair: And that conversation can't stop at the potential benefits.

Lananh Nguyen: Right. Advisers should explain the fees and limited liquidity.

Reese Blair: And of course, how the valuation process works, right?

Lananh Nguyen: Yes. And the long-term investment horizon matters too. So, investors should understand the investment's role and also its trade-offs.

Reese Blair: I would argue there's probably a business incentive here too. Private capital can help managers differentiate products and attract new investors, but I'm curious, how can firms balance that business opportunity with investor outcomes?

Lananh Nguyen: It can also help address margin or fundraising pressures. And that incentive is real, which makes transparency and suitability even more important here. So, firms should consider showing that the product addresses an investor need, and not simply that it creates a new source of assets or fees.

Reese Blair: That's a fair point. I think a commercial opportunity still has to earn its place in the portfolio. Demographic changes may also support demand too. I think the prediction also cited an estimated $85 trillion wealth transfer to Gen X and millennials through 2048. That's a big number, Lananh, but why does that matter?

Lananh Nguyen: Well, Gen X and millennial investors may be more familiar with private capital than earlier generations. And so, as that capital moves to investors who may be more comfortable with these asset classes, the demand through registered funds might continue to rise.

Reese Blair: But the same distribution approach won't work for every investor segment.

Lananh Nguyen: Well, RIAs and banks might be more relevant for the high-net-worth and ultra-high-net-worth investors. And then full-service wealth firms can also fit in there too. For affluent and first-time private capital investors, broker-dealers and digital platforms might be more effective.

Reese Blair: Got it. So, access can expand through several channels, but the education and advice have to travel with it. Is that fair?

Lananh Nguyen: Yes, and support. So, without understanding, a gap can kind of open up between the investor's expectations and also how the product works.

Reese Blair: Got it. Let's move on to investor demand, because I would argue that investor demand alone won't drive the forecast. Firms need regulatory clarity—again, a world that I love to exist in—but they also need the operating infrastructure to act on it.

Lananh Nguyen: The product structures should support those private assets, Reese. The direction is towards broader access and greater standardization for retail investors.

Reese Blair: But regulators still emphasize transparency and investor protection.

Lananh Nguyen: Exactly. Broader access does not mean lighter responsibility here. So, firms still have to be deliberate about their product design, distribution, and investor explanations.

Reese Blair: So, maybe let's make this infrastructure piece practical because the phrase in and of itself can be a bit abstract. Lananh, what are some things that should be in place before a firm can launch and scale a registered fund with private capital exposure?

Lananh Nguyen: Reese, firms should have systems for liquidity management, valuation, reporting, and compliance (this will not be new to you), along with investor servicing and reliable data that connects the private investments with the broader portfolio.

Reese Blair: Got it. And the prediction also discusses ETF as a service platform. Now, why might those matter specifically for some of the smaller firms?

Lananh Nguyen: They can let firms test strategies without building every operating and regulatory capacity in-house. And that might lower the time and costs involved in developing a product.

Reese Blair: And of course, the complexity, right? It gives a firm room to learn before it tries to scale. And then firms can bring in external specialists, i.e. Deloitte, instead of building every capability themselves.

Lananh Nguyen: Yes, third-party valuation specialists can strengthen the pricing processes. And also, better data systems and alternative data can support analysis and reporting. So, blended benchmarks may help investors assess their strategies and combine public and private market exposure.

Reese Blair: Now, Lananh, we know we can't have a conversation without me going to the topic that is on a lot of people's minds today. I'm curious, how can AI fit into that infrastructure?

Lananh Nguyen: We can't do a podcast without mentioning AI, Reese. So, AI can help organize data and support valuation analysis. And it can also monitor liquidity and improve reporting. And it can show advisers how private capital affects the broader portfolio. So, you can think of AI as improving the instrument panel in a car, but not taking the controls.

Reese Blair: That's helpful, I love that analogy. So, you'd have better instruments, but a human still has to have their hand on the wheel.

Lananh Nguyen: Exactly. The dashboard can be more sophisticated, but the responsibility does not move beyond the human.

Reese Blair: Got it. So, technology may reduce some of the operating friction, but it doesn't change the investment underneath it. Private assets may still be less liquid, and of course, harder to value.

Lananh Nguyen: And more complex to explain, so that's a key distinction. Technology can support the process, but it can't replace judgment and oversight. And so, accountability and strong governance still matter here.

Reese Blair: Yeah. And the prediction also identifies partnerships as an important way to scale this market. I think I read that about 17% of funds with meaningful private capital exposure are involved in partnerships. What might firms be trying to accomplish through these relationships?

Lananh Nguyen: So, there are three purposes. Distribution is a starting point. Another is strengthening deal origination, and product structure is another. So, combined, those partnerships can let firms really put together their capabilities without building every part of the business from the ground up.

Reese Blair: So, maybe let's start with distribution. How can a partnership expand their distribution?

Lananh Nguyen: A private capital manager may partner with a wealth technology firm or with a managed account provider. And it could also work with an adviser network or retirement plan record keeper to get access to established channels and also adviser workflows.

Reese Blair: Got it. And on the investment side, partnerships can also support deal sourcing, I would argue.

Lananh Nguyen: Yes. Managers may work with banks and other financial institutions to source investments and to build a larger pipeline. And then the banks may also help to distribute the finished products through their wealth channels.

Reese Blair: And I think the third area is product structure. We've heard this come up several times today, this theme of structures. But what capabilities can firms combine there?

Lananh Nguyen: So, traditional and alternative managers can combine their investment and product expertise in one vehicle. So, firms may work with others or index firms on benchmarking, liquidity features, and fund structures.

Reese Blair: So, partnerships can also help firms move faster and enter new channels.

Lananh Nguyen: And they can close capability gaps too. With more firms involved, it's important though that the responsibility still stays clear.

Reese Blair: All right, it's a lot that we covered there. So, in plain English, Lananh, let's break it down to nobody gets to assume that the other party has it covered. Is that right?

Lananh Nguyen: Exactly. Ambiguity is not a governance model.

Reese Blair: So, now, let's move into the practical "so what" and the "now what." For investment managers that want to participate responsibly, I hear four broad questions. First, which product structure fits? Which private asset belongs in it? Which investor is it designed for? And can the operating model support it? That was a lot, Lananh, but curious to hear where should firms start?

Lananh Nguyen: Start with the fund structure. It might be an interval fund, tender offer fund, mutual fund, or an ETF, or a business development company or real estate investment trust. Each has different operating and liquidity features.

Reese Blair: And clearly, one structure will not work for every private asset.

Lananh Nguyen: No, private equity and private credit differ from real estate, infrastructure, and other real assets.

Reese Blair: What about return and risk?

Lananh Nguyen: Those also differ, so do fees, liquidity, and valuations. So, the asset should fit the fund's objective and its structure.

Reese Blair: And I would argue obviously the investor base. The next decision I would imagine is distribution. A product intended for a high-net-worth client working with an adviser may need a different service model than one intended for perhaps a first-time private capital investor on a digital platform.

Lananh Nguyen: Exactly. Firms should define the intended investor first, then the distribution channel and the level of education or advice that investor will receive. They should also ask whether the investor's goals and the time horizon fit the product, and whether the investor's liquidity needs also fit it.

Reese Blair: And then I think I heard you mention the operating model, right? So, liquidity management and valuation frequency should probably be ready and in place before launch.

Lananh Nguyen: So do investor reporting and compliance, and partner oversight. So, those are all launch requirements, and they are definitely not post-launch fixes.

Reese Blair: Got it. And firms should document—again, word I love, document—how those processes will work as the product grows and market conditions change. Education is another core part of the strategy. So, Lananh, what should advisers and investors understand before an allocation is actually made?

Lananh Nguyen: A product may be available to an investor and still not be appropriate for that investor. So, investors should understand what the product holds and what it's intended to do. And they also need to know how it's valued and what it costs, and when they can redeem. So, investors should understand that private capital can have a longer investment horizon and lower liquidity than traditional public market investments.

Reese Blair: So, even when the structure is functioning as designed, the experience can still go wrong if investor expectations weren't set correctly.

Lananh Nguyen: Exactly. And that's why firms should have clear disclosures and sound liquidity frameworks along with consistent valuation practices, strong adviser, and investor education. An investor should understand the product before any market stress puts that understanding to the test.

Reese Blair: Right, because market stress is a terrible time for a product tutorial!

Lananh Nguyen: Yes, education should come before the pressure, not during it.

Reese Blair: So, the product should be designed for the investor, not simply sold to them. And that I think brings us back to the prediction's central message: Private capital can become a structural retail allocation only when innovation is matched with rigorous governance.

Lananh Nguyen: Yes, launching the product is one step, but building the operational and control environment around it can help support longer-term adoption.

Reese Blair: So, Lananh, before we wrap, let's do a quick recap. We've covered a lot of ground here. So, we've talked about the forecast and where private capital exposure sits today. We also looked at rising investor demand, and we talked about the role of advisers, fund structures, and distribution.

Lananh Nguyen: Yes. And of course, the importance of managing liquidity and understanding valuations, education, and governance.

Reese Blair: And if our listeners remember one thing from today's discussion, what would you say it should be?

Lananh Nguyen: Private capital may become a much more common part of retail portfolios by 2030, but access alone is not the goal. Lasting adoption can start by matching the investment to the right structure, investor education, distribution channel, and operating model.

Reese Blair: And the opportunity is broader access. The test, however, is responsible execution.
Lananh, thank you. Your perspective on private capital and registered funds has been incredibly helpful.

Lananh Nguyen: Listeners can find the prediction on deloitteinsights.com.

Reese Blair: And to all of our listeners, thank you for joining today's discussion on private capital and the changing retail investment landscape.

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