Retail Alts Present Wealth Managers with a Big Opportunity—and Big Operational Challenges

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The democratization of the alternative investment space is one of the top trends in wealth management. According to the fintech research firm Finextra, retail investors hold around $1 trillion of the total $11 trillion AUM in alternatives globally.[1] That number is expected to grow to $1.5 trillion in 2025. In the U.S., Securities and Exchange Commission rules define accredited investors as those earning $200,000 a year or with a net worth of at least $1 million. That market segment grows yearly, creating a vast pool of retail investors eligible to participate in private market funds.

In parallel, the number of public companies in the U.S. reportedly dropped by 50% over the past two decades.[2] Private market opportunities are climbing steadily as the public markets shrink.

As increasingly educated investors look at the outsized returns of private equity, private credit, and real estate funds, it's not surprising demand for "retail alts" is increasing.

As fundraising competition has intensified, fund managers are courting the mass affluent and high-net-worth segment, sometimes lowering their minimum capital commitments. Meanwhile, digital alternative investment marketplaces for fund managers and independent advisors are making it easier for RIAs to access alts on their client's behalf and for fund managers to distribute their products at scale.

Tech Solutions Aid in Managing Retail Alts Complexity

This trend bodes well for wealth managers equipped to educate their clients on the risks and potential benefits of alts and help them diversify into suitable funds. Knowledge and expertise in this area can be a significant competitive differentiator. However, much of the industry buzz around retail alts is tempered by the operational challenges they raise. The alternatives ecosystem is still largely paper-based and lacks standardization. Statements from fund managers flow to advisors in inconsistent formats, often in the form of PDF email attachments or downloads from secure portals. Wealth managers must aggregate and normalize enormous volumes of data to provide clients with accurate, timely and understandable reporting that addresses gains and losses, performance, and fund fees.

As the complexity of managing retail alts increases, advisors are turning to technology and external service providers

for solutions. For instance, there are more tools to handle the influx of fund data, aggregate information, and interpret documents. These solutions, powered by AI and optical character recognition (OCR), can read and translate PDFs or printed statements, filter out irrelevant information, digitize the pertinent data and feed it into portfolio accounting systems for processing.

When used strategically, alternative fund investments have the potential to enhance overall returns, act as a hedge against market downturns and meet client diversification goals. By doing so, they can significantly augment a wealth management offering. Wealth managers must understand the operational complexities and the available solutions to incorporate alternatives into their portfolios and maintain client confidence efficiently.

Learn more about the alternatives investment management and reporting process as well as the AI technology to support it here. ■

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1. Alternative Investments for Retail Investors – Current Status, Finextra, January 10, 2024
2. Where Have All the Public Companies Gone?, IE Insights, April 25, 2022