

KEYNOTE INTERVIEW

Innovation fueling the expansion of private wealth



The growth of evergreen vehicles, tailored educational support and the arrival of sector specialists are helping to open up private markets to individual investors, says Vista Equity Partners' Dan Parant

Q What is the current state of the private wealth market?

Over the last several years, we've seen a massive expansion by alternative asset managers into the private wealth market. These managers – which have recognized that the wealth channel has historically been underserved – have been met by an eager response from wealth managers and individual investors who are seeking to move beyond 60/40 portfolios to participate in the long-term growth and outperformance of the private markets.

That said, we are still in the early innings of alternatives exposure in the

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wealth segment. Bain & Company estimates that while individuals control over half of global wealth, only around 5 percent of their wealth is allocated to alternatives. Yet, most wealth management firms recommend 15-25 percent to alternatives in their asset allocation models.

All of this means that the addressable market for alternatives in private wealth is anticipated to grow by \$10 trillion within the next six years, according to estimates from CAIS.

Increased demand from individual investors for enhanced returns, portfolio diversification and reduced volatility from the public markets is fueling this growth. We are also seeing significant expansion of the mass affluent category and wealth transfer to younger generations. A recent Cerulli report suggested there could be upwards of \$84 trillion in wealth transfers by older generations through 2045.

This next generation has grown up with private equity, hedge funds, real estate and venture capital as part of their lexicon and expect access to this part of the market, helping to drive

Q Wealth managers and individual investors have different expectations for ease of use and liquidity. What role do you see evergreen products playing in the expansion of private wealth?

There has been a significant transformation in how individual investors allocate to private markets over the last decade. Ten years ago, drawdown funds for qualified purchasers with \$5 million in investable assets made up most of the wealth segment. Since then, real estate investment trusts and business development companies have driven the adoption of evergreen vehicles, and now the same is happening in private equity.

Going forward, I believe the core way that wealth investors will allocate to private markets is through evergreen solutions with drawdown funds becoming a way to get opportunistic, satellite exposure. There are several reasons for this that benefit both wealth managers and investors.

Evergreen vehicles are immediately funded with no capital calls, providing instant exposure to existing investments while allowing an investor's capital to compound for the long term, enabling potentially enhanced multiples on invested capital.

Investors have the option for quarterly redemptions up to a certain percentage of the overall fund, which provides the potential for liquidity while also balancing the illiquid and long-term nature of the assets. Lastly, since the investment is fully funded and perpetual, it is easier for wealth managers to implement alternatives in an asset allocation framework and utilize consistently in client portfolios versus only being able to allocate at a single moment in time.

While originally designed as a more accessible and efficient structure for the private wealth market, family offices and small and medium-sized institutions are also starting to adopt evergreen vehicles due to operational efficiencies, compounding and the reduction of reinvestment risk.

the adoption of alternatives further.

There has also been a wave of innovation and significant investment by alternative asset managers that have worked diligently to develop new solutions, increase client coverage and provide educational experiences to meet the needs of wealth managers and individual investors, making the private markets easier to access.

Q What does the arrival of sector specialists into private wealth mean for the market, and what opportunities do they offer?

Sector specialists are an important ingredient to robust portfolio construction for the private wealth market. Specialists can provide the wealth channel with complementary exposure to generalist private market strategies and the ability to invest in markets with strong fundamentals and growth profiles.

For example, software is the largest and fastest growing sector in the global economy, with an industry growth rate of around 17 percent and an expected market cap of \$25 trillion by 2027, according to Gartner 2023 research. Yet many people don't know that 96 percent of software companies are private, so the lion's share of the investment opportunity is only accessible via the private markets.

Additionally, the software business model – recurring revenue generated through subscription services and long-term contracts – as well as mission-critical integration of software into business operations, allows for reliability, predictability and resiliency.

Software is unique in that it is inherently diversified across all sectors, with low correlation of revenues to the broader economy and to other software



companies. We believe this creates portfolio diversification and downside protection with the benefit of growth.

Over the years, we have evolved our private equity strategy to capture the ever-growing opportunities in enterprise software – with value creation through operational improvement as our North Star. We are focused on underwriting to factors we can influence and control in the business instead of relying on multiple expansion or financial engineering. We firmly believe that investing in enterprise software is among the best uses of capital in the financial markets, and we are excited for what software can offer to private wealth.

Q The private wealth channel brings a different level of client service requirements. How can firms differentiate themselves in this regard?

Within the private wealth segment, managers must be able to properly support higher volumes of wealth managers and individual investors, each with varying degrees of complexity across different types of advice models and geographies. One of our biggest priorities at Vista is harnessing our specialization in software to deliver thought leadership on trends in technology and a modern digital client experience.

For wealth managers, we aim to create education and client service tools to facilitate scale, speed and personalization. We will bolster this experience with a team who understands how best to support the needs of wealth managers and their clients and have deep knowledge of private markets.

Q Alongside private wealth, another potential area of opportunity in private markets is generative AI, which is having a profound impact on

the world around us. How does Vista view AI?

AI is going to have an enormous impact on every aspect of our lives – and in many cases, it already has.

As with any big technological shift, activity occurs in waves, with various beneficiaries throughout the cycle. We saw this most recently with the arrival of mobile internet. Semiconductor providers saw an initial flurry of activity and a short-term advantage. Once computing reached sufficient scale, there was significant value created for smartphone manufacturers and the infrastructure supporting the ecosystem.

Ultimately, all of this infrastructure came together to the benefit of software providers.

We anticipate that generative AI will follow a similar roadmap. A lot of the value from the first wave of AI adoption and innovation is currently being captured by the hardware vendors, and you're seeing that expressed in the marketplace today. The second wave will go to the superscalars who can offer their customers connectivity to compute.

The third wave will benefit enterprise software vendors. Proprietary data is the foundation of enterprise software and AI systems can be built directly on top of existing enterprise software – unlocking increased efficiencies, improving customer experiences and expanding potential market share dramatically.

At Vista, we partner with founders and management teams to establish core operational change, scale a business for longevity and determine the path to profitable growth. We're excited about the AI opportunity with 70 percent of our portfolio companies currently having a generative AI-enabled product or feature. ■

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Dan Parant is a managing director and the global head of private wealth at Vista Equity Partners

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