



Guest Snapshot: What Lies Ahead for Private Markets with CAIA

February 2025

Blue Dot partners with investment management firms, with a primary focus on private markets, to support the development and execution of sustainable investing capabilities and products. Since April 2020, we have advised investor clients with \$2.5 trillion+ in collective AUM.



New York, NY



www.bluedotcapital.co



hello@bluedotcapital.co

Blue Dot's Guest Snapshot Series

In our Guest Snapshot series, the Blue Dot Capital team, in collaboration with guest experts, unpacks topics such as regulations, geopolitics, and energy policy, and their ramifications for how investment managers design and execute their investment strategies and programs.

Snapshot: What Lies Ahead for Private Markets with CAIA

For this Snapshot, we are joined by John L. Bowman, CFA, CEO of CAIA. John is one of the most astute observers and thinkers of private markets asset management and it is a pleasure to unpack the industry's dominant trends with him.

Q&A

Q: Let's start with the growth of the private wealth channel and the formidable resources managers are deploying in building out their distribution and product capabilities. What are your thoughts on that, and despite the well-understood 'why private markets', what's giving you pause?

A: We've been watching and spending a lot of time on this, as you know.

If you do a quick math exercise, global investable assets roughly stand at \$150 trillion, and about slightly more than half of that, or \$75 trillion, is managed or owned by wealth management, by individual investors. Depending on the study you look at, anywhere between 1% and 5% of that \$75 trillion is allocated to alternative assets. If you take the midpoint of 3%, you're talking about \$2 trillion currently that is allocated to alternatives from the wealth management space. On the institutional side, it's 30-50%.

When you think about even a small modest shift — let's not get aggressive or overly dramatic — even if it goes from 3% to 8% or 10% over the next ten years, you're talking about a multi trillion dollars tsunami capital shift that's moving in that direction. You can imagine the voracious, salivating opportunity for the GPs to take advantage of the two-legged investor, that next frontier of client and opportunity.

We had Shane Clifford of The Carlyle Group and Doug Krupa, CFA of KKR on this subject in a recent episode of our *Capital Decanted* podcast just a few weeks ago. In the podcast, we spent a bit of time on this because asset managers are coming at this from two directions, and they're colliding in the middle. Traditional asset managers like Blackrock, T. Rowe Price, Franklin Templeton, or Vanguard have the distribution, intimacy around understanding the individual investor, and expertise in building products and managing relationships. On the other side, you have Blackstone, KKR, Apollo, Carlyle who have the product, the expertise, and the intellectual horsepower on private capital. They are moving into overdrive trying to rapidly build out operations, distribution, client servicing, and sales. Culturally, there is a fundamental shift in the way they think about the value chain, the sales chain, the distribution chain, and product development. Manufacturing is the easiest part of this.

Blackstone is probably the farthest ahead. **This is a process of building a parallel full, vertical value chain that has executive-level presence and empowerment to hire dedicated resources, develop products, build out back-office operations, and ultimately, build relationships on the distribution side. However, this is not for the faint of heart – it is very expensive and requires a huge cultural shift. Only the largest, best-funded, and most aggressive managers are going to execute this well.**

While this shift is a net positive for the individual investor – gaining access to diversified risk premia being a good thing – the issues are: how do you get there? Are investors properly educated? Is the right product being offered that provides access to that risk premia? Whenever in history you've got a voracious investor appetite coupled with a desire by the product manufacturers to build quickly and sell, it is usually not a good combination.

Some rationalization needs to occur. While these private capital firms are well-intentioned and making efforts to educate their investors, they are typically used to dealing with very sophisticated institutional buyers. Whether due to regulatory or moral responsibilities, they're suddenly having to adapt.

We think CAIA is well positioned to be a part of the investor education ecosystem. However, I do worry about product development getting ahead of investor education, particularly in certain product designs.

Take ETFs that include illiquid assets, for example – there is a real risk of liquidity mismatch. Semi-liquid structures are complicated enough, requiring alignment of the underlying assets to several gates and restrictions. When you introduce a trading vehicle that is available for trading at all moments of the trading day, is that really sending the right message about what these underlying assets are and how they should be properly used in a portfolio?

I think there could be some regulatory support, which failed last year. Throwing the baby out with the bathwater was a mistake. Again, a hyperdrive on education within these firms – using both their own internal capabilities and third-party professional bodies like CAIA – is critical to ensure that there is governance on the pace and the speed in which these discussions and purchases are happening.

Ensuring that co-investors share the same values, understand the time horizon, and align on the appropriateness and payoff structure of these assets is essential. If you move into these semi-liquid or fully-liquid funds, they're only as good as the co-investors next to you. Even with the right mindset and proper education, things can go south if a bank-run-like scenario occurs. I'm not convinced we're there yet. We've still got a lot of work to do as an industry and as educational professional bodies to ensure that we care for this properly.

Q: GP consolidation continues.

- **What does the landscape look like in five years' time? Do you see a smaller universe with the marquee, multi strategy platforms and boutique players, but limited mid-sized managers?**
- **How will the consolidation impact allocators and allocator economics?**

A: It's another topic we've been writing a lot about. I've been calling it the Great Convergence of public and private — this idea that the lines between traditional and alternative, public and private, are all blurring.

You have these bulge bracket big asset managers, either coming from the private or the public side, who are building out full-service candy stores with every flavor, size, and offering imaginable. And then there are some impressive idiosyncratic specialists and single strategy managers.

What I worry about is that murky middle — the middle level that has managers with a couple of strategies where it's going to be hard to compete. They can't compete on fees, as the bulge brackets will drive those down significantly. These managers will need to be exceptional at being able to express differentiated and sustainable alpha through a market cycle, while offering a unique story and narrative around how it fits into a long-term portfolio and what mutually exclusive purpose it serves in terms of behavior, risk, and reward premia.

There's been a general rationalization, because we had a lot of GPs investing in startups with the VC froth that occurred over 2018-2021. There's still some work out to do from that process. A structural mix rationalization is going to play out in the middle market. Some managers will get gobbled up through M&A, GP stakes, or permanent capital type of structures, while others will struggle to make the economics work.

Despite Economics 101 suggesting everything I just said equals more power to the GP, there is still downward pressure on the infamous 2 and 20 structure. Very few people are paying that exactly, and the more sophisticated large asset owners have pushed back significantly. These asset owners are also utilizing more modern tool sets.

We did another podcast that's about the evolving asset owner. In the past, the primary tool in asset owners' tool set was the endowment model, which focused on external selection of high-class, best-in-breed GPs. You could push GPs on fees, but ultimately you were stuck if you wanted access to that particular set of opportunities. Today, however, the new tool set includes a range of new forms of portfolio construction capabilities, such as co-investing, direct investing, continuation funds, GP stakes, and new LP consortiums that are offering other avenues to get access to that same form of alpha, but perhaps in a more efficient, cheaper, and more controlled environment.

Those mechanics or dynamics are going to offset some of this power shift that's moving to the asset manager. I'm not overly worried about fees. They will continue to trend down as this industry matures.

Q: You and I have spoken about the growth of private markets in Asia and LATAM previously. What are some of the interesting regional developments within private markets that have caught your attention, and which specific markets are you bullish on?

A: We're seeing green shoots in private capital in several regions across the world. When you think about the combination of vibrant, young, and demographic-driven regions like LATAM, Africa, the Middle East, and India, it's really exciting. While there has still been a relative decline in stats like fundraising and AUM, these regions have been exceptions to this slowing fundraising and investment velocity we talked about earlier. Compared to the developed world, which is struggling to get that kind of pipeline moving again, these regions are bright spots, albeit small.

The Middle East and Asia are the areas where we're most bullish and allocating resources aggressively.

The Middle East built very early a durable competitive advantage in private markets capability and investment expertise with their sovereign wealth fund structure. Also, their desire to diversify their economies away from sole dependence on energy created a real ecosystem and channel for strong investment expertise. Now that many of these Middle Eastern economies are stepping onto the world stage with a young, smart, high-income demographic talent pool, I think it's a strong formula for future growth. There are centers of excellence related to crypto and private capital that are popping up there. The regulatory regimes are incentivizing new GPs and capital to come into the region. We're really excited there.

The Middle East is evolving from being a destination for capital flow to building a capable, attractive, well-rounded local investment industry. And that's when you really start to see a rise in talent and valuations, and opportunities really explode. I think we're at that inflection point in the Middle East.

We're also investing aggressively in Asia. I mean, there's no doubt that GDP, AUM, and financial center economic activity are all still shifting east versus west. Despite this strong boom in US economic activity the last few years and perhaps, going forward, Asia is very bright and continues to steal share on all those metrics.

As any developing region follows, the playbook in private capital is typically that you start out with distressed nonperforming loans and mezzanine type of opportunities. However, that's starting to shift. We're seeing more mature equity and debt strategies emerge across the capital stack. VC is growing in emerging economies, whether it's related to new energy, infrastructure, or modern forms of technology and transportation. It's exciting to see some of the early-stage VC opportunities surfacing in China.

We're also seeing a direct lending private credit boom across the region. Again, this has been largely a distressed play. While Asia still controls most direct lending in the bank sector, kind of reverse of where the US is, that's changing quickly as a lot of the Western direct credit and private credit GPs move in. It's mostly Western capabilities that are driving this direct lending boom. But I'm hopeful that it will start to incentivize and perhaps enable new local entrants to leverage this coming need for capital, because innovation is just exploding. We are quite bullish about that and are going to invest heavily in both areas.

Q: What advice are you giving young professionals starting out in our industry? As the public-private convergence continues to take shape, how will the skillset requirements of the industry evolve?

A: CAIA has a couple of slogans we like to use that touch on what you just said — “Everything is now an alternative” and “Next is here.” We say “Next is here” because we are facing this huge inflection point in the trajectory and the identity of the industry. We’ve been very public in saying that this 70-year era of modern portfolio theory and all its offspring and apparatus that we all grew up with learning — hyper benchmarking, asset class taxonomy, efficient frontiers, and strategic asset allocation — is facing a reckoning. It doesn’t mean it’s going away tomorrow. But the reality is that the blending and the blurring of those historical lines between traditional and alternative, public and private, institutional and wealth, is accelerating.

The paradigm shift that we’re seeing as you think about being a new entrant to the business is away from narrow single lane firms and products, and therefore asset owners, asset managers, intermediaries, and even professional bodies that have rested in nostalgia and history in one of those lanes have to rewire our organizational ethos and business model — or you face existential crisis, that murky middle we talked about. I think single lane focus on the way things have always been is also a death knell too.

When I think about professional development for young folks, you’ve got to equip yourself to operate up and down and across the value chain of asset classes, product structures, and client types. The days of being overly specialist in our vertical aspirations in the industry are behind us, and it’s a disservice now to give young professionals that type of advice. While you might end up on an isolated path to be an analyst or a portfolio manager in growth equity, private credit, or small cap equity, you really have to understand how to navigate the entire ecosystem because it’s no longer fragmented. You can’t sit in isolation and do your own thing, because clients don’t think that way anymore. They’re not talking to you about what is just your private credit capability and does it replace my other private credit capability in arbitrary buckets any longer. They’re constructing portfolios much more holistically and thinking across the spectrum about all those old lines that existed.

We’ve been very focused on just this existential evolution in business, and we’re working very hard with our board to make sure we position ourselves for that future. For a quarter of a century, CAIA has existed to kind of push the industry forward, to build awareness and transparency for the formative strategies that are coming, the modern capital allocation techniques, and the evolving trends. In some sense, we’ve always had this ethos of what’s next, hence the “Next is here” slogan. There’s no doubt we need to continue to help and equip investors to see around the corner, not just what’s in front of them, and certainly not what’s behind them any longer. The velocity of innovation and change is moving faster than it ever has, and young people need to make sure that they’ve got a more generalist understanding before they start specializing.

Our Guest:

John L. Bowman, CFA, Chief Executive Officer, CAIA Association

John was appointed CEO for the CAIA Association in January 2025. He has devoted over 25 years to the asset management industry to recover the narrative of the value that the investment profession brings to society. He is a staunch public advocate for market integrity, long-termism, investor outcomes, diversity, human dignity, and educational standards, as necessary ingredients to building a sustainable and healthy profession.

About CAIA:

Since 2002, CAIA Association has sought to serve investors by educating industry stakeholders on the most current knowledge and best practices across the ever-changing landscape of alternative investments. Through credentialing of investment professionals, advocating with regulators and senior leaders, and developing world class thought leadership, CAIA aims to raise the standards of the industry. As a member organization, the CAIA Association is joined by CAIA Charterholders in more than 100 countries on mission to collectively foster a true profession that serves the public good.

The CAIA Association is a global organization with management offices strategically located in Geneva, Hong Kong, and Massachusetts.

Our Previous Guest Snapshots:

Carbon Tax and Global Trade with Ropes & Gray, January 2025

Private Equity Deals with Ted Seides, October 2024

Inclusive Growth from Goldman Sachs' Vantage Point, September 2024

**Digital Infrastructure and Energy Innovation with
Phoenix Tower International, August 2024**

**Sustainable Investing in Private Markets from Partners Capital's
Vantage Point, May 2024**

**Evolving Private Markets Regulatory Context with Troy Paredes,
Former SEC Commissioner, April 2024**

NAV Financing with 17Capital, March 2024

SEC's Private Fund Adviser Rules with Ropes & Gray, January 2024

