

Democratizing the capital market

The fifth topic in this series highlights the potential opportunities offered to retail investors by the opening up of private markets, in infrastructure, among other things.

The world needs huge amounts of infrastructure investment to propel the energy transition and battle climate change and to upgrade digital infrastructure. Private as well as public investment will be needed. And retail investors can now become involved as the capital market democratizes and opens up fresh opportunities to them.

Infrastructure is a booming asset class. Its inherent value has been highlighted by the prolonged period of high inflation and the recent volatility in equity and bond markets. Infrastructure is essential to the economy and our daily lives and can offer returns that are less dependent on economic cycles than other asset classes. In addition, the significantly longer investment horizon could be providing stability in a volatile market environment. Long-term structural trends and a high level of pent-up demand should continue to support infrastructure investment in the years and decades ahead. The world is changing, and the need for infrastructure investment is being driven by the energy transition, and not only that. The European Union estimates that EUR 1.5 trillion per year will be needed to meet its net-zero emissions target by 2050.¹ Major upgrades to digital infrastructure are also required; fiber broadband, mobile masts and data centers must be set up.

Retail investors can become involved. The European Union has developed European Long-Term Investment Funds (ELTIFs) to ensure that infrastructure projects (as well as other comparable investment opportunities in what has been a largely private capital market) receive a greater inflow of investor funds. ELTIFs were first authorized in 2015 and were generally considered a failure, with the very restrictive nature of the original regulation a problem. However, in 2023, ELTIF 2.0 introduced some very important, investor-friendly changes that have led to a surge in issuance and marketing.

Retail investors should, however, be aware of the long-term nature of these investments, which typically run for at least 10 years. Furthermore, despite the use of terminology such as "semi-liquid," we believe that these products should generally be classified as illiquid, especially compared to public-market

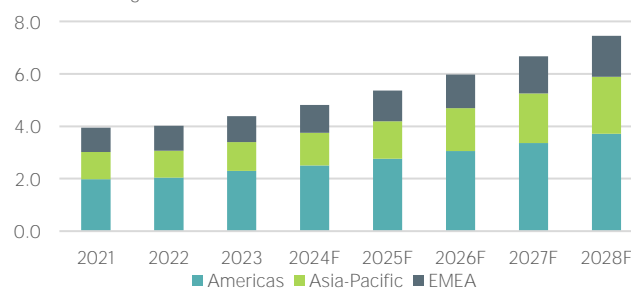
products. On the other hand, they offer portfolio construction advantages previously reserved to institutional investors.

Democratization of the capital market is likely to continue dynamically. "From a product-structuring perspective, ELTIFs are just scratching the surface," says Annie Del-Giudice, Senior Principal for Alternatives Strategy at DWS. "They are developing rapidly but local products also remain in high demand." An increase in the number of Long-Term Asset Funds (LTAFs) from the UK, the Spanish version of Real Estate Investment Trusts (Sociedades Anónimas Cotizadas de Inversión Inmobiliaria, SOCIMIs) and newer innovations such as private-credit ETFs reflect efforts to open up the private capital market to a wider range of investors. In the U.S., there are also a number of products that are designed to do just that. The U.S. Securities and Exchange Commission (SEC) recognized years ago that "given the decline in the number of public companies, achieving true diversification without an allocation to private markets is difficult."²

These markets are not only growing but also developing, particularly in their investor structure. The assets that retail investors and high-net-worth individuals invest in the private capital market are expected to grow to just under €7.5 trillion by 2028, an increase of more than €3 trillion.³ This is a welcome development that should help the net-zero and digital transformation of the economy – and, for investors, provide scope for asset diversification.

Retail investors support growth of private markets

Retail and high-net-worth alternatives assets in trillion euros



Sources: McKinsey, DWS Investment GmbH as of 10/10/24.

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Footnotes

¹ EU needs trillions of investment for 2050 climate target, Reuters as of 1/29/24

² Expanding Retail Access to Private Markets, SEC as of November 2019

³ Global Growth Cube, McKinsey as of September 2024

Glossary

An **exchange-traded fund (ETF)** is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

A **Real Estate Investment Trust (REIT)** is a company that owns and, in most cases, operates income-producing real estate. REITs sell like a stock on the major exchanges and invest in real estate directly, either through properties or mortgages.

The U.S. **Securities and Exchange Commission (SEC)** is an independent federal government regulatory agency responsible for protecting investors, maintaining fair and orderly functioning of the securities markets.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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