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Democratizing Private Equity for the Smallest Investor: An Empirical Study -

Individual title:

Bringing Private Equity to Retail Investors: Distribution Channels, Product Structures, and
Investor Preparedness

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Abstract

This thesis investigates the feasibility of democratizing private equity for retail investors in the EU. It examines investor and general partner preparedness, ELTIF 2.0 regulations, and technological advancements as key factors affecting accessibility for smaller retail investors. While access has improved, significant challenges remain, particularly in financial literacy, operational infrastructure, and regulatory complexity. The conclusion is that private equity is not yet feasible for the smallest retail investors. However, through continued reforms in education, technology, and regulation, private equity is expected to become more accessible to a broader range of individuals in the future.

Keywords: Alternative Investments, Private Equity, Democratization, Retail Investors, ELTIF 2.0, Blockchain, Tokenization, Fintech, Financial Literacy

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1. Introduction

‘The democratization of private equity is not a matter of if, but when’ (Mendoza 2022). This statement by Verdun Perry, Global Head of Blackstone Strategic Partners, captures the momentum behind the inclusion of retail investors in Private Equity (PE). Historically, PE was the domain of institutional investors, but the landscape is rapidly evolving. Global PE fundraising dropped to \$649 billion in 2023, the lowest level since 2017 (Dahlqvist et al. 2024), as institutional investors reduced commitments due to overexposure in private markets. Consequently, PE firms are turning to retail investors as a critical source of long-term capital (Schopfer 2022). This shift is not merely optional; it has become a strategic necessity for many General Partners (GPs).

Simultaneously, this shift towards retail investors aligns with broader economic challenges in the EU. The region faces a pressing need to better mobilize household savings and address persistent issues within its pension systems. As Draghi highlighted, Europeans held €1.39 trillion in savings in 2022, much of which remains in low-yield bank accounts, limiting opportunities for wealth growth. Despite these substantial savings, EU households are significantly less wealthy than their US counterparts: net household wealth in the eurozone grew by only 55% between 2009 and 2023, compared to 151% in the US (2024). This discrepancy underscores the inefficiencies in Europe’s approach to savings and investment. These inefficiencies are particularly critical in the context of pension systems, which are under increasing strain to provide adequate retirement income while maintaining sustainable public finances (European Insurance and Occupational Pensions Authority 2024). As a result, private pension provision plays an increasingly vital role in filling the gap. Expanding access to higher-yielding asset classes, such as private equity, for smaller retail investors could be a crucial step towards addressing Europe’s pension challenges.

This raises the question if PE is feasible for retail investors in the EU? The primary research objective of this thesis is to explore this question. Initially, three core sub-questions were formulated to help answer the primary research objective:

1. Are retail investors and PE funds prepared for democratization?

This sub-question evaluates the financial literacy of retail investors and the adaptability of GPs to engage with new market participants.

2. Is the current regulatory landscape in the EU supportive of the democratization of PE?

This sub-question analyzes whether regulatory frameworks like European Long-Term Investment Fund 2.0 (ELTIF 2.0) effectively support retail participation in PE.

3. What role does technology play in facilitating access to PE?

This sub-question explores how fintech platforms and technologies like blockchain are addressing the various challenges of democratization, such as lowering entry barriers and improving liquidity.

As the research progressed, interviews revealed two additional key dimensions: Product and Distribution, which are critical to understanding the feasibility of PE for retail investors. These dimensions address how PE products can be structured to meet retail investor needs and the methods of distributing these products to new market segments. These emerging themes were integrated into the research framework to holistically address the primary research question of whether PE is feasible for retail investors.

To answer the research questions, semi-structured interviews were conducted with regulators, GPs, institutional investors, tech platforms, and distributors. The data collected were systematically coded and thematically analyzed to identify key patterns and insights. This qualitative approach helped to uncover the complex dynamics involved in democratizing PE.

The thesis is structured to address these topics comprehensively. The Literature Overview first presents key facts and figures on PE market growth and increasing involvement of the retail

investors. Furthermore, it examines the motivations of retail investors and GPs, as well as outlining the regulatory, technological, product, and distribution dimensions critical to democratizing PE. Based on this review, key hypotheses are formulated. The Methodology chapter outlines the qualitative approach used to gather and analyze insights, while the Analysis chapter explores each dimension, examining its impact on the feasibility of PE for retail investors based on expert interviews. Building on these findings, the Recommendations provide practical ideas for addressing the challenges identified, while the Critical Reflection places the results in a broader academic context and suggests directions for future research and practical application.

2. Literature Overview

2.1. Democratization of Private Equity: Facts & Figures

Private markets in general have seen significant growth over the past decades. In 2023 alone, global assets under management (AUM) reached \$13.1 trillion, with approximately \$8.2 trillion attributed to PE. This sector has experienced a growth rate of around 14% p.a. since 2013, driven mainly by demand from institutional investors (Dahlqvist et al. 2024). Non-institutional investors¹, despite controlling approximately 50% of the total global assets under management (AUM), estimated at \$275 to \$295 trillion, have historically had a relatively modest involvement in private markets (Skolnik, et al. 2023). Traditionally, they have allocated only 6% of their portfolios to private markets (Dahlqvist et al. 2024), compared to institutional investors, who allocated an average of 24% as of a 2022 survey that covered one-fourth of the overall private assets market (Conway 2023).

¹ For simplicity, the researchers refer to non-institutional investors as retail investors here, with a more detailed definition provided in Chapter 2.3.2.

Looking ahead, private markets are expected to continue their significant growth, potentially reaching \$24.5 trillion in AUM by the end of 2028 (Preqin 2023). This growth, however, is no longer anticipated to rely solely on institutional capital. In recent years, there has been a growing push for democratizing private markets and increasing access for non-institutional investors, signaling the potential for a shift in allocation trends.

This trend toward greater participation by non-institutional investors is already becoming evident. Research by Invest Europe revealed that in 2023, 8% of private equity funds raised were attributable to private individuals (Krantz et al. 2024). If this momentum continues, the democratization of private markets could significantly reshape the industry's future landscape. Within the group of private individuals, there are notable differences in allocation to private markets based on wealth categories. According to BCG, in 2020, the Ultra-high-net-worth individuals (UHNWIs) segment (financial wealth >\$20 million) made up 46% of individual commitments to PE funds, the Lower-high-net-worth individuals (LHNWIs) segment (financial wealth between \$1million - \$20 million) accounted for 42%, and the affluent & retail segment (financial wealth \$0 - \$1 million) comprised 11%.

Forecasts to 2025 indicate that the affluent & retail segment is expected to be the fastest-growing individual one, with a projected Compound Annual Growth Rate (CAGR) of 20.5%, followed by the UHNWI segment at 19.5% and the LHNWI segment at 17.6% (Zakrzewski et al. 2022). This growing engagement from individual investors suggests that the private market's future growth will be increasingly supported by a broader base of participants. Analysis by Bain & Company even assumes that by 2032, investments of individual investors into alternative investments² will make up approximately 24.5% of all AUM (Skolnik, et al. 2023). These trends indicate a changing landscape in the private markets, with non-institutional investors set to play a greater role in future growth.

² Please note that Bain's analysis of alternative investments includes hedge funds, in addition to private equity, infrastructure, private debt, and real estate, which are consistent with private markets. Hedge funds are not part of this thesis scope.

2.2. Motivations Driving the Democratization of Private Equity

2.2.1. Perspective of Private Equity Funds

Amid the lowest fundraising levels since 2017, with global private equity fundraising declining by 15% to \$649 billion in 2023 (Dahlqvist et al. 2024), many fund managers are struggling to raise capital. Higher interest rates and tighter monetary policies have made securing funds from traditional sources, such as institutional investors, increasingly challenging. As a result, individual investors are playing a more critical role as a source of capital for private markets (Schultz 2021). One of the biggest challenges in this difficult fundraising environment is the denominator effect. Many institutional investors are currently overexposed to private markets. With declining public market valuations and fewer exits, the net asset value (NAV) of private market investments has increased relative to public market investments, forcing institutional investors to limit new commitments. Analysis by McKinsey and StepStone Group indicates that an overallocation relative to target allocations by just one percentage point can reduce planned commitments by 10-12% p.a. for five years or more (Dahlqvist et al. 2024).

In response to these challenges, many large GPs are increasingly turning to non-institutional capital to maintain their growth trajectories amid the slowdown in fundraising from institutional investors (Dahlqvist et al. 2024). According to a survey by Ernst & Young, 42% of fund managers are looking to increase the amount of capital sourced from wealth management or retail channels (2021). As of 2020, only 5% of fund managers offered products to retail investors. An additional 12% had begun offering such products and planned to expand these offerings. Furthermore, 20% of GPs had not yet offered these products but intended to do so in the future, indicating significant interest in tapping into retail capital (Murgatroyd et al. 2020). Especially publicly traded PE firms have a strong interest in accessing large pools of capital. This interest is driven by the relationship between increasing their AUM and the growth in management fees, which directly impact their revenue and, consequently, their market

valuation. Revenue growth, in turn, can positively influence their stock price. To meet ambitious targets, often aim to increase AUM by 10% or more annually, these listed PE funds must continually raise substantial amounts of new capital. While these firms were previously able to achieve double-digit growth, they are now seeking to maintain this growth even as the industry matures, by targeting new investor segments such as retail investors. This necessity drives their interest in tapping into new capital sources (Skolnik et al. 2023).

Additionally, retail investors are particularly attractive to PE firms because they often represent a source of permanent capital, which is less likely to be quickly withdrawn (Kelly 2024). Moreover, broadening the investor base to include retail investors allows PE firms to diversify their sources of capital, reducing their dependency on single large institutional investors (Schopfer 2022).

2.2.2. Perspective of Retail Investors

From a retail investor's perspective, access to PE has historically been limited, as the asset class was predominantly reserved for institutional investors (Dahlqvist et al. 2024). However, a growing appetite among private investors for PE, driven by various factors outlined below, has led to a notable shift in access (Andrews, Bhat, and Eckrich 2023; Predin 2024).

One major reason retail investors are attracted to PE is its superior return potential (Andrews, Bhat, and Eckrich 2023). European buyouts have demonstrated significant outperformance, with a net Internal Rate of Return (IRR) of 14.97% since inception compared to the MSCI Europe benchmark of 6.07%, nearly doubling returns (Drosin 2024). This trend is consistent with findings from academic studies, such as those by Harris, Jenkinson, and Kaplan (2014), who observed that buyout funds outperformed public markets, particularly the S&P 500, across multiple decades. Their research demonstrates that, after accounting for fees and carried interest, every dollar invested in the average fund yielded at least 20% more than a dollar

invested in the S&P 500, equating to an annual outperformance of roughly 3%. PE also offers significant diversification benefits, which is another key reason for its growing appeal among retail investors (Andrews, Bhat, and Eckrich 2023). By integrating PE with traditional assets, investors can enhance their portfolios' risk-return profiles and reduce asset class concentration (Milner and Vos 2003). In addition to diversifying into other asset classes, private investors are increasingly attracted to PE due to the shrinking number of listed companies. Between 2010 and 2020, the number of listed companies in the US and Europe declined by 2.2% annually, reaching 11,391 in 2020 - 30% below the peak of almost 16,500 in 2011. During the same period, the number of companies financed by PE grew by 5.7% annually (Buenneke and Wilson 2021). For instance, fewer than 15% of US companies with revenues over \$100 million are publicly listed. As more and more companies choose to stay private longer, investors who focus exclusively on the public markets are missing out on a growing part of the global economy (Lamont 2023).

Beyond financial considerations, retail investors are also increasingly motivated by their personal values and desire to support companies that align with their vision. Investing in PE allows them to contribute directly to the real economy and sustainable development, making their investments more meaningful and impactful (Aïdan and Bozier 2024).

Overall, the rising interest of retail investors in PE reflects the changing dynamics and alignment with a broader range of financial and personal goals.

2.3. Key Factors in Democratizing Private Equity: Hypothesis Formulation

2.3.1. Inherent Characteristics of Private Equity Investments

PE investments are distinguished by several inherent characteristics that set them apart from other forms of investment. A key characteristic of private equity is its conventional closed-end structure, in which funds are established as ten-to-twelve-year partnerships, with investors

acting as Limited Partners (LPs) and fund managers as GPs. A critical aspect of this structure is the illiquidity of investments, because LPs cannot redeem their stakes directly during the fund's lifetime. Instead, they must utilize the secondary market if they wish to exit early, often selling at a significant discount to the NAV (Bollen and Sensoy 2022). For instance, in a study by Nadauld et al. (2019), the average discount on the secondary market was about 13.8% during the period from 2006 to 2014, although this figure varied depending on the age of the fund and prevailing market conditions. This illiquidity is further compounded by the uncertainty LPs experience concerning the timing and size of capital calls and distributions, which are controlled by the GP and depend on the identification of investment opportunities and exits (Bollen and Sensoy 2022). This inherent illiquidity contrasts with more liquid public market investments, where investors can typically liquidate their positions on demand. In general finance theory, this illiquidity commands a premium, as investors expect higher returns to compensate for the lack of liquidity (Baum and Kabanda 2020). Another distinguishing characteristic of PE investments is their market and product complexity. PE markets generally lack transparency, making it difficult for investors to fully understand the nature of their investments, including details about performance, costs, and underlying assets (Olsen et al. 2023). This lack of transparency is compounded by the high fees typically associated with PE funds. For example, management fees are commonly set at 2% of committed capital per year, with additional carried interest arrangements where GPs receive 20% of profits after returning the initial capital plus a hurdle rate to LPs (Bollen and Sensoy 2022). These high fees, along with the complexity of the investments, contribute to the overall risk profile of PE. Another challenge investors face is selecting the right PE fund, given the significant variation in fund performance. A study by JPMorgan found that the difference between top-quartile and bottom-quartile PE managers can be as much as 21 percentage points, with the median internal rate of return for PE globally at 15.1% over the ten-year period ending in Q2 2023 (Rowland 2024). This variation not only

underscores the importance of careful selection in PE investing but also highlights the adverse selection risk, where larger institutions with more resources for due diligence may have an advantage in securing high-performing assets over individual investors (Andrews, Bhat, and Eckrich 2023).

To address some of the traditional drawbacks of PE, several new investment structures have emerged. Investors can choose to invest in listed private capital through direct funds, funds of funds managed by private capital companies, or by acquiring shares in the private capital company itself (Listed Private Capital 2021). However, the latter option provides only indirect exposure to the underlying assets (Schaffer 2024). Evergreen funds provide another alternative, allowing for more flexible capital deployment and offering periodic liquidity options.

In an evergreen vehicle, capital is allocated on day one into a structure with a current NAV, typically 80%-90% invested in existing private equity portfolio companies, with the remainder retained as a liquidity reserve. This structure allows the capital to generate returns from the beginning while maintaining the capacity to manage upcoming liquidity requests. When a position is exited, the capital is automatically recycled into new deals (Wood, Roberts, and Park 2024). After the initial lock-up period, evergreen funds often offer liquidity at shorter intervals, e.g. quarterly; however, these mechanisms may be suspended during market downturns (von Ehrlich 2024). Subsequently, these structures, while more flexible, still carry the inherent risks of PE, such as limited liquidity during downturns.

In addition to these innovative structures, feeder funds have emerged as a response to the challenge of large minimum capital commitments typically associated with PE. Feeder funds aggregate smaller investments from individual investors, pooling them into a larger vehicle. This enables access to PE opportunities that would otherwise be out of reach for smaller investors due to substantial capital requirements (Dempsey et al. 2019).

In summary, PE investing is marked by distinct features including illiquidity, complexity, and significant variability in fund performance. While recent innovations such as evergreen funds, listed PE funds, and feeder funds have made progress in addressing some of these challenges, they also introduce new considerations.

This leads to the following hypothesis:

***Hypothesis 1:** The inherent illiquidity and complexity of PE investments, despite recent innovations, significantly limits access to the democratization of PE for retail investors in the EU.*

2.3.2. Regulatory Landscape

A consistent theme across various literature is the role of the regulatory landscape in the democratization of PE. Two key areas stand out in this context: the definition of retail investors, which determines who can participate in PE, and the regulatory framework, particularly ELTIF, that governs retail access to long-term investment opportunities.

As described in Chapter 2.1, investors in private markets include both institutional- and non-institutional investors. Non-institutional investors can be further categorized into subgroups, and regulators classify them to ensure adequate investor protection (Skinner 2023). PE funds in the EU must comply with the Alternative Investment Fund Managers Directive (AIFMD). Article 4(1)(ag) of AIFMD (European Parliament and Council 2011) categorizes professional investors by referring to Annex II of Directive 2014/65/EU (MiFID II) (European Parliament 2014). According to MiFID II, a private individual can be considered a professional investor upon their request (for further classification, please refer to *Appendix I*). Private individuals who do not meet these conditions are automatically classified as retail investors.

However, Recital 7 and Article 4(2) of AIFMD (European Parliament and Council 2011) allow member states to adapt these rules and impose stricter requirements. For instance, Germany introduced “semi-professional investors” under Section 1(19) No. 33 of the KAGB

(Bundesministerium der Justiz und für Verbraucherschutz 2013). This category includes individuals who may not meet the professional criteria but have significant financial capacity and investment experience.

Criticism has been directed at the EU's current definition of professional investors, particularly regarding its applicability to different types of investors. Invest Europe, for example, argues that the rules may consider certain financial professionals, such as junior banking staff, more qualified to invest than experienced industry leaders, such as CEOs with deep sector knowledge (Invest Europe 2024). They argue that this approach does not reflect the expertise of some investors and advocate for a revision of the MiFID investor categorization. For further information, please refer to *Appendix 2* to see how Invest Europe categorizes investors.

For the purposes of this thesis, "retail investors" refers to small, inexperienced investors who have liquidity concerns, a low level of risk tolerance, and typically limited use of and access to financial advisers, in line with the World Economic Forum's definition of the mass market (Andrews, Bhat, and Eckrich 2023).

The ELTIF framework builds on MiFID investor classifications by establishing a regulated framework for retail investors to gain access to long-term, illiquid investment opportunities. While the definition of retail investors determines eligibility, ELTIF addresses participation barriers by establishing guidelines that open private markets to a broader range of investors. Through clear investment criteria, ELTIF plays a crucial role in balancing broader access to long-term investments with the necessary protections to ensure market stability (European Commission 2015).

ELTIF 1.0, established by EU Regulation 2015/760 (European Parliament and Council 2015), aimed to increase retail investor access to long-term investments but imposed strict liquidity and diversification rules, limiting flexibility for both investors and fund managers. ELTIF 2.0, introduced with Regulation (EU) 2023/606 (European Parliament and Council 2023), updates

this framework by expanding investment opportunities, enhancing liquidity provisions (e.g., new redemption rights), and allowing for non-EU investments. A notable improvement in ELTIF 2.0 is the introduction of evergreen fund structures, which provide investors with greater flexibility, as they are no longer required to remain invested for the entire term of the ELTIF. These changes, effective January 10, 2024, make long-term investment opportunities more accessible and adaptable for retail investors (Platt et al. 2024). For a detailed overview, please refer to *Appendix 3*.

Considering the improvements of ELTIF 2.0, the following hypothesis can be made:

***Hypothesis 2:** ELTIF 2.0 represents a significant regulatory improvement that will effectively open up private equity markets to retail investors in the EU by addressing key barriers such as illiquidity and high entry requirements, thereby facilitating greater participation and democratization of the asset class.*

2.3.3. Technology

Making PE accessible to retail investors introduces a variety of challenges, particularly in terms of technological infrastructure. GPs must evolve to incorporate customer-centric capabilities to meet expectations, such as frequent and regular reporting (Beales et al. 2020). Retail investors are familiar with the efficient, technology-driven investment processes typical of public markets. These processes offer smooth onboarding, easy asset selection, integration with bank accounts, and regular access to monitoring and analytics tools. However, the current processes in PE are often complex, requiring frequent communication for capital calls, non-standardized performance reporting, and complex tax filings (Andrews, Bhat, and Eckrich 2023).

One of the key challenges in this process is the current state of operations within PE funds. For example, as Markus Pimpel from Partners Group noted, although ELTIFs have been successfully raised in the market, they have not yet reached a broader retail base. The primary

reason for this limitation is not a lack of interest from investors, but rather the operational challenges inherent in the traditional PE fund setup. Many of these operations are still predominantly manual, which makes it difficult to scale and effectively reach the mass market (Pimpl, quoted in Mendoza 2024a). Operational tasks include functions such as Know Your Customer (KYC) and Anti-Money Laundering (AML), onboarding, tax reporting, and other administrative duties (Andrews, Bhat, and Eckrich 2023). Consequently, the reliance on manual processes hinders the ability of PE funds to meet the needs of a wider investor base.

Despite the demand for more sophisticated technological solutions, many GPs in the PE space are struggling to integrate such technology into their operations. Based on a survey conducted by S&P, 41% of funds remain in the initial phases of implementation, relying mainly on fundamental digital tools like Customer Relationship Management systems and reporting platforms. Only 7% of respondents have fully integrated digital technologies (Skornas and Bautista Suarez 2022). This limited adoption of advanced technologies could pose challenges for the broader democratization of private equity, as it might affect the efficiency with which GPs could manage a larger and more diverse pool of investors.

To address operational challenges in PE, a new wave of FinTech companies and digital wealth platforms is emerging. These platforms aim to streamline the PE value chain by connecting GPs, wealth managers, and individual investors (Zakrzewski et al. 2022). By automating online onboarding procedures and integrating multiple functions into intuitive, user-friendly products, they significantly reduce complexity and save time for both investors and GPs (Capolaghi 2023).

These platforms can be broadly categorized into three models: Business to Business (B2B), Business to Consumer (B2C), and Business to Business to Consumer (B2B2C). B2B platforms focus on supporting intermediaries like wealth managers, equipping them with tools to better distribute PE products. B2C platforms, on the other hand, cater directly to retail investors,

offering lower minimum investment thresholds and a simplified, fully digital experience. B2B2C platforms combine these approaches, enabling intermediaries to distribute PE products while also providing retail investors with direct access (Zakrzewski et al. 2022).

By improving liquidity, transparency, cost-efficiency, and access to data-driven analytics, these platforms play a critical role in enhancing retail investor participation in PE markets (Camela Mendoza 2024b). For further details on existing tech platforms, refer to *Appendix 4*.

In addition to FinTech innovations, technologies like blockchain and tokenization are playing an important role in transforming PE. Blockchain offers a decentralized system where users can share information directly across the network without interference from a third party (Ramos et al. 2016). Information stored on blockchains is secured within a digital ledger³ that allows for the real-time recording of transactions, contractual agreements, and other critical data. This shared ledger system not only facilitates information sharing but also ensures the security of the data through a robust security mechanism (Javaid et al. 2022).

Expanding upon this foundation, tokenization involves transforming ownership rights of an asset into digital tokens that are recorded on the blockchain (Elinson and Kher 2023). These tokens represent fractional ownership of the asset, allowing it to be divided into smaller, tradable units (Baum and Kabanda 2020). In the context of PE, tokenization enables the division of fund stakes into digital fractions, making smaller investments more accessible and easier to trade, thereby opening up PE to a broader range of investors (Dylan 2022).

Another crucial aspect of this technology is smart contracts, which are autonomous programs that automatically implement the agreement's terms when specific conditions are fulfilled. Unlike traditional contracts that require intermediaries to ensure compliance, smart contracts operate autonomously on the blockchain. This automation can streamline processes, making transactions more efficient and reliable (Delmolino et al. 2016).

³ In the context of blockchain, a ledger is a decentralized, digital record of transactions that is maintained across multiple computers (Singh and Vardhan 2019).

In the specific context of PE, the application of blockchain-based tokenization and smart contracts offers numerous benefits across several key areas: access, efficiency, liquidity, and distribution. Firstly, tokenization significantly enhances access to private equity investments. Traditionally, high ticket sizes have made PE largely inaccessible to retail investors. By converting ownership stakes into smaller, tradable digital tokens, tokenization lowers the minimum investment threshold, thereby broadening accessibility to a wider range of investors (Elinson and Kher 2023). Beyond access, tokenization also brings notable efficiency gains. The digital nature of blockchain enables the embedding of all investment terms and constraints directly into tokens via smart contracts (Schultz 2021). This automation reduces the need for manual processes, such as compliance with KYC and AML checks, which are typically labor-intensive and error prone. For GPs, this can translate into significant reductions in administrative costs and operational overheads. Moreover, smart contracts can automate capital calls and distributions, streamlining fund management and minimizing the paperwork traditionally associated with PE investments. Another critical advantage is the improvement in liquidity. As it is currently difficult for investors to exit positions, tokenization could address this issue by allowing tokens representing ownership stakes to be traded on secondary markets (Skolnik, et al. 2023). Lastly, tokenization enhances distribution efficiency by using smart contracts to embed terms and conditions directly into digital tokens. This automation reduces or eliminates the need for intermediaries like brokers, simplifying the process and lowering costs (Ramos et al. 2016). While the benefits of tokenization and blockchain are clear, it is crucial to acknowledge that market participants need to be comfortable with these underlying digital technologies for these innovations to gain widespread acceptance (Baum and Kabanda 2020).

Building on these technological advancements, the following hypothesis can be proposed:

***Hypothesis 3:** Technological advancements, particularly FinTech platforms and blockchain innovations, will significantly enhance retail investor access to PE in the EU by improving liquidity, lowering ticket sizes, and streamlining operations for GPs.*

3. Methodology

3.1. Qualitative Research Design

Considering the exploratory nature of the research question and the challenges associated with obtaining quantitative data on this topic, a qualitative research design was chosen (Hammarberg, Kirkman, and De Lacey 2016). Moreover, the topic of the democratization of PE has not been thoroughly examined in academic literature, with limited scientific research available to date, which further supports the use of a qualitative approach to explore this relatively unexplored area. Qualitative approaches are particularly effective in exploratory research areas where data is challenging to quantify (Kalu and Bwalya 2017). Semi-structured interviews were selected as the main method for data collection due to the novelty and complexity of the issues surrounding PE democratization for retail investors. The flexibility of semi-structured interviews allows researchers to adapt the conversation dynamically, ensuring that the views of the most important stakeholders are thoroughly explored (Horton, Macve, and Struyven 2004). This method provides a comprehensive understanding of the diverse perspectives on the topic (Adams 2015).

The interviews were conducted using tailored guides for the interviewees. While the core themes remained consistent, the questions were adjusted to suit each interviewee's specific expertise. The interview guides comprised three main themes: 1) Preparedness of Retail Investors and Private Equity Funds, 2) Current Regulatory Landscape and Support, and 3) Role of Technology. Each theme included main questions, supplemented with follow-up questions to encourage participants to share their perceptions and experiences freely (Adams 2015). A

detailed overview of the interview guides can be found in *Appendix 5*. Furthermore, this approach allowed for a balance between focused research with the main questions and the flexibility to explore unforeseen topics through follow-up questions (DeJonckheere and Vaughn 2019). The guide, developed in June 2024, was informed by the literature review findings presented earlier. To protect confidentiality, all participants were assured anonymity, with each assigned a reference number due to restrictive company policies regarding sensitive information disclosure.

3.2. Interview Participants and Data Collection

In qualitative research, rigorous data collection is essential for ensuring the study's quality (Gibbs et al. 2007). This study employed purposive sampling, recommended for selecting participants who can provide rich and varied insights into the research topic (Mason 2002). Although purposive samples can be prone to researcher bias (Neetij 2015), specific parties from different perspectives were included to ensure a comprehensive picture. Random sampling was not suitable, as a true random sample requires comprehensive knowledge of the entire population's characteristics, which is rarely feasible (Marshall 1996).

The participant groups targeted for this research included regulators, GPs, institutional LPs, tech platforms, and distributors, identified as key stakeholders capable of providing valuable insights into various aspects of the democratization process. Individual retail investors were deliberately excluded from this study, as obtaining comprehensive insights would have required engaging with a large representative sample size. Instead, distributors were utilized as proxies to capture the perspective of retail investors.

Outreach to potential interviewees began primarily through LinkedIn and introductions facilitated by existing interview partners. The outreach included information about the study's objectives, broad topics, and reasons for selecting each individual. Out of 252 individuals approached, 16.7% responded positively, resulting in a final sample size of 42 participants (as

shown in *Appendix 6*). Detailed profiles of the participants are provided in *Appendix 7*. The final sample size of 42 ensures that saturation is reached and aligns with academic suggestions, which recommend a minimum of 5 to 25 interviews, according to Creswell (2007). Most interviews were conducted in English via Microsoft Teams, with one interview submitted in written form due to scheduling constraints. Some interviews were conducted in German to better accommodate discussions on legal fund structures and specialized terminology.

3.3. Data Analysis

The analysis of the data collected through qualitative interviews in this research project followed a systematic approach grounded in established qualitative research methodologies. Specifically, a deductive-inductive hybrid approach was used, utilizing elements of framework analysis (Ritchie and Spencer 1994) and grounded theory (Corbin and Strauss 1990). This methodological choice allowed for a systematic exploration and validation of hypotheses based on the literature while remaining open to emergent themes that surfaced during the analysis. In the initial stage of the analysis, a deductive framework was applied, based on the research hypotheses, to answer the initial sub-research questions aligned with the literature overview (see Chapter 2). This process led to the identification of initially four primary dimensions: Preparedness of Investors, Preparedness of GPs, Regulatory Landscape, and Technology.

Following this deductive framework, an inductive coding process was implemented, specifically using open and axial coding (Corbin and Strauss 1990). This method allowed for the integration of new insights and the expansion of the initial dimensions based on the qualitative data gathered from the interviews. The initial round of open coding involved assigning conceptual labels to segments of the interview transcripts, ranging from single words to complete sentences. In line with simultaneous coding techniques (Saldana 2024), multiple codes were sometimes applied to a single passage to capture the complexity of the data. This

process resulted in the identification of subcodes, which were iteratively refined and consolidated to ensure consistency across all interview data sources. Each subcode represented a specific aspect of the main research question.

As the analysis progressed, two additional dimensions emerged: Product and Distribution, which had not been part of the original deductive framework. These categories were identified as crucial aspects influencing the democratization of PE. Their inclusion extended the framework and allowed a more comprehensive examination of the research question. *Appendix 8* provides an overview of the final set of codes derived from the interviews. Additionally, the table presents a breakdown of the coding structure, highlighting the main codes and subcodes used to interpret the data, ensuring both theoretical consistency and empirical depth. In total, 776 subcodes were identified.

This combination of deductive and inductive methods ensured both theoretical consistency and empirical openness, ultimately yielding a data-driven yet theoretically grounded analysis of the research question and resulted in the framework shown in *Figure 1*.

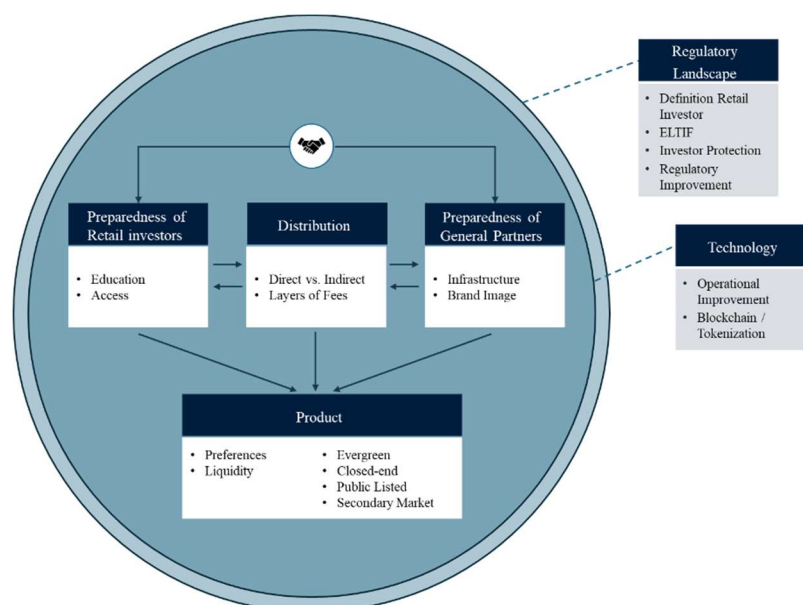


Figure 1: Democratization of Private Equity framework (Source: Work by the authors)

4. Analyses

4.1. Preparedness of Retail Investors

When evaluating the preparedness of investors to enter PE, it becomes clear that their readiness is closely linked to their education and understanding of financial products. This aligns with well-established theories in financial education and behavioral economics, which suggest that individuals are far more likely to invest in asset classes they grasp. Behavioral finance theory states that retail investors tend to be risk-averse and focus on investments that they perceive as safer and less complicated. Studies have shown, for example, that financial knowledge improves general financial behavior, increases contributions to savings plans and enhances knowledge about investments and pensions (Hibbert, Lawrence, and Prakash 2012; Bernheim, Garrett, and Maki 2001). Moreover, those with higher financial literacy are generally more confident in making informed decisions about saving and investing (Chen and Volpe 1998).

Despite the consensus on the importance of education, many retail investors remain uninformed about PE. As Expert #21 noted, "retail is not ready. Why should they be? They've never had access, and no one has explained it to them." (2024). This highlights the significant knowledge gap, particularly in understanding how PE operates, and the long-term commitments and risks involved. The same Expert emphasized the lack of transparency in private markets: "they don't even know what private markets are." (2024). The gap between the theoretical ideal and the current reality underscores the need for targeted educational initiatives in this sector.

Although nearly all Experts agreed on the critical role of financial education, there was no consensus on who should take responsibility for it. Some argued that educating retail investors in PE should be a collective effort shared by regulators, GPs, and intermediaries such as banks and wealth managers. Expert #6 noted, education should be a collaboration between banks and GPs where they take the time to really explain the products (2024). However, many interviews indicated that distributors, such as banks and platforms, are currently taking the lead in investor

education. This points to the critical role these intermediaries play in informing and guiding retail investors. Furthermore, education is also becoming a strategic necessity for companies. As Expert#14 pointed out, “there’s a trend towards educating everyone because companies realize that if they don’t, they’ll lose potential future targets.” (2024). This underscores the growing importance of education not just as a regulatory imperative but as a tool for customer acquisition and long-term business strategy.

Despite these efforts, concerns about the quality and objectivity of educational content were raised. Expert #7 questioned, “are they necessarily incentivized to provide the most fine-grained information, or will it be more of a sales pitch?” (2024). This suggests that education might sometimes be biased, more focused on selling products than empowering investors with the knowledge they need. Such concerns could potentially emphasize the need for regulatory oversight to ensure that the available information are both comprehensive and objective. Nevertheless, in the short term, the responsibility for educating retail investors will likely remain with institutional players like banks, wealth managers, and specialized platforms such as Moonfare. These entities, acting as intermediaries between GPs and retail investors, are already taking steps to bridge the knowledge gap by hosting webinars, conferences, and offering educational content like whitepapers. Expert #11 mentioned, they provide access to various educational resources such as in-house or external research, webinars with their investment team or external experts, and events like fireside chats and panel discussions to educate people about the products (2024). Given their direct access to retail investors, these intermediaries are in the best position to provide educational outreach. However, in order to achieve long-term improvements, structural changes are needed to facilitate access to financial education. Expert #35 suggested: “I would maybe start by introducing financial education in schools as a mandatory subject.” (2024). This approach would ensure that future generations are better equipped to understand complex investments such as PE, creating a more informed and

financially literate population over time. By incorporating PE and similar investment topics into early education, retail investors could develop the necessary foundation long before they consider entering these markets. A significant barrier to educating retail investors is the inherent complexity of PE. Expert #7 observed, “In terms of knowledge and understanding of private markets, I think the industry often creates complexities as a barrier to entry. [...] There's a lot of terminology that means the same thing but can be confusing.” (2024). This complexity discourages many potential investors, even those with some level of financial sophistication.

Given the complexities, the question arises: how much education do retail investors need? Some argue that a basic understanding of risks and opportunities is sufficient. As Expert #35 noted, “the important thing is to understand what the opportunities and risks of such an investment are, what the forecast is, and what the expectations are when you approach such an investment.” (2024). This suggests that retail investors do not need to be experts but should have a fundamental grasp of what they are investing in. On the other hand, others advocate for creating products that simplify the investment process, reducing the need for in-depth education. Expert #15 proposed, “We want to offer a product that even non-educated retail investors can invest in safely.” (2024). This approach shifts the focus from educating the investor to designing investment products that mimic the accessibility and simplicity of public markets, thus democratizing PE without overburdening retail investors with complexity.

In conclusion, retail investors are not yet adequately prepared for the democratization of PE in the EU. Significant gaps in financial education and understanding of PE's risks and complexities continue to hinder their readiness. While efforts to improve access and provide education are in motion, these measures are insufficient to fully equip retail investors with the necessary knowledge and confidence to engage safely in PE investments. Long-term solutions, including more comprehensive educational initiatives and potential simplification of products, are required to address these challenges effectively.

4.2. Distribution

There are two primary approaches to distributing PE fund stakes to investors: the direct route, where the GP manages everything internally, or through intermediaries such as traditional wealth managers or online platforms like Moonfare (Zakrzewski et al. 2022). The interview process revealed that the choice of distribution method significantly affects both costs and effectiveness for investors. For GPs, the decision to distribute directly or via intermediaries depends on a range of factors and presents distinct challenges and opportunities.

When comparing direct versus indirect distribution of PE products to retail investors, scalability and convenience in targeting the right retail segment are crucial. As Expert #6 noted, “you don’t want to lose time spreading everywhere.” (2024). Direct investments, particularly those with small ticket sizes (e.g., €1,000 or €5,000), often come with significant operational burdens, making them less sustainable for many GPs over the long term. The infrastructure needed to manage a large number of retail investors can quickly exceed the capacity of GPs who may find it impractical to build this expertise in-house, especially given the cyclical nature of fundraising (Expert #5 2024). By utilizing indirect channels, GPs can reduce these operational burdens and continue to focus on their core tasks. As Expert #38 noted: “our job is to ensure that these investments are valuable in terms of net Internal Rate of Return and net cash multiples.” (2024). Expert #34 highlighted the practical advantages of indirect distribution, noting that platforms play a key role in handling retail strategies. When GPs need a retail strategy, the preference is often not to focus on it or deal with the associated complexities (2024). While indirect distribution channels offer scalability and reduce operational burdens for GPs, there are also notable downsides. The same Expert pointed out the risk of not fully owning the relationship with retail investors: “fast forward, 24 months, and you realize that the investors you’ve aggregated on Moonfare, you don’t own them.” (Expert #34 2024). This lack of control can pose challenges, particularly when GPs want to engage directly with their investors.

Furthermore, another concern is the risk of following a trend without careful consideration. Expert #34 again mentioned, “some bloke on a yacht says [...] we need a retail strategy because I’ve been reading about this in the FT. And the quickest way to solve for it was unless you stick it on Moonfare. And then if you if you run into someone who’s very interested, you just direct them to Moonfare.” (2024), warning against making hasty decisions driven by hype. This indicates that the decision of a GP to adopt indirect distribution should be made based on a long-term strategy.

One key advantage of indirect distribution through intermediaries is their specialized knowledge in advising clients and their willingness to take responsibility for educating investors. This includes offering guidance on complex investment decisions and risk assessments, ultimately increasing efficiency (Expert #28 2024). However, not all distributors are well-versed in PE. As Expert #33 pointed out, “a lot of wealth managers are not really well educated about private equity.” (2024). This knowledge gap can hinder GPs from effectively distributing their products to retail investors. While distributors help investors understand the inherent characteristics of PE, the lack of expertise among some advisors can lead to missed opportunities or poor outcomes. Expert #40 provided an example that illustrates this issue, explaining that even the Volksbanken⁴, which are deeply embedded in rural and retail areas, failed to successfully sell those PE products, which contributed to the initiative’s failure (2024). Aside from knowledge gaps and operational complexities, another key challenge lies in the cost structure of the distribution process. Fees are often seen as a crucial factor when evaluating PE investments (Robinson and Sensoy 2013). Unlike institutional investors, where LPs invest directly in the fund (Fang, Ivashina, and Lerner 2015), the retail sector typically involves distributors or feeder funds that pool smaller investors to collectively invest in PE, as discussed in Chapter 2.3.1. In discussions about the appeal of these approaches for retail investors, the

⁴ Please note, Volksbank is a German cooperative bank network focused on serving local communities and small businesses.

issue of multiple layers of fees frequently arises as a major argument against the viability of PE for the retail market (Expert #22 2024). While these layered fees may initially seem like a drawback, their actual impact depends on the financial structuring applied by the fund manager. Accordingly, fees must be evaluated within the broader context of PE's long-term investment horizon. It is critical to consider the investment ratio: how much of the investor's capital actually reaches the fund. For example, in institutional Fund of Funds structures, there is typically a 1% management fee and a 10% carry. For retail investors, additional costs, such as intermediary commissions, can add up to 8.5%. While this may seem high, when spread over a long-term investment horizon (e.g., 13 years), it averages out to about 0.65% per year. Though these fees are significant, the fund structure plays a crucial role (Expert #13 2024). As the same Expert highlighted, "we can still commit 100% of investor capital to target funds [...] we call the money upfront" (Expert #13 2024). This allows the fund manager to secure better terms and reduce overall fees for investors by collecting the money, placing it with the bank, and negotiating institutional-level terms, further reducing fees for investors (Expert #13 2024). The same approach can be applied to single fund managers.

This structure helps mitigate some of the fee burden, and despite intermediary fees, retail investors can still benefit from institutional-quality terms. However, fees do impact returns. As the same Expert noted, "If a fund returns 2.5x net, while our investors would get around 2.18x." (2024). Although these additional management, performance, and intermediary fees make PE less attractive for smaller investors, they also provide access to an investment type that might otherwise be inaccessible. Thus, while direct distribution channels eliminate some fees, indirect channels can still offer an attractive investment opportunity if structured appropriately.

The future of PE distribution will likely follow a hybrid model, blending both direct and intermediate channels. This approach will depend on GPs' infrastructure and willingness to manage retail investors. However, the majority are expected to rely on indirect distribution, as

it offers greater scalability. Distributors will continue to play a crucial role in educating investors and managing the operational complexities associated with retail investment. As Expert #20 aptly noted, “I don't think we're going to be able to disintermediate the intermediary channels in the near term. This is very much a relationship business” (2024). GPs must find a balance between maintaining direct client relationships and leveraging the operational cost efficiencies provided by intermediaries. Platforms like Moonfare and iCapital have made PE more accessible to retail investors, yet traditional intermediaries, such as wealth managers, will remain essential for connecting GPs with potential investors. Highlighting this point, Expert #40 observed, “Wealth managers handle holistic capital allocation, while Moonfare focuses only on alternatives” (2024), indicating that wealth managers could remain crucial for convenience, offering clients a single manager for different asset classes. As investor knowledge and confidence increase a more disintermediated approach may become feasible. Expert #26 suggested, “there could be future models where investors have more freedom to decide for themselves where they want to invest, provided they have the necessary information and tools to make informed decisions.” (2024).

4.3. Product

The product is a critical component in the democratization of PE, as it must balance the needs and requirements of two main groups: retail investors and distributors. Incorporating liquidity and an efficient cost structure into a feasible product were key considerations during expert interviews.

Retail investors generally tend to favor products they can easily understand and access, with a strong emphasis on balancing risk and return (Expert #33 2024). Given the financial education levels in the EU as outlined in Chapter 4.1, Expert #28 emphasized, “investment firms could play a relevant role, not only in providing investment advice but also in identifying a product

that meets the investor's need." (2024). This underscores the importance of creating products that are both appealing and accessible, especially for less experienced investors.

Distributors are essential in this process. As Expert #40 noted: "With wealth managers, you need to bring a product that fits their wealth clients. [...] It's really about process over performance. You need to come to them with a fully formed product, including the feeder structure. The market is large, and they want the finished product." (2024). This underscores the importance of developing well-structured PE products that meet intermediary expectations, enabling them to successfully sell the product to a broad range of investors.

Liquidity is a clear preference for most retail investors, as it provides them with the flexibility to access their investments. However, some investors also see the benefits of illiquidity, viewing it as a tool for discipline that prevents them from accessing funds prematurely. As Expert #35 shared, "some clients even see that as a positive, as an argument for the illiquidity." (2024).

Despite this, liquidity remains a psychological concern for many retail investors. Although they may not need immediate access to their funds, they still want the option. Expert #10 explained, "they do not necessarily want to sell, but they want the option if needed. Locking up for ten years scares them compared to institutions. It's more of a psychological issue." (2024). This highlights a key difference between retail and institutional investors, with the latter being more comfortable with long-term lock-ins.

Considering these liquidity needs leads to a major challenge in designing PE products: balancing the illiquidity premium, where investors expect higher returns for committing capital for longer periods, with the demand for liquidity. Expert #20 pointed out, "we are trying to provide the higher return you would get by putting your money at risk for longer with the liquidity of a shorter-duration investment." (2024). Achieving this balance is a persistent difficulty, given the long-term nature of PE.

In line with the literature (see Chapter 2.3.1), three fund structures consistently emerged in interviews as product offerings for retail investor access to PE: closed-end funds, evergreen funds, and publicly listed PE funds.

Experts widely agree that closed-end funds are not ideal for retail investors due to long lock-up periods, which restrict easy exits and do not align with the liquidity preferences of retail investors. While the concept of a secondary market was frequently discussed, opinions on its effectiveness varied. A key issue in secondary market sales is that investors often have to accept significant discounts, particularly during economic downturns. As one Expert noted, even with a functioning secondary market the challenge is that you often have to accept significant discounts when liquidity is needed (Expert #21 2024). Additionally, informational asymmetries further complicate matters, making it difficult for retail investors to fully understand the actual NAV of their investments. These observations align with Nadauld et al. (2019) research, which indicates that transaction costs tend to rise in thinner markets and during periods of heightened asymmetric information. Specifically, transaction costs increase during poor economic times. Marketplaces for secondary trading were considered, but Expert #12 argued that they often do not function well due to negative selection bias, where lower-quality assets dominate the market (2024).

In contrast, evergreen funds offer periodic liquidity, giving investors some flexibility (see Chapter 2.3.1). However, this liquidity can become constrained during financial crises when many investors seek to exit simultaneously. Expert #12 linked this to a “good weather liquidity” problem, where liquidity is only reliable during stable market conditions. In “bad weather conditions”, not all underlying assets can be sold (2024). Despite this, most Experts agreed that evergreen funds provide a reasonable balance between illiquidity and daily liquidity, making them a more viable option for retail investors.

Publicly listed PE funds offer the highest liquidity, allowing investors to trade shares daily. This flexibility appeals to retail investors who may not want to commit capital for extended periods. However, Experts noted that this liquidity comes with pricing discrepancies between the market price and NAV. As Expert #21 pointed out, “you will have two prices; you will have a NAV, and you will have a daily trading price.” (2024). This can result in volatility, particularly during market downturns, when investors may have to sell at a discount. Despite this, one Expert saw the discount as a potential opportunity. According to Expert #12, the heavy discount on NAV is more of a marketing problem than a structural one. If managed well, these discounts could present substantial opportunities for retail investors. If the NAV increases over time due to successful PE investments, the overall return could still be substantial despite the discount (2024). When discussing costs, closed-end funds have a clear advantage as they do not require ongoing liquidity management. Without the need for cash reserves, GPs can focus on long-term investments without performance being affected by unutilized capital (Expert #38 2024). This makes closed-end funds more cost-efficient compared to other structures. Evergreen funds, however, must maintain liquidity reserves, which lowers potential returns. As outlined by Expert #38, if liquidity is offered, cash on hand is required, which might only generate 3-4%, while PE investments typically generate 15-45% IRR. As a result, evergreen funds typically yield lower returns than closed-end funds (2024).

Publicly listed vehicles, which are closed-end funds (Expert #31 2024), only incur the management fee and avoid the costs that evergreen funds bear. Compared to non-listed closed-end funds, which are predominantly accessible via feeder funds as described in Chapter 2.3.1, the key advantage here is outlined by Expert #12: “why would I go through a feeder that charges 3.5% fees when I can get into all these excellent managers with no fees?” (2024).

For retail investors, evergreen funds are simpler to manage. They involve no capital calls, as the capital is fully invested upfront and automatically reinvested, thus matching the demand

outlined. This reduces the administrative burden on investors, making evergreen funds more accessible for those with less experience. Conversely, closed-end funds require more active management, as capital calls occur throughout the fund's lifecycle (Expert #8 2024). This can be a challenge for retail investors, especially those without professional cash management services. As Expert #31 remarked, "for the average retail investor, closed-end funds, unless intermediated by a private bank or IFA⁵, will be a bit of a challenge." (2024).

Publicly listed PE funds offer the greatest simplicity, as they function much like traditional stocks, allowing investors to buy and sell shares on the open market with ease (Expert #22 2024). This accessibility reduces the need for active fund management and provides a familiar structure for retail investors accustomed to public market investments.

Overall, for retail investors seeking a flexible, long-term investment, evergreen funds strike the best balance, offering some flexibility but at the cost of lower returns. For those prioritizing higher returns and willing to accept illiquidity, closed-end funds with secondary market options may be suitable, albeit with some risk in discounted exits. Publicly listed PE funds, while highly liquid, often come with increased volatility and pricing discrepancies, and therefore do not ensure perfect exit opportunities in all market environments.

Ultimately, the choice depends on an investor's liquidity needs and risk tolerance, with evergreen funds generally offering a more accessible option for retail investors.

⁵ Independent Financial Advisor

5. Recommendations

This section provides practical recommendations based on insights from expert interviews to improve retail investors' access to private equity. While not intended as exhaustive or definitive solutions, these suggestions aim to offer meaningful steps toward greater democratization by addressing key challenges from various perspectives.

#1: Expanding Access to ELTIFs Through Neo-Broker Platforms

A potential boost in retail investor participation in PE could come from leveraging established distribution networks like Trade Republic or Scalable Capital. As Expert #13 noted, adoption would really take off if platforms like these offered access to PE products (2024). With their broad reach and user-friendly interfaces, these neo-brokers have already captured the attention of retail investors (BETTER FINANCE 2024). Recent rumors of Scalable Capital's potential collaboration with BlackRock to offer ELTIFs (Hüfner and Schlenk 2024) further highlight the opportunity to expand access to PE products through these platforms. By integrating PE offerings, these neo brokers could bridge the gap between retail investors and traditionally inaccessible asset classes.

#2: Centralized KYC

A potential solution to improve the onboarding process in PE could involve creating a standardized KYC system across investment platforms. As one Expert suggested: "We should have one standardized way to KYC yourself that should be applicable across all investment platforms." (Expert #8 2024). This would significantly reduce inefficiencies and costs associated with the current decentralized KYC approach, which, according to a 2023 study by Fenergo (2023), has seen a 17% rise in KYC review costs since 2022.

The proposed idea is that investors would only need to be verified once, with the verifying institution issuing a "KYC passport" that could be used across various platforms. This institution would retain legal and compliance responsibilities, reducing the need for repeated

verifications and lowering the operational burden of onboarding multiple retail investors (Koczan 2021). This would not only save time and reduce costs for financial institutions but also make the onboarding experience smoother for investors by eliminating redundant documentation requests (Vikas, Anish, and Sharjeel 2020).

However, challenges remain in implementing a standardized KYC process across the EU due to the differing regulatory standards and legal requirements in various jurisdictions. Additionally, data privacy regulations such as General Data Protection Regulation (GDPR) necessitate robust security measures and ongoing monitoring to ensure compliance and safeguard investor information. Additionally, the need for regular risk assessments and updates to investor profiles further complicates the process (Schmiedt 2024).

Despite these challenges, a centralized KYC system could drastically reduce the operational burden for GPs and distributors when onboarding retail investors. It could streamline the process, making PE more accessible while maintaining the necessary compliance and security standards across the EU.

#3: Tax Incentives to Boost Investment in the Real Economy

As highlighted by the European Commission during the ELTIF launch, the regulator aims to expand non-bank financing options for companies contributing to the EU's real economy (European Commission 2015). Broadening the pool of funding sources to include retail investors can help meet this goal. One Expert highlighted the importance of political support for such initiatives: "there really needs to be a special incentive from politics — probably a tax incentive, something like that — that says, 'Dear investors, whether retail or institutional, we need your money to invest in infrastructure, be it digital infrastructure, energy efficiency, etc.' And for that, they should get some kind of tax exemption or something that makes it really worthwhile." (Expert #40, 2024). While this quote specifically mentions infrastructure, the

broader concept of tax incentives could also apply to PE, making it a more appealing alternative to public market investments.

There have already been successful implementations of such tax incentive programs. One notable example is Italy's Piani Individuali di Risparmio, launched in 2016. This initiative incentivizes long-term investments in Italian small and mid-cap companies by offering exemptions from capital gains tax, dividend taxes, and inheritance taxes for investments held for at least five years, subject to certain caps (FTSE Russell 2020). By applying similar incentives across the broader European PE market, especially through ELTIFs, policymakers could unlock substantial retail investor participation, driving capital into the real economy. However, as Ludovic Phalippou warned in an interview, there is a risk that investors may focus disproportionately on the tax benefits and overlook other crucial aspects of the investment, such as fees and the long-term nature of PE (Bucak 2024). Therefore, any tax incentives should be carefully structured to ensure that investors remain fully informed about all dimensions of their investments.

#4: Comprehensive Educational Initiatives

There was a broad consensus in the Expert interviews that retail investors often lack sufficient knowledge to effectively engage in PE. To bridge this gap, comprehensive educational initiatives are essential, helping investors understand the complexities of these products. As emphasized by Invest Europe, "[f]inancial education and appropriate acknowledgment of long-term funds' characteristics should be at the core of promoting retail investment into long-term funds, as opposed to the creation of new fund structures that would not fit with the realities of the market" (Bresson and Verboomen 2021, p. 4). This highlights the need to educate investors on existing investment structures rather than introducing new products without sufficient understanding or guidance.

A key element of this initiative is creating clear, accessible educational materials to explain crucial aspects of PE, such as opportunities, risks, expected returns, fund structures, and liquidity constraints. These resources are essential to closing the knowledge gap for retail investors, allowing them to make informed decisions. It is equally important that all educational materials be accurate and free from commercial bias, a concern raised by Expert #7 (2024). Regulatory adherence, such as compliance with the Packaged Retail and Insurance-based Investment Products (PRIIP) regulation, is critical to ensuring that retail investors across the EU receive standardized and transparent information (European Insurance and Occupational Pensions Authority n.d.).

The responsibility for education must be shared by all stakeholders including GPs, distributors, and regulators. GPs, for example, could contribute by offering webinars, initial questionnaires to assess investor knowledge, and regular updates about the state of their investments. Distributors and neo-brokers can contribute through various forms of digital content, such as blogs, educational videos, and infographics that break down the complexities of PE into digestible formats for retail investors. They can also use mobile platforms to share user-friendly educational content, helping to make these products more accessible. Regulators, on their end, should oversee these efforts, ensuring that educational content adheres to strict standards, guaranteeing objectivity and accuracy.

In the long run, government involvement and integrating financial education into school curricula could play a pivotal role in improving retail investors' understanding of PE and financial topics overall (Experts #11 and #35).

To ensure that distributors can successfully contribute to the education process, it is crucial for wealth managers and financial advisors to be adequately trained in PE matters. Currently, many advisors lack the depth of knowledge required to provide comprehensive guidance, as highlighted by Expert #33 (2024). A potential solution is the development of targeted training

programs, ensuring that advisors are fully qualified before offering PE products. The UniFi certification offered by the CAIA Association serves as an example of a program designed to educate wealth management professionals, focusing on client goals, portfolio suitability, and effective implementation (CAIA Association n.d.). Such training would enhance the quality of advice provided and boost investor confidence.

Additionally, simulation platforms could be introduced to complement these educational initiatives, as suggested by Expert #33 (2024). These platforms would allow investors to engage with PE concepts in a risk-free environment, helping them better understand the risks, returns, and decision-making processes involved in PE investments.

6. Critical Reflection

6.1. Limitations

While this thesis adheres to academic standards and rigorous methodology, several limitations should be acknowledged to provide a more detailed understanding of the democratization of PE. One notable limitation is the exclusion of tax considerations. Tax structures play a critical role in investment decisions, as highlighted by Expert #14: "taxation is still an issue for retail investors since they don't always have ways to optimize taxes." (2014). Despite this, taxation as a variable was not explored in-depth, which may affect the overall analysis. Furthermore, the thesis does not fully account for geographical differences within the EU that could impact the adoption and accessibility of PE for retail investors. Variations in financial education, regulatory frameworks, and cultural differences across different European regions could lead to divergent outcomes. These regional nuances were not extensively examined. Moreover, the broad scope of the thesis made it challenging to maintain clear distinctions between the dimensions of the analytical framework. When discussing specific topics, many were interrelated, for example, product offerings, regulatory frameworks, and the education of investors often overlapped. This

interconnectivity made it difficult to distinctly separate and analyze each dimension, potentially impacting the clarity and focus of the findings.

Another limitation arises from the broad scope of private markets. It was challenging to distinctly separate PE from other segments of private markets. With such a wide array of products available, some overlap between PE and other asset classes may have occurred, resulting in potential conceptual ambiguity.

Lastly, the potential for bias in interview responses must also be considered. While efforts were made to cross-reference insights from Expert interviews with academic literature and other sources, the possibility of respondent bias cannot be entirely ruled out. This could have influenced some of the broader conclusions drawn from the interviews.

6.2. Future Research

In terms of future research, this thesis opens several avenues for further exploration into the democratization of PE. As PE continues to evolve and interest in retail participation grows, future studies could focus on specific segments, geographies, or technological advancements in greater depth. For instance, future research could explore specific segments within PE, such as buyouts or venture capital. Each segment may appeal differently to retail investors due to varying levels of risk, liquidity constraints, and regulatory frameworks. Analyzing each segment independently could offer more precise insights into how democratization is progressing across the PE landscape.

Further investigation into geographical variations across the EU is crucial. While this thesis primarily focuses on overarching trends within the EU, different countries may present varying levels of financial education, regulatory structures, and cultural attitudes toward PE investments. Country-specific case studies could assess the role of local tax incentives, market conditions, and regulatory environments in either fostering or hindering the democratization process. Comparing countries may also reveal best practices for democratizing PE across the

EU. Moreover, technological innovations like blockchain and tokenization offer a promising area for future research. These innovations, as analyzed in Chapter 4.6, have the potential to lower entry barriers for retail investors by increasing transparency, reducing costs, and enabling fractional ownership. A detailed analysis of how these technologies might reshape PE could offer valuable insights into the future of the sector, particularly concerning fund structures, liquidity, and investor participation.

6.3. Conclusion

Although significant progress has been made in democratizing PE, the process remains complex and dependent on multiple factors. This research identified six critical dimensions that highlight both opportunities and challenges, expanding upon the initial three sub-research questions and hypotheses. These dimensions, derived from 42 interviews, reveal diverse and sometimes conflicting perspectives about the democratization process. Drawing from both literature and qualitative field studies, the current state of democratization is summarized in *Figure 2*. For a detailed overview of the research questions and the analysis framework, refer to *Appendix 9*.

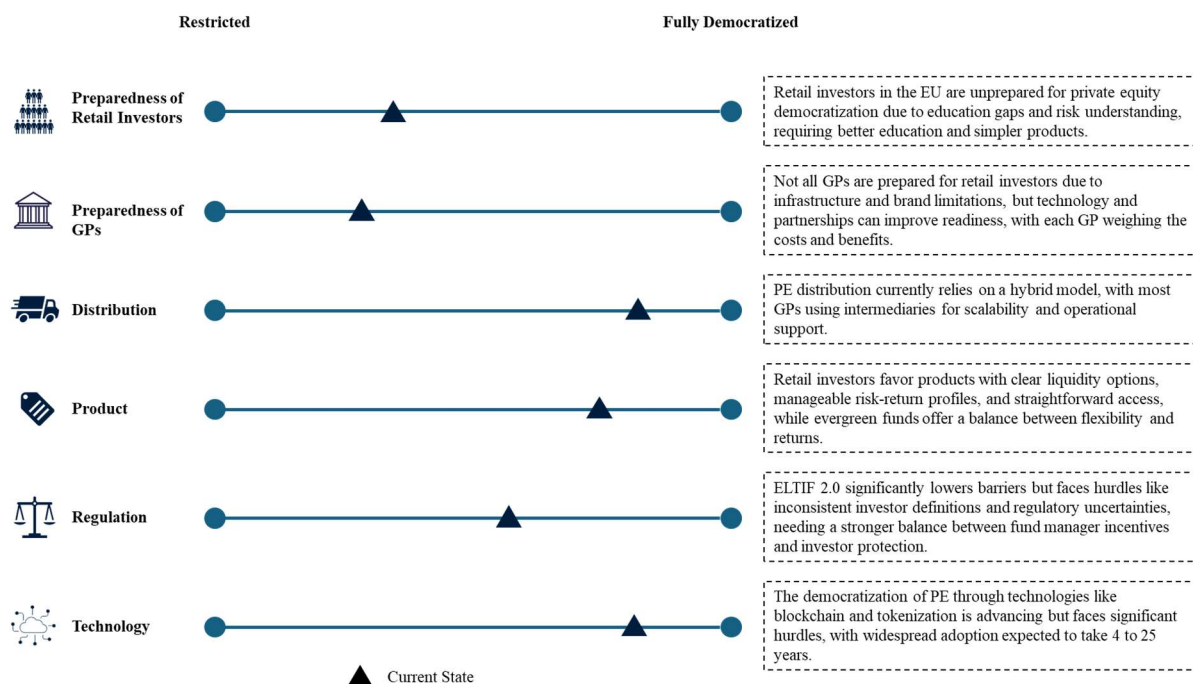


Figure 2: Assessment of democratization dimensions (Source: Work by the authors)

Hypothesis 1: The inherent illiquidity and complexity of PE investments remain significant barriers to democratization, as suggested by our findings. Retail investors face notable gaps in financial literacy, risk awareness, and their ability to handle illiquid investments. These challenges are compounded by the historical complexity of PE structures, which, despite recent innovations such as publicly listed vehicles and secondary markets, still hinder broader accessibility. Expert insights confirmed that while illiquidity offers some advantages (e.g., avoiding impulsive decisions), it also acts as a deterrent for many retail investors. Thus, while illiquidity and complexity limit access, ongoing innovations may reduce these barriers over time.

Hypothesis 2: ELTIF 2.0 represents a major step forward in addressing some of the key barriers to retail participation in PE. As Expert #22 noted, regulatory advancements like ELTIF 2.0 are encouraging larger funds to engage in wealth management strategies and scale access to retail investors. By lowering minimum ticket sizes and addressing illiquidity through features like redemption mechanisms, ELTIF 2.0 holds significant potential to facilitate democratization. However, its success will depend on how well retail investors are prepared and how effectively GPs adapt to new operational requirements. While promising, further efforts are needed to evaluate its full impact.

Hypothesis 3: Technological advancements, particularly blockchain and FinTech platforms, offer transformative potential for democratizing PE. These innovations streamline operations, lower ticket sizes, and improve liquidity options, as noted in the interviews. For instance, tokenized funds and digital wealth platforms are already enabling fractional ownership and more transparent fund management, which could attract a broader retail base. However, infrastructural limitations among GPs and hesitance from some investors about adopting new technologies remain obstacles. Despite these challenges, the trajectory suggests that technology will play a crucial role in bridging the accessibility gap for retail investors in the EU.

In conclusion, while PE democratization is progressing and appears inevitable, significant challenges persist. Regulatory frameworks like ELTIF 2.0 and technological advancements such as blockchain are paving the way for broader retail access. However, the preparedness of both retail investors and GPs remains a crucial bottleneck. As Franklin D. Roosevelt wisely stated, "Democracy cannot succeed unless those who express their choice are prepared to choose wisely" (Peters and Woolley, n.d.). Publicly listed PE vehicles may offer a short-term solution, but further research and continued innovation are essential to make PE accessible to all. The three hypotheses highlight that while progress is being made, achieving true democratization will require overcoming the structural, regulatory, and educational hurdles that currently limit access for the smallest investors.

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List of abbreviations

AI	Artificial Intelligence
AIFMD	Alternative Investment Fund Managers Directive
AML	Anti-Money Laundering
AUM	Assets Under Management
B2B	Business to Business
B2B2C	Business to Business to Consumer
B2C	Business to Consumer
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
CAGR	Compound Annual Growth Rate
CAIA	Chartered Alternative Investment Analyst
Dax	Deutscher Aktienindex (German stock index)
DLT	Distributed Ledger Technology
ELTIF	European Long-Term Investment Fund
ETF	Exchange-Traded Fund
EU	European Union
FinTech	Financial Technology
GDPR	General Data Protection Regulation
GP	General Partner
IFA	Independent Financial Advisor
IRR	Internal Rate of Return
KAGB	Kapitalanlagegesetzbuch (German Investment Code)
KYC	Know Your Customer

LP	Limited Partner
LTAF	Long-Term Asset Fund
MiFID II	Markets in Financial Instruments Directive II
NAV	Net Asset Value
PRIIPs	Packaged Retail and Insurance-based Investment Product

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Appendix 1 - Professional investor classification

The individual requests to be treated as a professional investor and the investment firm then assesses the client's expertise, experience, and knowledge to ensure they can make informed decisions and understand the risks involved.

In addition to this request and assessment, at least two of the following criteria must be satisfied:

- The client has carried out significant transactions in the relevant market at an average frequency of 10 per quarter over the last four quarters.
- The client's financial instrument portfolio, including cash deposits, exceeds €500K.
- The client has worked in the financial sector for at least one year in a professional role that requires knowledge of relevant transactions or services

Source: European Parliament and Council 2014

Appendix 2 - Investor categorization suggested by Invest Europe

In their view, the following three types of individual investors should be distinguished:

1. Sophisticated investors with very large amounts of capital (committing more than €100K in a single investment).
2. Investors with a good understanding of the market who are looking to invest capital without liquidity concerns (typically investing between €5K and €100K in a single investment).
3. Small, often inexperienced investors with liquidity concerns, typically investing small amounts (below €5K).

Invest Europe suggests that these distinctions would better reflect the professional nature of large and experienced investors in long-term funds, ensuring that investor categorization aligns more closely with actual investment capability and knowledge.

Source: Bresson and Verboomen 2021

Appendix 3 - Proposed regulatory improvements following ELTIF reform

Feature	ELTIF 1.0 (EU Regulation 2015/760)	ELTIF 2.0 (Regulation (EU) 2023/606)	Change
Eligible Asset Allocation	At least 70% of assets had to be invested in long-term eligible investments (e.g., infrastructure, real estate, SMEs)	Minimum requirement reduced to 55% of assets in eligible investments	More flexibility for providers by reducing the threshold for long-term, stable investments.
Fund Structure	Only direct ELTIF investments allowed	Fund-of-funds allowed, AIFs can be target investments	More flexible fund structures, allowing capital to be invested indirectly through AIFs.
Leverage	Maximum of 30% leverage allowed	Leverage increased to 50%	Higher permissible leverage for more flexible financing options.
Minimum Investment Requirement	€10,000 minimum investment, with a 10% limit on total assets for investors with less than €500K	No minimum investment or asset limit	Lowering entry barriers for smaller retail investors.
Suitability Assessment	Separate suitability assessment required	No separate suitability assessment needed	Removes an administrative burden for distributors, speeding up onboarding for retail investors.
Liquidity	Strict liquidity rules, limited redemption options	Improved liquidity provisions, including redemption rights tied to investor notice periods (e.g., 20% for short notice, 90% for long notice)	Greater flexibility for investors to redeem funds based on structured notice periods, offering better liquidity options.

Source: Work by the authors based on EU Regulation 2015/760 and 2023/606

Appendix 4 - Overview of the tech platforms

Provider	Client focus	Minimum ticket	Capital raised to date	Individual users	Regions covered	Asset classes	Directs and co-investments?	Portfolio products?	White-label product offering?	Fees	Partners
ADDX	B2B, B2C, B2B2C	\$5,000	Approx \$1.5bn	>3,000 B2C and >30 B2B/B2B2C	Global excluding US	PE, private credit, venture capital, venture debt, hedge funds, real estate, structured products, bonds, commercial papers, luxury	Yes	Yes	Yes	Not disclosed	Not disclosed
AirFund	B2B, B2B2C	€ 100,000	>€300m	>1,200 financial professionals, >50,000 underlying clients	Global (via Europe-based funds)	PE, private debt, real estate, venture capital, infrastructure, impact	Yes	Yes	Yes	Not disclosed	Amundi, Indosuez, Fund Channel
Alta Exchange	B2B, B2C, B2B2C	\$ 10,000	>\$700m	>34,000 direct investor accounts	Global	PE, private credit, venture capital, hedge funds, fixed income, real estate, luxury assets, asset-backed securities, secondaries	Yes	Yes	Yes	Not disclosed	PrimePartners Corporate Finance, PhillipCapital, Evolve Capital
Bite Investments	B2B, B2C	\$100,000	Not disclosed	>2,000	Global	PE, private credit, venture capital, real estate, growth equity, secondaries	Yes	Yes	Yes	Not disclosed	Not disclosed
Moonfare	B2B, B2C, B2B2C	€10,000 for eligible ELTIF investors, \$25,000 for Moonfare Secondary Fund, \$100,000/\$10,000 for Top Quartile Fund	€3bn	4,400	Global	PE, growth equity, venture capital, secondaries, fund of funds, infrastructure, distressed, private debt, impact	Yes	Yes	Yes	Varies depending on total commitment made and type of fund. For buyout funds, setup fees vary from 0.5%-1% and management fees range from 0.40-0.75bps	Berenberg, Border & Cie, Eurasov, Fidelity, Raisin, Quintet, Vitruvian
Private Corner	B2B	€ 100,000	€700m	3,000	Europe	PE, private debt, infrastructure, secondaries	Yes, via funds	Yes	Yes	Not disclosed	Not disclosed
Private Markets Alpha	B2B	€ 100,000	€825m	145 wealth management firms, 900 underlying clients	Global excluding US	PE, private credit, real assets, secondaries, semi-liquids	Yes	Yes	Yes	Tiered, based on AUM level	Not disclosed
Privatize	B2B, B2B2C	€ 1,000	Not disclosed	87 wealth organizations, 26,000 advisers	DACH	PE, private debt, real assets	Yes	No	No	Not disclosed	Leading custodian banks, e.g. FNZ and V-Bank
Securitize	B2B, B2C	\$1,000	Not disclosed	>500,000 investor accounts	Global	Private equity, private credit, money market funds, US treasuries, venture capital, growth equity, secondaries	Yes, directs	No	Yes	0.5% management fee	BlackRock, Hamilton Lane, KKR, Investcorp, Tradeweb Markets
Titanbay	B2B	€ 100,000	Approx €1bn	Not applicable	Europe, Middle East and Asia	PE, growth equity, venture capital, private credit, secondaries, co-investments	Yes	Yes	Yes	Varies	Mercer, FNZ, Abrdn, Motive Ventures
Trovio Private Markets	B2B	Typically €250,000 (€5,000 via certain business partners for some strategies)	Not disclosed	Not disclosed	Europe plus select non-European countries	PE, private debt, real estate, infrastructure	Yes, co-investments	Yes	Yes	Not disclosed	Not disclosed
Xen Capital	B2B2C	Not disclosed	\$300m	35 B2B (>2,000 end clients)	Global	PE, venture capital, secondaries	Yes	Yes	Yes	Not disclosed	Not disclosed

Source: Own work based on Mendoza 2024b

Appendix 5 – Interview guidelines

1.1. Private equity fund interview guideline

Opening Questions

- Can you briefly describe your role and experience in the private equity industry?
- What is the current status of retail investment at [X Fund], and how do you define retail investors?

Part 1: Preparedness of Retail Investors and Private Equity Funds

Recent surveys demonstrate that broader access to private markets by retail investors is now an undeniable trend. This brings us to the point of preparedness of retail investors and Private Equity Funds.

1. What motivates [X Fund] to consider including, or to have already included, retail investors in your LP base?
 - a. Did you have private investors in your investor base from the beginning?
 - b. How do retail investors' goals and expectations differ from those of institutional investors?
 - c. What changes occur when incorporating retail investors?
 - d. What are the reasons for setting the minimum investment ticket size to [X]?
2. Do you think retail investors are adequately prepared to participate in private equity investments?
 - a. Why or why not?
 - b. Should all retail investors (the smallest ones) be able to invest into private equity?
 - c. What steps could improve their preparedness?

- d. Do you believe that retail investors need more knowledge and education about private equity?

Part 2: Current Regulatory Landscape and Support

The regulatory landscape plays a crucial role in democratizing access to private equity. While ELTIF is not mandatory, it is an important instrument that has significantly advanced this goal since its introduction in 2015. ELTIF 2.0, effective this year, further enhances this framework by broadening eligible investments, removing minimum investment requirements for retail investors, and offering more flexible strategies and higher borrowing limits. These updates aim to attract more capital. We are interested in your views on how the current regulations impact the democratization of private equity.

1. How well do you think the current regulatory landscape in the EU supports the democratization of private equity for retail investors?
 - a. Is ELTIF 2.0 the way to go for democratizing the market?
 - b. How do you think it balances the incentive for funds and retail investors?
 - c. Are there specific regulations that help or hinder this process?
 - d. Which changes do you think are important to accelerate retail investment?
 - e. Could you envision setting up an ELTIF 2.0 fund in the future?

Part 3: Role of Technology

The democratization of private equity faces challenges, especially in managing numerous small investors. However, technology and FinTech partnerships allow banks and wealth managers to integrate private equity seamlessly and cost-effectively into their portfolio offerings. Additionally, from an operational side, digital tokens on blockchain can transform fund raising and administration, lowering costs and enhancing efficiency by automating processes. This

brings us to the point where we would like to hear about your opinion on technology advancements in Private Equity.

1. Can you provide examples of how you use technology at [X Fund]?
 - a. What specific technological solutions have you implemented to enhance investor experience?
 - b. How has technology improved operational efficiency within your fund?
 - c. Can you share any challenges you faced while integrating these technologies?
2. What role do you see technological advancements and FinTech platforms playing in facilitating retail investor access to private equity? (e.g. iCapital or Moonfare)
3. Your current ticket size is [XX], could you think this can be lowered to potentially smaller investors? Maybe could technology help here?
4. There are some even more promising technologies on the horizon like blockchain and tokenization that many people believe as an enabler for PE. What is your opinion on that?

Outlook Question

1. Looking ahead 5 to 10 years, do you think everyone will be able to invest in private equity? If yes, what are the key milestones or hurdles that need to be overcome?

1.2. Regulator interview guideline

Opening Questions

- Can you briefly describe your role at [X National Authority] and experience in the Privat Market industry?
- How do you define retail investors?

Part 1: Preparedness of Retail Investors and Private Equity Funds

Recent surveys demonstrate that broader access to private markets by retail investors is now an undeniable trend. This brings us to the point of preparedness of retail investors and Private Equity Funds.

1. Do you think retail investors are adequately prepared to participate in private equity investments?
 - a. Why do you believe retail investors are or are not adequately prepared?
 - b. Can you provide concrete examples of complaints or issues that have arisen?
 - c. What specific steps could improve their preparedness for investing in private equity?
 - d. How important do you think increased knowledge and education about private equity is for retail investors?
 - e. In your experience, how are retail investors in [X Country] prepared for and involved in private equity compared to those in other countries?
 - f. Considering all the topics on your agenda, how significant is the issue of retail investors participating in private equity?

Part 2: Current Regulatory Landscape and Support

The regulatory landscape plays a crucial role in democratizing access to private equity. While ELTIF is not mandatory, it is an important instrument that has significantly advanced this goal

since its introduction in 2015. ELTIF 2.0, effective this year, further enhances this framework by broadening eligible investments, removing minimum investment requirements for retail investors, and offering more flexible strategies and higher borrowing limits. These updates aim to attract more capital. We are interested in your views on how the current regulations impact the democratization of private equity.

1. Can you describe the collaboration between national authorities such as [National Authority] and ESMA in regulating private markets?

2. How well do you think the current regulatory landscape in the EU supports the democratization of private equity for retail investors?
 - a. What were the original intentions behind ELTIF 2.0, and have they been met?
 - b. Are there any countries that serve as models or benchmarks in this regard? (e.g. US)
 - c. From a regulator's perspective, what is the envisioned long-term impact and evolution of regulatory frameworks like ELTIF on the private equity industry?
 - d. Should all retail investors (the smallest ones) be able to invest into private equity?
 - e. How do you think it balances the incentive for funds and retail investors?
 - f. Are there specific regulations that help or hinder this process?
 - g. What regulatory changes do you believe are necessary to accelerate retail investment in private equity?

3. GPs often criticize the significant administrative burden, including anti-money laundering efforts and basic tasks such as ID validation, which contribute to higher back-

office costs and consequently higher minimum ticket sizes to justify management fees.

Do you see ways to reduce this administrative burden?

- a. Banks are already required to conduct anti-money laundering checks; what are your thoughts on why GPs should conduct these checks again?

Part 3: Role of Technology

The democratization of private equity faces challenges, especially in managing numerous small investors. However, technology and fintech partnerships allow banks and wealth managers to integrate private equity seamlessly and cost-effectively into their portfolio offerings. Additionally, from an operational side, digital tokens on blockchain can transform fund raising and administration, lowering costs and enhancing efficiency by automating processes. This brings us to the point where we would like to hear about your opinion on technology advancements in Private Equity.

1. What role do you see technological advancements and fintech platforms playing in facilitating retail investor access to private equity (e.g. iCapital or Moonfare) and how can you as a regulator support technological advancements in this process?
 - a. What strategies or initiatives are you considering ensuring that retail investors are adequately protected when accessing private equity through fintech platforms?
 - b. Do you anticipate that the emergence of additional service providers such as tech platforms will introduce complexity and necessitate regulatory adjustments?
2. There are some even more promising technologies on the horizon like blockchain and tokenization that many people believe as an enabler for PE. What is your opinion on that?

Outlook Question

1. Looking ahead 5 to 10 years, do you think everyone will be able to invest in private equity? If yes, what are the key milestones or hurdles that need to be overcome?

1.3. Tech platform guideline

Opening Questions

- Can you all briefly describe your roles and experience in the private equity industry?
- How do you define retail investors, and can you explain how your company helps to democratize private equity?

Part 1: Preparedness of Retail Investors and Private Equity Funds

Recent surveys demonstrate that broader access to private markets by retail investors is now an undeniable trend. This brings us to the point of preparedness of retail investors and Private Equity Funds.

1. Do you think retail investors are adequately prepared to participate in private equity investments?
 - a. Why or why not?
 - b. Should all retail investors (the smallest ones) be able to invest into private equity?
 - c. What steps could improve their preparedness?
 - d. Do you believe that retail investors need more knowledge and education about private equity?
2. Do you think private equity funds/GPs are adequately prepared and ready to include retail investors in their investor base?

- a. Why or why not?
- b. What are the main reasons they are not accepting private investors from your experience?
- c. What steps could improve their preparedness?
- d. Do you believe that GPs need more knowledge and education about technological possibilities?

Part 2: Current Regulatory Landscape and Support

The regulatory landscape plays a crucial role in democratizing access to private equity. While ELTIF is not mandatory, it is an important instrument that has significantly advanced this goal since its introduction in 2015. ELTIF 2.0, effective this year, further enhances this framework by broadening eligible investments, removing minimum investment requirements for retail investors, and offering more flexible strategies and higher borrowing limits. These updates aim to attract more capital. We are interested in your views on how the current regulations impact the democratization of private equity.

1. How well do you think the current regulatory landscape in the EU supports the democratization of private equity for retail investors?
 - a. How do you think it balances the incentive for funds and retail investors?
 - b. Are there specific regulations that help or hinder this process?
 - c. Which changes do you think are important to accelerate retail investment?

Part 3: Role of Technology

The democratization of private equity faces challenges, especially in managing numerous small investors. However, technology and fintech partnerships allow banks and wealth managers to

integrate private equity seamlessly and cost-effectively into their portfolio offerings. Additionally, from an operational side, digital tokens on blockchain can transform fund raising and administration, lowering costs and enhancing efficiency by automating processes. This brings us to the point where we would like to hear your opinion on technology advancements in Private Equity.

1. Can you provide examples of how you use technology to facilitate retail investors' access to private equity?
 - a. What specific technological solutions have you implemented to enhance the investor experience?
 - b. Can you share any challenges you faced while integrating these technologies?
 - c. How has technology improved operational efficiency for PE funds?
2. What role do you see technological advancements and fintech platforms playing in democratizing private equity?
 - a. What are some of the biggest technological trends you see for solving the challenges of democratizing private equity?
 - b. How do these trends impact the investor onboarding process, investment management, and reporting?
 - c. What additional services or features do you think fintech platforms should offer to better support retail investors in private equity?
3. There are some even more promising technologies on the horizon, like blockchain and tokenization, that many people believe are enablers for private equity. What is your opinion on that?
 - a. How do you foresee blockchain and tokenization transforming the private equity landscape?

- b. What regulatory considerations should be taken into account with these technologies?
4. How important is investor education in the democratization of private equity, and how can technology facilitate this?
 - a. Are there specific tools or platforms you use to educate retail investors about private equity?
 - b. Do you think fintech platforms are responsible for educating retail investors and helping them in selecting the right fund?
5. What are the biggest pain points of private equity funds, and how can they be solved with technology?
 - a. Looking ahead, what technological innovations do you believe will have the biggest impact on the democratization of private equity over the next five years?
6. What are the most common concerns retail investors have about investing in private equity, and how does your technology address them?

Outlook Question

1. Looking ahead 5 to 10 years, do you think everyone will be able to invest in private equity? If yes, what are the key milestones or hurdles that need to be overcome?

Source: Work by the authors

Appendix 6 - Interview outreach funnel

Step	GPs	Regulator Platforms	Others	Sum	
Contacted	101	44	61	46	252
Lost	87	39	46	38	210
Won	14	5	15	8	42

Source: Work by the authors

Appendix 7 - Profiles of the participants in the qualitative study

Participant #	Occupation / Area of Specialty	Category	Years of Experience in Private Markets	Country
1	Partner	PE Fund	13	Portugal
2	Co-Founder / CPO	Tech Platform	4	Germany
3	Head of Private Markets	Distributor	24	Switzerland
4	Director	Institutional LP	11	Germany
5	Managing Director	VC Fund	12	Germany
6	Client Solutions	PE Fund	5	Switzerland
7	Founder & Co-Chief Executive	Tech Platform	9	UK
8	Relationship Manager	Tech Platform	4	Germany
9	Legal Advisor	Regulator	6	Portugal
10	Relationship Manager	Tech Platform	5	UK
11	Head of Partnerships	Tech Platform	13	Germany
12	Co-Founder	Tech Platform	11	UK
13	Co-Founder & CEO	VC FoF	4	Germany
14	Product Specialist	Tech Platform	2	Germany
15	Founding Partner	VC Fund	10	Germany
16	Investor Relations Analyst	PE Fund	3	UK
17	CFO	PE Fund	12	Portugal
18	Co-Founder and Co-CEO	Tech Platform	2	Israel
19	Product Manager	Tech Platform	4	Spain
20	Product Expert	PE Fund	6	UK
21	Head of Private Wealth department	PE Fund	10	Switzerland
22	Head of Investor Relations	PE Fund	26	UK
23	Managing Director - Private Wealth Management	Distributor	19	USA
24	CEO & Co-Founder	Tech Platform	1	Switzerland
25	Client Account Manager	Tech Platform	3	Singapore
26	Senior Officer	Regulator	6	Germany
27	Investor Relations Analyst	PE Fund	2	Italy
28	Senior Executive	Regulator	19	Portugal
29	Ex CEO	PE Fund	34	Germany
30	Managing Director	Tech Platform	2	Portugal
31	International Product Expert	Tech Platform	11	UK
32	Private Equity Analyst	Asset Manager	2	Switzerland
33	Sales & Business Development	Tech Platform	1	France
34	Managing Director	Tech Platform	1	UK
35	Investment Specialist	Distributor	n.a.	Germany
36	Customer Advisor	Distributor	4	Germany
37	Leadership Role	Regulator	4	Cyprus
38	Senior Executive	Private Equity Association	34	Belgium
39	Investor Relations Specialist	PE Fund	7	Germany
40	Head of Alternatives	Asset Manager	8	Germany
41	Policy Advisor	Regulator	12	France
42	Principal	PE Fund	11	Germany

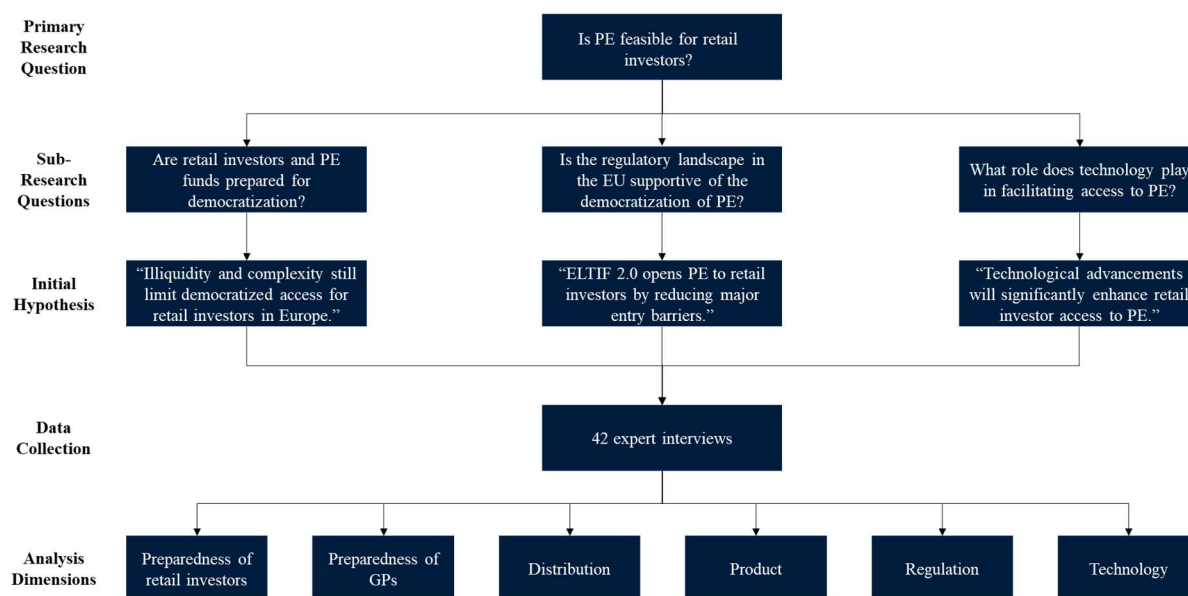
Source: Work by the authors

Appendix 8 - Frequency and description of codes

Codes	Occurrence	Occurrence in %	Description
Preparedness of Retail Investors	79	10%	Retail investors' readiness to engage in private equity
Education	66	84%	Knowledge and financial literacy needed for informed investment decisions
Access	13	16%	Availability and ease of entry into the private equity market
Preparedness of GPs	145	19%	Assesses the ability of GPs to manage retail investors, including operational readiness and scalability
Operational Structure	35	24%	The internal systems and processes GPs need to include retail investors
Brand Image	18	12%	The importance of a strong, recognizable brand in attracting retail capital
Cooperation	5	3%	Collaboration between GPs, platforms, and other stakeholders to handle retail investments
Motivation	42	29%	The driving factors for GPs to target or avoid retail investors
Infrastructure	45	31%	The technical and organizational capacity required to manage retail investors.
Product	161	21%	Analysis of the fund structures offered by GPs and how they align with retail investor preferences, particularly in terms of liquidity and accessibility
Preferences	17	11%	The availability and ease with which retail investors can access their capital from private equity investments
Liquidity	40	25%	Looks at the liquidity challenges in private equity investments, which are typically long-term and illiquid
Fund of Funds	6	4%	A fund structure in which a fund invests in multiple private equity funds
Closed-End	21	13%	A fund structure with fixed capital and a long-term lock-up period
Listed Private Equity	18	11%	Listed private equity allows investors to access private equity through publicly traded funds or by acquiring shares in private equity firms or their funds of funds
Secondary Market	30	19%	Market for buying and selling private equity investments, offering liquidity but often at a discount
Evergreen	23	18%	Fund structure offering periodic liquidity, providing more flexibility compared to closed-end funds
Distribution	95	12%	Methods GPs use to offer private equity products to retail investors
Direct vs. Distributor	68	72%	Comparison between direct GP distribution and intermediaries like wealth managers and platforms
Layers of Fees	27	28%	Multiple fee levels in indirect distribution and their impact on retail returns
Technology	104	13%	General advancements in digital tools and systems within private equity
Role of Technology	20	19%	Specific ways technology helps democratize private equity and streamline operations
Operational Improvements	15	14%	The use of technology to streamline processes, reduce costs, and enhance data management in private equity
Tokenization	27	26%	The process of fractionalizing private equity ownership using blockchain technology to improve accessibility
Blockchain	42	40%	Technology that facilitates tokenization, enhances transaction transparency, and automates settlement processes
Regulatory Landscape	192	25%	The broader regulatory environment affecting private equity and its accessibility for retail investors
Regulatory Improvements	40	21%	Proposed changes to regulations, such as ELTIF 2.0, aimed at increasing retail investor access to private equity.
Crypto and Tokenization Regulations	3	5%	Rules governing the use of blockchain and tokenization in private equity
Jurisdictional Differences	16	8%	Variations in private equity regulations across different countries and their impact on investor access
Investor Protection	38	20%	Safeguards and regulations designed to protect retail investors in private equity
ELTIF	53	31%	European Long-Term Investment Fund regulations aimed at making private equity accessible to retail investors
Definition of Retail Investors	30	16%	Varying definitions used by experts and regulators regarding who qualifies as a retail investor
Sub-Codes	776	100%	

Source: Work by the authors

Appendix 9 - Overview of research questions and analysis framework



Please note that instead of the initial three sub-research questions for answering the primary research question, the analysis of the interviews led to an extension to six dimensions.

Source: Work by the authors