

BENEFICIENT



# THE BEN LIQUIDITY REPORT™

ALTERNATIVE ASSET INVESTORS, THEIR  
WEALTH BEHAVIORS AND ATTITUDES

2022

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# EXECUTIVE SUMMARY

In 2021, Beneficient—Ben for short—launched a comprehensive, nationwide survey of mid-to-high net worth (MHNW) individual alternative asset investors. The survey, conducted in collaboration with VSA Partners and UNIMRKT, sought to shed light on this emerging market and to answer questions such as:

- Who is the average MHNW alternatives investor?
- What drives them to invest in alternatives despite the inherent challenge of long lockups?
- How do MHNW investors prefer to obtain liquidity from their professionally managed alternative assets?
- When alternatives investors are ready to gain liquidity for their assets, what obstacles do they encounter?

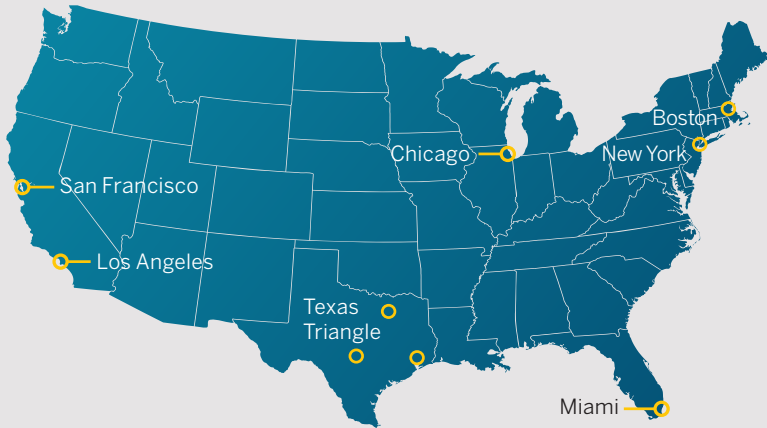
This report is intended to help wealth managers, broker-dealers, RIAs, private banks, general partners, family offices and other financial service and advisory providers understand the attitudes, motivations, and behaviors of their MHNW clients.

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## Top Takeaways

- 1 100% of respondents are interested in a simple, rapid and cost-effective way of getting liquidity from their alternative investments, underscoring a new emerging demand among MHNW investors.
- 2 Top liquidity exchange options selected by respondents were preferred equity and/or common equity issued directly from the balance sheet of the company providing liquidity, rather than cash.
- 3 MHNW investors seek liquidity for opportunistic reasons such as gaining access to a new investing opportunity (52%) or long-term return potential (51%).
- 4 81% of MHNW investors prefer to work through their financial advisor to obtain liquidity. 82% have tried to seek liquidity once or more in the past five years.
- 5 Respondents said the most important attributes of a liquidity provider are cost-effectiveness, transparency and adherence to a fiduciary standard as a regulated entity.

## METHODOLOGY



In gathering data for *The Ben Liquidity Report™: Alternative Asset Investors, Their Wealth Behaviors and Attitudes*, Ben collected a total of 600 responses from MHNW alternative investment holders across seven key markets (Boston, New York, Miami, San Francisco, Los Angeles, Chicago, and the Texas Triangle) as well as the rest of the country. The survey had a 95% confidence rate with a margin of error of +/- 4% and was conducted May through July 2021.

## DEMOGRAPHICS

| Survey Demographic Details            |   |  |
|---------------------------------------|---|--|
| <b>AGE</b>                            | 20–39: 33%<br>40–49: 31%                                    | 50+: 36%   |
| <b>NET WORTH</b>                      | \$1M–\$5M: 13%<br>\$5M–\$15M: 29%                           | \$15M–\$30M: 29%<br>\$30M–\$80M: 29%                 |
| <b>GENDER</b>                         | Male: 82%   | Female: 18%  |
| <b>RACE/ETHNICITY</b>                 | Caucasian: 73%<br>Hispanic: 15%                             | African American: 14%<br>Asian: 8%                   |
| <b>EDUCATION</b>                      | Some college: 3%<br>Bachelor’s degree: 19%                  | Some post-graduate: 25%<br>Post-graduate degree: 53% |
| <b>DECISION-MAKING RESPONSIBILITY</b> | Solely responsible: 24%<br>Jointly responsible: 60%         | Limited responsibility: 16%                          |
| <b>MARITAL STATUS</b>                 | Married/living together: 76%<br>Widowed: 8%<br>Divorced: 8% | Single, never married: 4%<br>Separated: 4%           |

MHNW investors are defined as those with \$1 million to \$80 million in investable assets, excluding the value of their primary residence.

| 2020 Household Total Net Worth<br>(excluding value of primary residence) |                |            |
|--|----------------|------------|
| \$1 Million to less than \$2.5 Million                                   | 6.67%          | 40         |
| \$2.5 Million to less than \$5 Million                                   | 6.67%          | 40         |
| \$5 Million to less than \$10 Million                                    | 13.67%         | 82         |
| \$10 million to less than \$15 Million                                   | 15.00%         | 90         |
| \$15 Million to less than \$20 Million                                   | 14.83%         | 89         |
| \$20 Million to less than \$30 Million                                   | 14.33%         | 86         |
| \$30 Million to less than \$50 Million                                   | 13.83%         | 83         |
| \$50 Million or more   | 15.00%         | 90         |
| <b>Total</b>   | <b>100.00%</b> | <b>600</b> |

# A DEMAND FOR ALTERNATIVES

## Alternative Allocations On the Rise

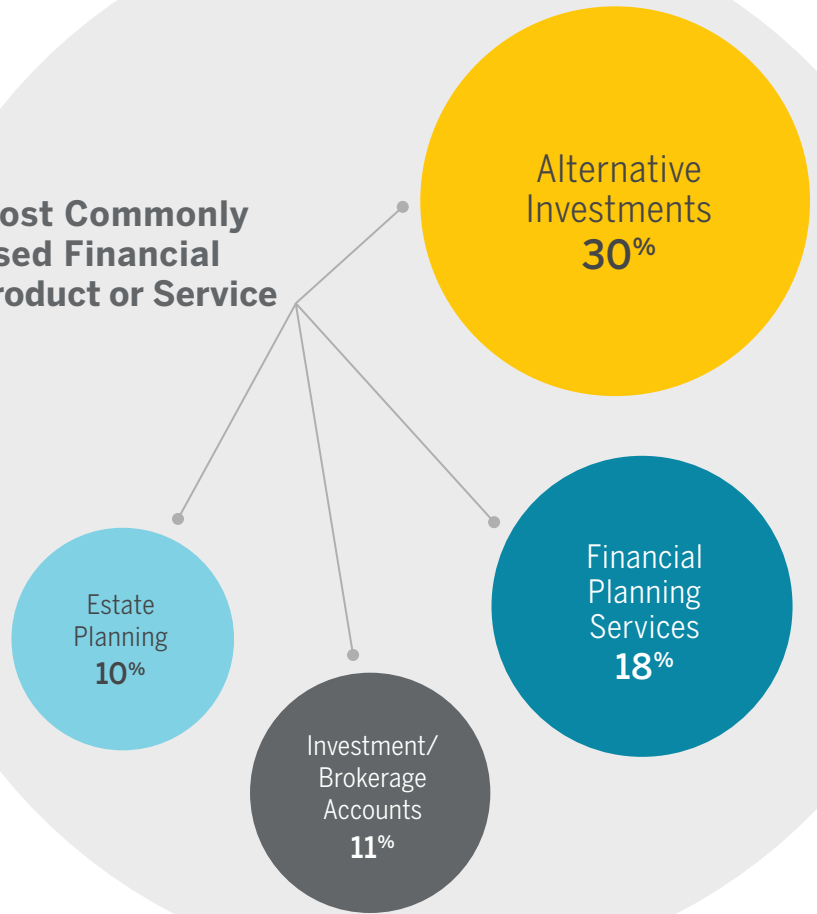
We asked investors how they allocated to alternatives in the past and how they plan to do so in the future.

**85%** have increased or maintained allocations since 2016.

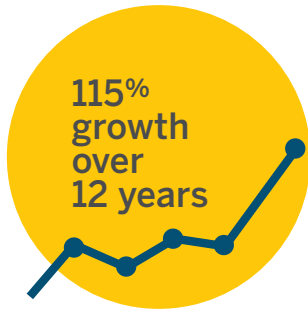
**96%** plan to increase or maintain allocations through 2026.

Survey respondents reported that their most commonly used financial product or service is alternative investments, like professionally managed PE funds, hedge funds, non-traded REITs, or venture capital, followed by financial planning services and investment/brokerage accounts (stocks, bonds, mutual funds, etc.). Estate planning came in a close fourth. The data seemed to underscore that MHNW investors have a clear and demonstrable interest in alternative assets and that they prefer working with a financial services professional.

### Most Commonly Used Financial Product or Service



# MHNW ALTERNATIVE INVESTORS BY THE NUMBERS



## Segment Growth

MHNW households are one of the fastest growing wealth segments, with an increase from 0.76 million to 1.63 million between 2008–2020.<sup>1</sup>

## Asset Growth

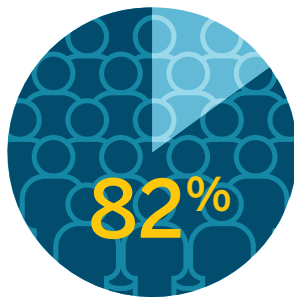
With \$9.1 trillion in worldwide alternative AUM, growing at ~15% CAGR annually, alternative assets are one of the fastest growing asset classes, 3.2x faster than stocks.<sup>2</sup>



## Alternative AUM

\$800 billion

An emerging demand from U.S. MHNW investors is developing in this underserved segment which holds approximately \$800 billion in alternative AUM.<sup>3</sup>

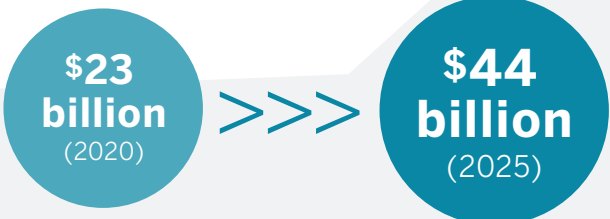


## Seeking Liquidity

Over the past five years, more than 82% of MHNW investors have tried to seek liquidity from their alternative assets outside of the fund's distribution or liquidation periods.<sup>4</sup>

## Estimated Annual Demand for Liquidity

To determine an accurate estimate, Ben calculated the annual turnover rate (2-3%) of total domestic MHNW alternative AUM as the unmet demand.<sup>5</sup>



<sup>1</sup> Sources: Spectrem Group Market Insights 2021. Money Management Directory

<sup>2</sup> Sources: Preqin, Boston Consulting Group Global Asset Management 2020 Report

<sup>3</sup> Source: Preqin, Boston Consulting Group Asset Management 2020 Report

<sup>4</sup> Source: The Liquidity Report 2022, Beneficient Company Group, L.P.

<sup>5</sup> Sources: Preqin, Setter Capital, Ben estimates of annual turnover rate. Hedge funds not included as Preqin does not consider hedge funds to be a private asset class.

# BEHAVIORAL HIGHLIGHTS

## Opportunity-Driven Investing

Over half of MHNW investors surveyed say their chief motivation in seeking liquidity is to achieve access to specific investing opportunities (52%) or to generate longer term return potential (51%). Although some respondents cited “unexpected expenses” (34%) as the main reason for liquidating some or all of their alternative assets, only 9% reported that “life events, such as death or divorce” was the primary deciding factor.

This suggests a possible shift away from liquidity being an emergency need to the utilization of liquidity as a forward-thinking opportunity-driven investment decision.

## Advisor Partnerships Are Key

While some groups of MHNW investors prefer a more DIY approach to creating an investment strategy, the majority of survey respondents prefer to collaborate with their advisors and lean on them for advice. The investors surveyed said they invested in alternatives on the advice of their family office (52%) or financial advisor (36%). Further, 71% of respondents reported engaging with their advisors by phone, email, or video on a weekly or bi-weekly basis, while an eye-opening 61% report meeting with their advisor in-person monthly. When it comes to seeking liquidity for alternatives, this need is even more pronounced — 81% of MHNW investors prefer to work through their advisors when obtaining liquidity.

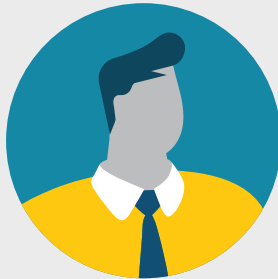


## Focused on Upside Potential

In keeping with the trend toward a more opportunity-based model for alternative asset liquidity, it makes sense that very few survey respondents showed interest in all-cash options. Instead, most investors listed preferred equity, common equity, or the potential for equity upside in the liquidity provider as their desired liquidity options (74%). This indicates that they like the optionality of pursuing new investment ideas, especially if they own a later stage fund whose return profile is not as compelling as it once was.

# MHNW ALTERNATIVE INVESTOR PROFILES

The survey revealed four distinct Investor Profiles by examining gaps between *need importance* and *need satisfaction* with existing liquidity offerings currently available in the marketplace. The defining driver of distinction among the four investor profiles was their motivation for seeking liquidity, while profiles were further dimensionalized by a variety of demographics.



## Control Seekers

24% of survey respondents fell into this category

### Demographics

- Younger
- Male
- Lower affluence or extreme affluence
- Midwest and Texas
- Single or widowed
- College graduate

**MOTIVATION FOR LIQUIDITY:** Control Seekers are motivated to seek liquidity to achieve personal command over their finances.

**WEALTH ATTITUDES:** Having accumulated a significant savings cushion over the years, this group is focused on ensuring they have incremental stability over their financial lives. They want to ensure that they are completely covered, especially in the event of unforeseen financial distress.

**NOTABLE BEHAVIOR:** As a group, Control Seekers like to be involved in developing their investing strategies but will rely on the expertise of their financial advisors for the most important decisions.

**MOTIVATION FOR LIQUIDITY:** Savvy Savers are motivated by the desire for financial growth to protect against ongoing personal downside risk.

**WEALTH ATTITUDES:** Proud of the work they put in to achieve their wealth, this group is socially conscious about their position and acknowledge the role luck has played in their success.

**NOTABLE BEHAVIOR:** Savvy Savers are familiar with the capricious nature of the business and investing landscape and understand the importance of being flexible and engaged with the market, and the role luck has played in their success.



## Savvy Savers

25% of survey respondents fell into this category.

### Demographics

- Middle aged
- Female
- Medium affluence
- Coastal cities
- Married
- Post-graduate



# MHNW ALTERNATIVE INVESTOR PROFILES



## Engaged Altruists

23% of survey respondents fell into this category.

### Demographics

- Younger or middle aged
- Male
- Medium affluence
- Dispersed throughout U.S.
- Widowed or divorced
- Post-graduate

**MOTIVATION FOR LIQUIDITY:** This group is motivated to provide for their family and to discover ways to put capital to work in a more globally impactful way.

**WEALTH ATTITUDES:** Engaged Altruists have worked hard to get where they are, and they find comfort in knowing that they have a significant financial cushion.

**NOTABLE BEHAVIOR:** Early adopters of new digital tools, this group has a DIY spirit, preferring to do their own research rather than rely on advisors to make financial decisions.

**MOTIVATION FOR LIQUIDITY:** While Community Entrepreneurs are motivated to preserve their wealth and provide for future generations, their primary motivation for seeking liquidity is to achieve greater community impact.

**WEALTH ATTITUDES:** They bank on the advice of their financial advisors to help them realize their goals so they can maximize the impact they can make.

**NOTABLE BEHAVIOR:** Entrepreneurial ambitions are instrumental to the bigger motivation of positively impacting communities near and dear to them.



## Community Entrepreneurs

27% of survey respondents fell into this category.

### Demographics

- Younger or middle aged
- Female
- Medium affluence
- Dispersed throughout U.S.
- Widowed or divorced
- Post-graduate

## LIQUIDITY NEEDS

- More than 82% of respondents report that they have tried to seek liquidity from their alternative assets at least once in the past five years. A further 40% have sought liquidity more than once.
  - Main reasons for seeking early liquidation were to achieve access to new investing opportunities and to generate longer term return potential.
  - An additional motivating factor could be that as private market funds move into their harvest period, the typical return profile of even above-median funds, regardless of asset class, tends to be significantly below the return profile of those same funds but in earlier stages of the fund's life. Realizing liquidity prior to the end of a fund's life allows investors to rebalance portfolios into potentially more desirable investment opportunities with more attractive return profiles.
  - MHNWs report that a liquidity offering must be cost-effective, transparent, and simple to be considered successful.
  - Respondents prefer to work with a liquidity provider that is a regulated entity who ensures transparency throughout the transaction process.
  - A liquidity provider's reputation among financial advisors was an important decision-making factor for investors, underscoring the value advisors bring to their clients.
  - More importantly, the survey also revealed widespread frustration among investors with traditional means of moving out of their illiquid alternative assets.
  - It's no shock that 100% of respondents expressed interest in digital tools that can make seeking and finding liquidity more accessible and straightforward.
-

## CONCLUSION

The survey's findings tell the story of a new emerging demand for liquidity among MHNW alternative assets investors. If the motivations behind seeking liquidity are opportunity-driven, then it makes sense that investors place more importance on investment security-based forms of consideration and upside potential than cash. However, their frustration with the lack of liquidity providers is expressed in their strong interest in accessible, cost-effective and transparent liquidity tools delivered by an institution that operates as a fiduciary and regulated entity.

### **Implications for Wealth Managers, Financial Advisors and Sponsor Firms**

The survey reveals a huge opportunity for wealth managers, financial advisors, sponsor firms, and other intermediaries to improve access to liquidity solutions that deliver on MHNW investor preferences. First, the data indicates that interest in liquidity solutions for alternative investments is high, with 100% interest among survey respondents. As allocation to alternatives grows, due in part to the technology-enabled democratization of access to this asset class, so does interest in liquidity. Therefore, it makes sense that the market for liquidity from alternative investments will grow similarly as tech-enabled solutions remove the friction, complexity and cost from the secondary process.

Furthermore, the majority of respondents reported that they have tried to seek liquidity from their alternative assets once or more in the past five years, implying a strong sense of urgency. Finally, with 81% indicating they prefer to work through their advisor to obtain liquidity, the data underscores a clear, pressing need among MHNW investors for professional financial counsel.

### **How a Liquidity Provider Can Help**

On the whole, MHNW investors are opportunity-driven, seeking liquidity from alternatives for access to specific investing opportunities (52%) or long-term return potential (51%). In fact, preferred equity, common equity and income-producing bonds issued by the firm providing liquidity were the top three choices when asked what they'd like to receive in exchange for their alternative investment. Notably, the lack of demand for cash underscores the idea that MHNW sellers seek liquidity to access opportunities, rather than out of necessity. Working with a liquidity provider that caters specifically to the needs of this new emerging market demand can help you better serve your clients.

**Contact us today to learn more.**  
**888-877-8786 | [www.TrustBen.com](http://www.TrustBen.com)**

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