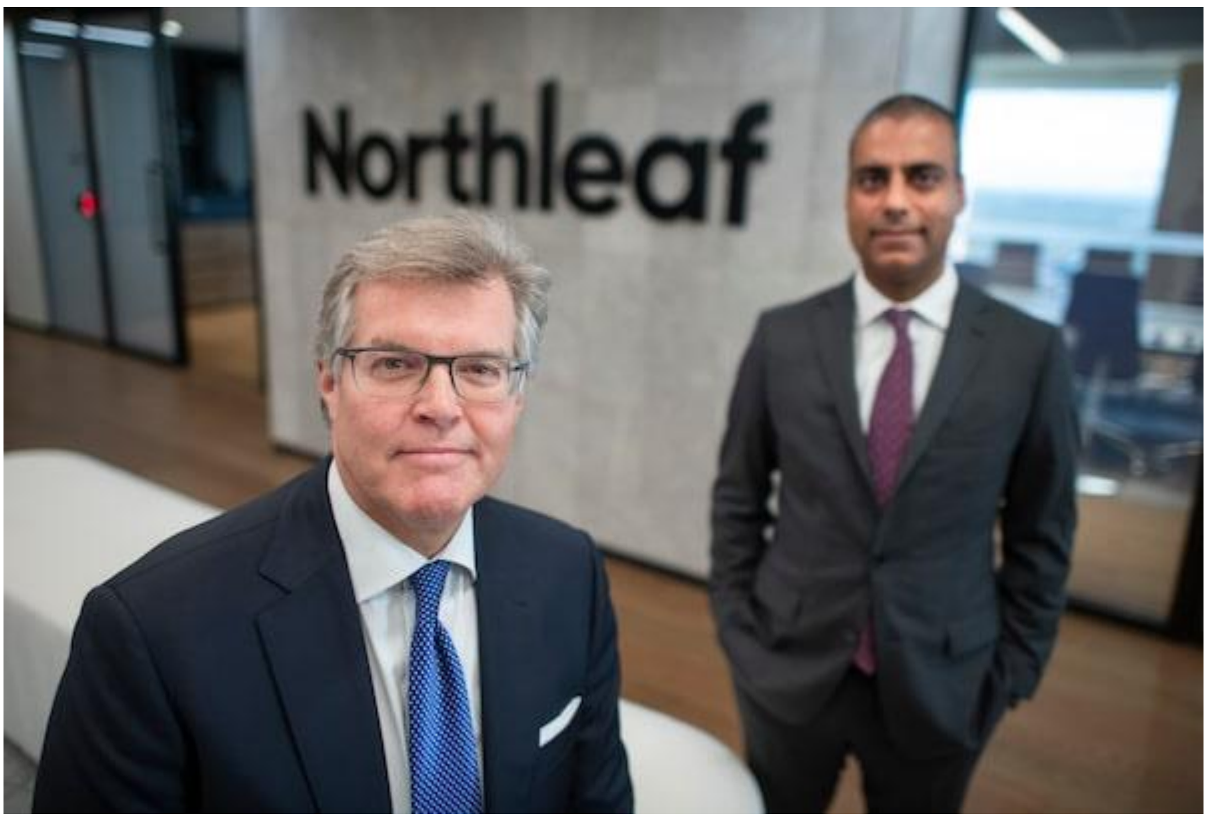
Mackenzie and Northleaf take a slow approach on rollout of private-equity funds for retail investors

JAMES BRADSHAW INSTITUTIONAL INVESTING REPORTER
CLARE O'HARA WEALTH MANAGEMENT REPORTER

Includes correction
Published November 3, 2024 Updated November 6, 2024



Stuart Waugh, CEO of Northleaf Capital, and Nadim Vasanji, managing director, are photographed at the company's Toronto office on Oct. 16. Mackenzie and Northleaf each built dedicated teams that have travelled the country to meet face to face with wealth managers. FRED LUM/THE GLOBE AND MAIL

When fund manager Mackenzie Investments teamed up with private-equity firm Northleaf Capital Partners in 2020 to open the gated world of investing in private companies to retail investors, the two partners knew education would be key to unlocking the market.

Four years later, after launching four funds, the partners are still giving a crash course in private assets to clients and their investment advisers.

The rush to get individual investors to embrace private assets such as private equity and infrastructure as part of their portfolios is one of the hottest corners of the investing world, but it is proving to be a slow burn. In baseball terms, it "is really still the first inning" for wider adoption of a class of assets that has been dominated by the largest investors, Northleaf managing partner Stuart Waugh said in an interview.

As institutional money has poured into privately owned assets, with pension plans, sovereign wealth funds and family offices for the ultrarich leading the way, the lure of booming private markets has grown stronger for individual investors and their advisers.

"If you're a sophisticated investor – be it an institution, a family office, an asset manager or increasingly an individual – if you're thinking about building a diversified portfolio that's got some resilience across cycles, that can perform well for the long term, you have to be thinking about the private markets," Mr. Waugh said.

Building and launching funds tailored to meet the needs of more individual investors is one thing. But building teams and tools to educate retail investors and their advisers about how the private markets work – and why they might add private equity or private credit investments to their portfolios, as well as big-name stocks such as Apple Inc. and Tesla Inc. – is a different challenge and a longer-term project.

"We knew it was going to be a big job," Allan Seychuk, who leads Mackenzie's alternative investment team as vice-president and senior investment director, said in an interview. "We didn't quite appreciate how big."

Traditionally, investments in private equity, private credit, infrastructure and parts of the real estate market have been the domain of funds that raise billions of dollars from select groups of large investors. Those funds are typically complex to buy into, with high minimum investment thresholds and terms that can lock up an investor's money for seven to 10 years in many cases.

That is also a main selling point of alternative funds: In return for agreeing to tie up their money for longer, private-asset investors demand an "illiquidity premium" and expect better returns.

"Liquidity is not free. … It comes at a cost," Mr. Seychuk said. "It's quite likely that not everybody – most people, actually, don't need 100 per cent of their portfolio to be cashable the next day. … And they don't have to pay for a feature they're not going to use."

The higher yields that private assets promise in return for that patience – and a chance to hedge against volatility in public markets – have sparked a flurry of activity among investment firms that are racing to make these types of investments accessible to more individuals by offering limited ability to cash out early.

From late 2020 to 2022, Mackenzie and Northleaf launched a suite of four retail funds that they hope will meet that growing demand. As those funds hit the market, the partners also kicked off a multiyear plan to educate potential investors.

The three main funds can only be sold by an adviser licensed to sell securities, and bought by accredited investors who typically have higher incomes than average or significant assets. The minimum investment is $25,000 to access individual funds that provide direct exposure to private credit, private infrastructure and global private equity. Those funds are invested across the same suite of assets as Northleaf's flagship funds for institutional clients, though precise allocations can vary.

In 2022, Mackenzie and Northleaf introduced a fourth fund – a mutual-fund investment for all retail investors with a lower minimum investment threshold of $5,000, which offers an entry point for a wider array of clients.

Northleaf builds its retail products with 60-per-cent to 80-per-cent exposure to private assets, then combines that with a tranche of highly liquid assets that can quickly be turned into cash, to make it easier for individual clients to enter or exit a fund. But clients' withdrawals are limited, and restricted to specific redemption windows scheduled quarterly, semi-annually or annually, depending on the fund.

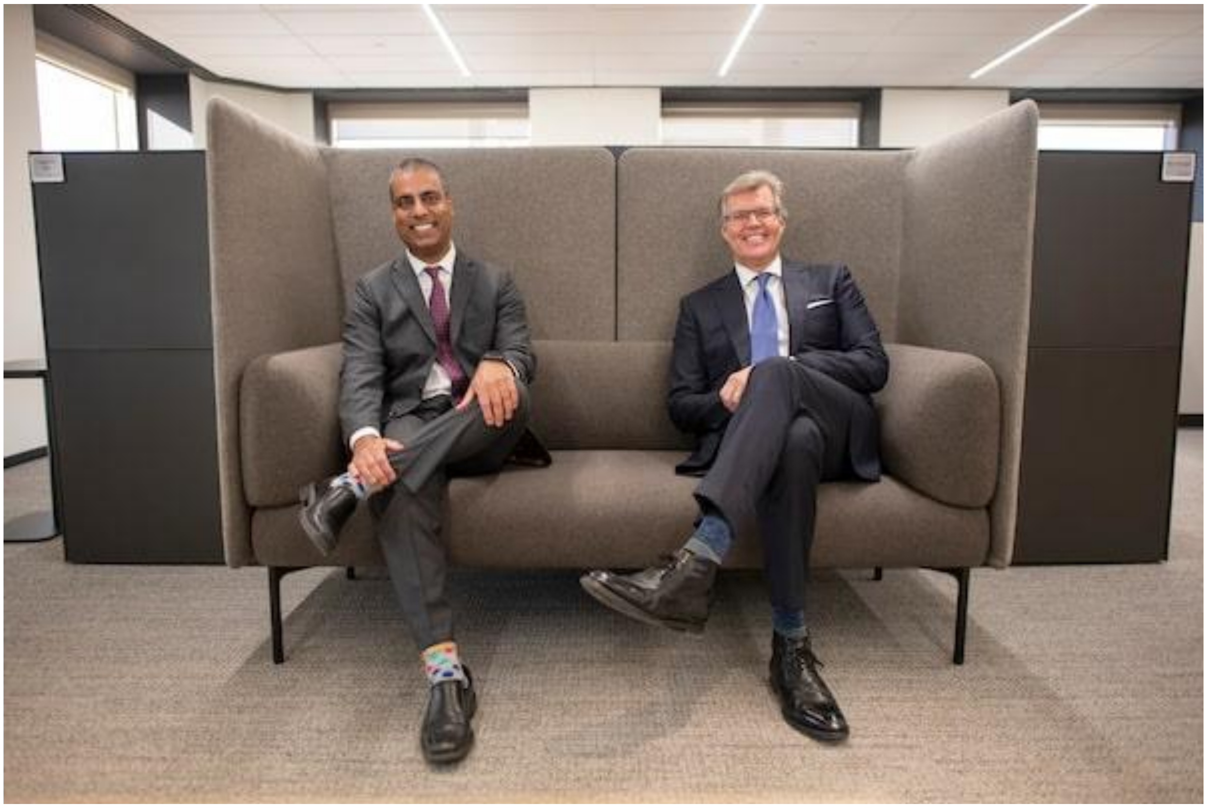
In 2020, Mackenzie and its parent, IGM Financial Inc., bought a major stake in Northleaf, seeking to combine the private equity firm's experience in building institutional-grade funds with Mackenzie's massive retail distribution network. Until now, the capital committed to Northleaf by individuals and family offices as well as wealth management and retail clients was a small slice of the US$27-billion it has raised, making up about 10 per cent. Over the next five to seven years, Northleaf aims to boost that proportion to closer to 20 per cent of its fund flows.

But first, Mackenzie and Northleaf need to prove they can deliver the same strong returns to retail clients that institutional investors expect.

Mackenzie and Northleaf each built dedicated teams that have travelled the country to meet face to face with wealth managers. The goal is to educate the retail market on the attributes of private markets with written materials, videos, events and "short, snackable, bite-sized content," Mr. Seychuk said.

"They say you have to hear something five times before it sinks in. You might see an adviser once every six to eight months. So it is a long sales cycle for these types of products," he said.

In the meantime, the pressure is mounting. Investment firms around the world are racing to break open the gates around private markets that are rapidly expanding, led by global giants such as Blackstone Inc., Apollo Global Management Inc. and Toronto-based Brookfield Asset Management Ltd. Major banks in Canada and the United States are also busy building their own products.



Mr. Vasanji, left, and Mr. Waugh are photographed at the Northleaf's Toronto office on Oct. 16. There's a window of opportunity for fund managers, such as Mackenzie and Northleaf, as they work to demystify the multitrillion-dollar global market for private assets. FRED LUM/THE GLOBE AND MAIL

"It does feel like there's this rush to do stuff. And I think we've been disciplined around how we've been structuring products," said Nadim Vasanji, Northleaf's head of strategic distribution and marketing.

As more companies stay private for longer, the opportunities for retail investors will expand, said Claire Van Wyk-Allan, head of Canada for the Alternative Investment Management Association. Today, she estimates less than 2 per cent of an average investment dealer's retail assets under administration are sitting in private alternatives. And she predicts that every investor will eventually have at least 10 per cent of their portfolio in alternatives. That's much less than major Canadian pension funds, which typically have roughly half their assets in similar funds.

That leaves a big window of opportunity for fund managers such as Mackenzie and Northleaf as they work to demystify the multitrillion-dollar global market for private assets. But it may take years to pay off.

"If you take that multiyear view, then to some degree you can block out the noise. This isn't a land grab. We're not trying to get as much as we can in the next six months. What we're trying to do is build a business for the next 20 years," Mr. Waugh said. "There is a danger that you can get caught up in the rush."

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