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Oaktree Snags 27% of Flows from Retail Investor Market

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Oaktree Capital Management got a big boost from individual investors in 2018, raising $3.4 billion of its $12.7 billion in new capital from feeder vehicles, alts funds for advisors, and subadvisory assignments – 26.8% of the total haul.

The fundraising push was across the board in the individual investor realm, said CEO **Jay Wintrob** on Oaktree's fourth quarter 2018 earnings call last week.

"We had a strong fundraising year from intermediary and high-net-worth channels, raising approximately $1.4 billion from global high-net-worth individuals, family offices, and clients of financial advisory firms, such as Morgan Stanley and Merrill Lynch," he said. "Together with an additional $2 billion of flows from our sub- advisory and [Luxembourg open-end fund] platforms, we raised about $3.4 billion from these channels across a diverse slate of strategies, such as strategic credit, real estate debt, special situations, and emerging markets equities."

Oaktree's share of capital from the retail market may become a more regular event for the largest private equity firms, says **Brendan Lake**, president and CEO at PPB Capital Partners, an alts product platform for advisors. He says Blackstone Group, Carlyle Group, Apollo Global Management, and others have been investing in the sales infrastructure.

"It's highly likely that firms like Oaktree can approach 25% regularly," he says. "If you look at Apollo, Blackstone, Carlyle, the interest level is there."

The larger firms have built the capability across several levels, with brand being a primary tool, Lake says.

"It's the big firms that have succeeded in getting their brand out to the masses," he adds. "Look at **[**Oaktree Co- Chairman] **Howard Marks**'s letters – investors and advisors see these, [and] he is a notable figure."

Moves by the biggest private equity shops to pull in a quarter or more of their assets from the retail market won't go unnoticed by the next-largest groups of fund managers, Lake says.

"Will it encourage other [general partners]? I definitely think so," he says. "People follow the leaders."

Blackstone has made the retail market a prime sales target, with plans to market 13.5% of its latest flagship opportunistic real estate fund later this year at the major brokerages and wealth management shops, said **Jon Gray**, president and COO, on the firm's recent fourth quarter 2018 earnings call. The fund manager raised $17.3 billion from institutional investors for the fund and is reserving the last $2.7 billion for retail investors to hit its targeted $20 billion cap, he said.

Blackstone doesn’t treat the high-net-worth sales effort as a tool to pad a new fund’s total assets, but rather focuses on each investor group during set periods, Gray said.

“[I]n virtually all of our funds, what we do – and this has been a historic practice – is really focus on an institutional fundraise, and then allocate a portion of capital to retail,” he said.

That heads off any idea that retail investors are getting the scraps, said **Joan Solotar**, head of private wealth solutions and external relations, who also spoke on the call. “We’re not giving them any kind of adverse selection, meaning that ‘Oh, we’ll only distribute what doesn’t sell,’” she said.

Solotar said at an investor day presentation last fall that Blackstone aims to have $250 billion in retail market assets within a decade, up from the $58 billion it counted last year.

Some managers rely heavily on advisors to raise assets for particular funds, such as impact investing strategies. TPG has built a wide retail partnership with UBS Global Wealth Management for its Rise Fund series, and in a Securities and Exchange Commission filing last week the fund manager outlined a new sales agreement with the wirehouse for its second $3 billion impact fund. KKR last year crafted sales agreements with both UBS and Morgan Stanley for its $1 billion impact fund launched last year.

Apollo last week also outlined a new feeder vehicle at Morgan Stanley for its second natural resources fund, which so far raised $1.2 billion.

Oaktree also has made progress on the retail front by raising capital through its new advisor-focused registered non-traded alts funds, including real estate investment trust (REIT) and business development company (BDC) vehicles launched last year. It raised $300 million in high-net-worth capital for the BDC, Wintrob said. Oaktree last year outlined a sales agreement with Morgan Stanley for that vehicle in an SEC filing.

Blackstone in particular has mined registered alts funds for big assets, last year dominating non-traded REITs with $2.9 billion in sales, making up more than 60% of the total $4.6 billion raised in the market, according to **Robert A. Stanger & Co.** data.

Many of the big shops have invested in their sales efforts, either building out their own distribution teams or partnering with traditional or specialist asset managers that have advisor sales forces, Lake says. Most have also created feeders or other vehicles to bring their institutional funds to the retail market, either by themselves or on platforms such as PPB and iCapital Network, he says.

That has matched well with greater appetite from advisors of all sizes to add alts to their client portfolios, Lake says.

“Eight or nine years ago, an advisor with $350 million wasn’t feeling sophisticated enough to invest in alts assets,” he says. “That has changed, and advisors are looking for ways to deliver interesting ideas.”

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