

Private Investment Sub-Committee Update

SEC Asset Management Advisory Committee - 27th
May 2020

Agenda

- Sub-Committee Members
- The “supply” and “demand” dynamics for asset management product / services
- Our key guiding principle
- Workstreams
 - Measuring full cycle returns from private investments
 - Understanding the current exemptions and restrictions for access to various private investments
- Next Steps

Members

- **Rama Subramaniam** – GTS (Chair)
- **Adeel Jivraj** – Ernst & Young LLP
- **Erik Sirri** - Babson College and Natixis Funds, Loomis Sayles Funds, and Natixis ETFs
- **Joe Savage** - FINRA
- **John Bajkowski** - American Association of Individual Investors
- **John Suydam** – Apollo Global Management

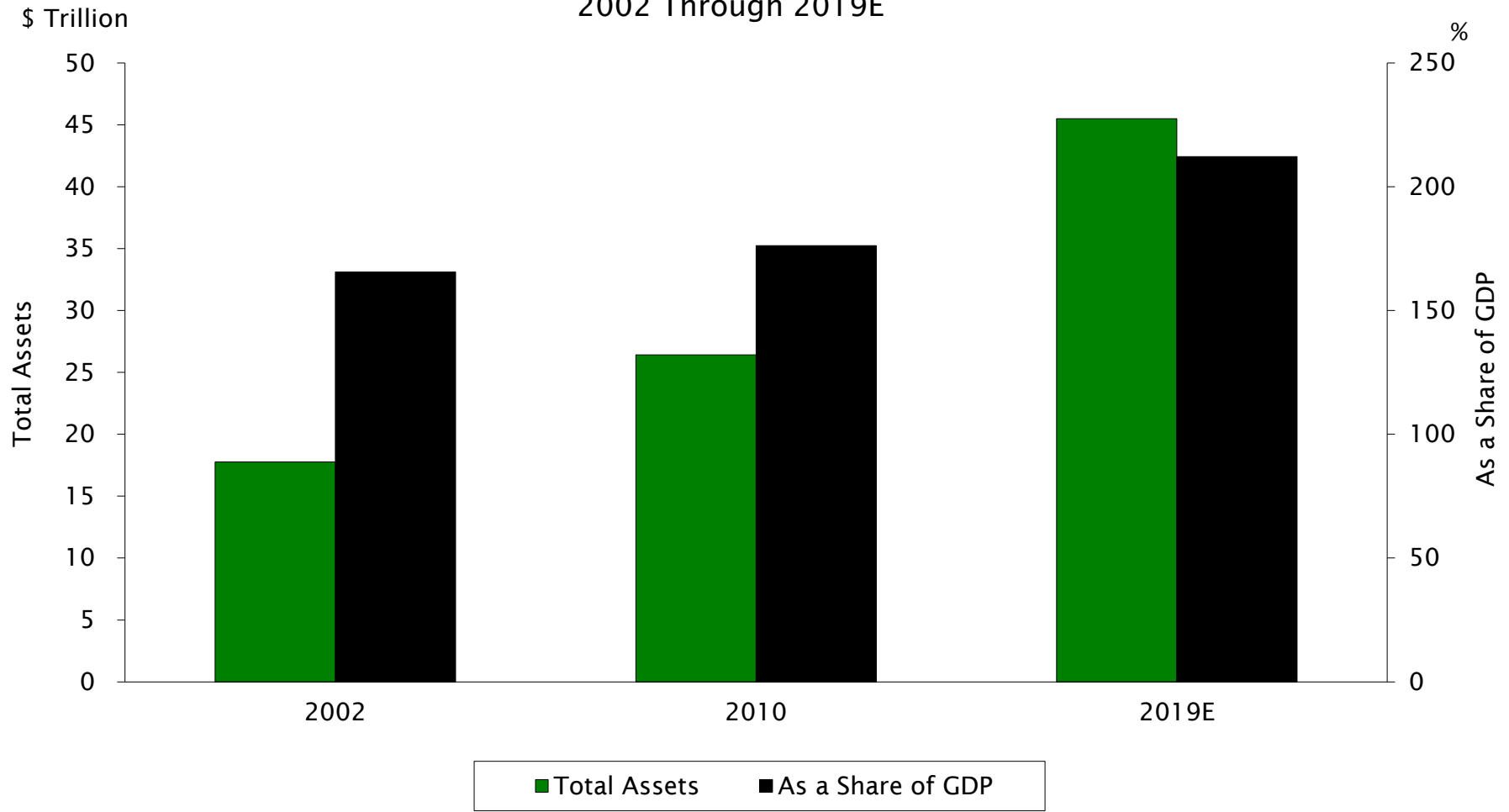
Demand Side

Content from 1st AMAC meeting – 14th January 2020

Michael L. Goldstein – FMMI Inc

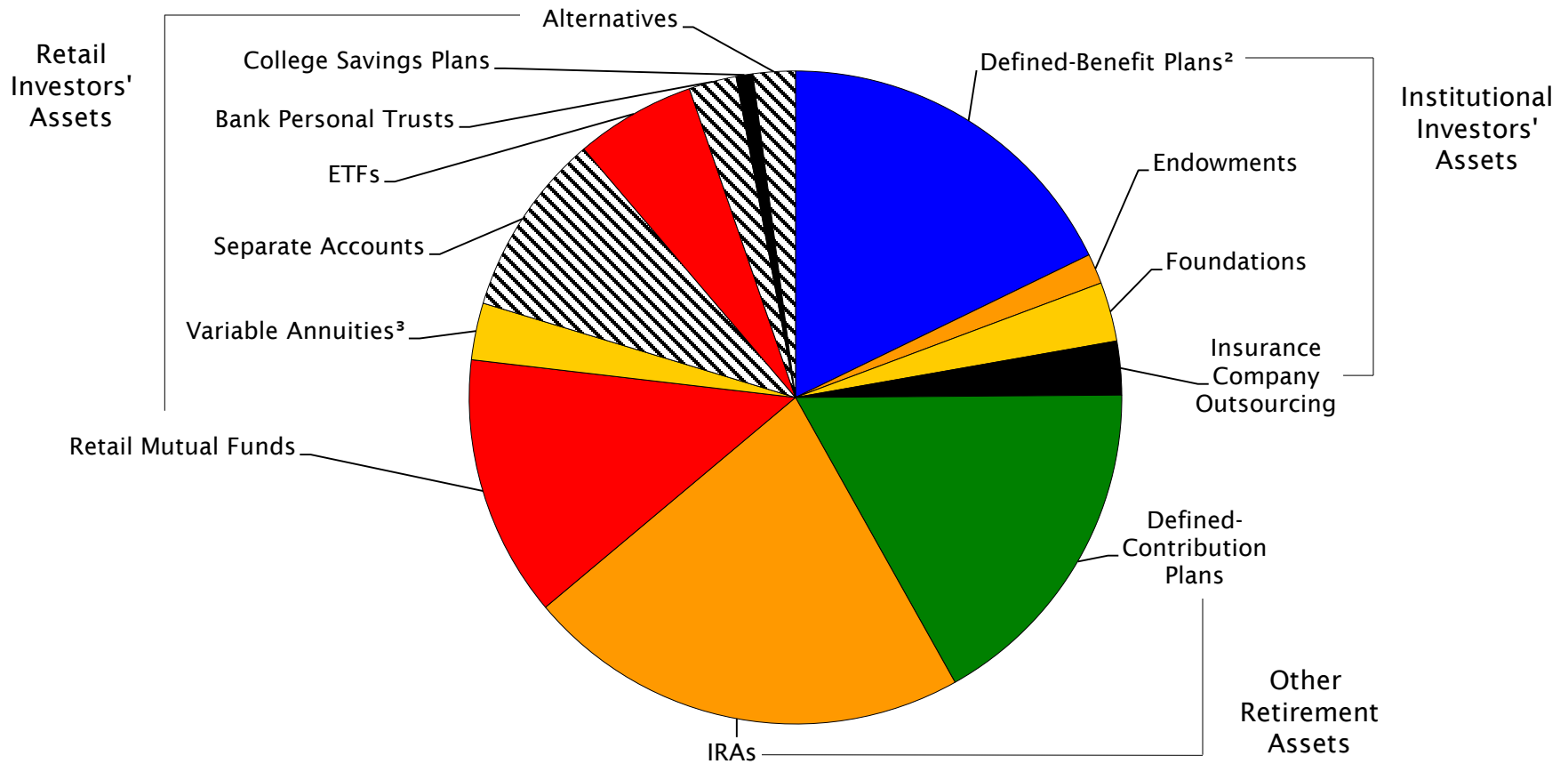
The U.S. Industry is Around \$45 Trillion in Size...

U.S. Money Management Industry Assets
Total and as a Share of GDP
2002 Through 2019E



...And It Has a Retail Character...

The U.S. Money Management Industry Sources of Assets Under Management¹ 2018



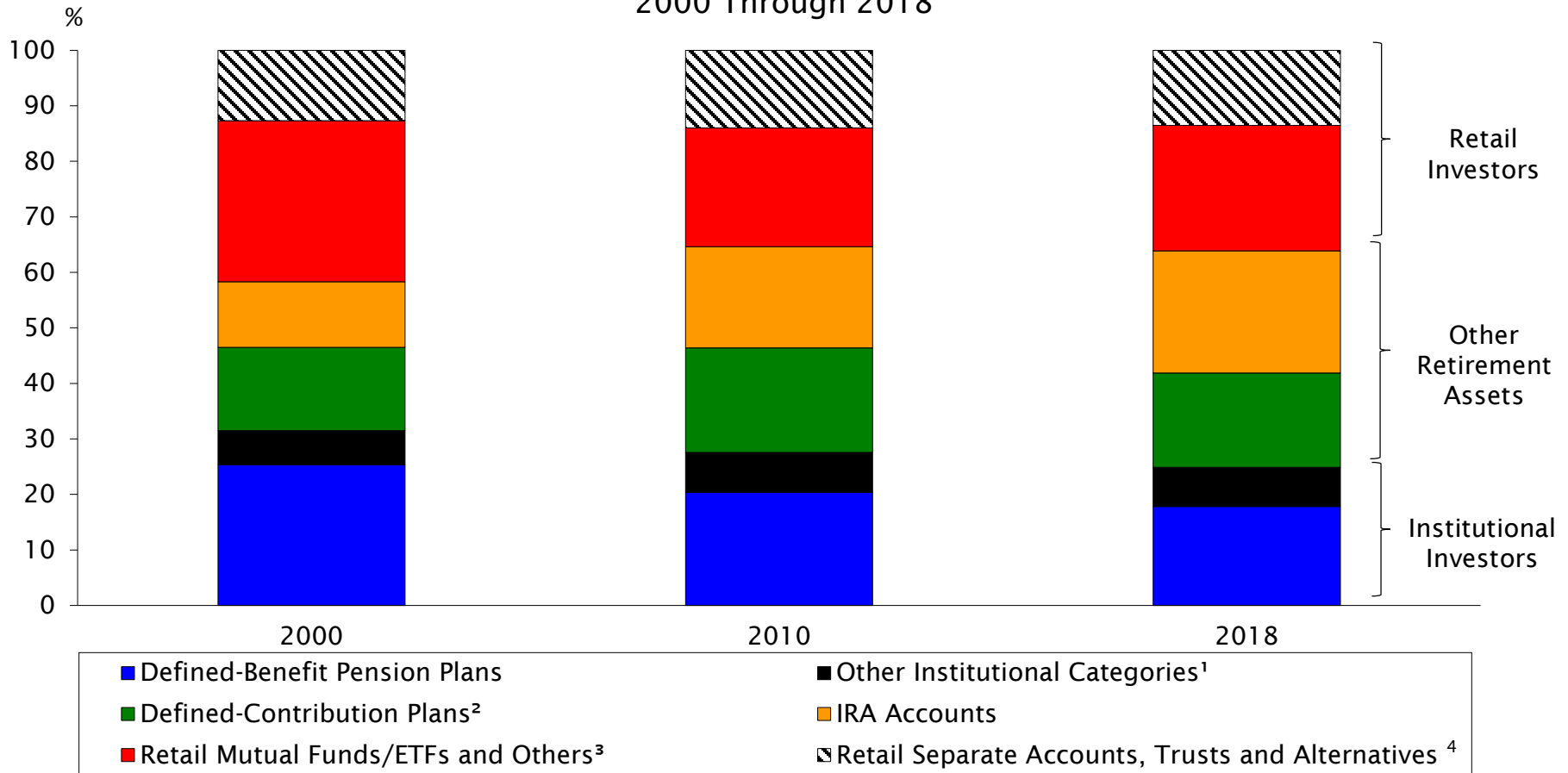
¹ Not including federal government pension plans.

² Excludes unfunded portion.

³ Excludes variable annuities held in defined-contribution and IRA retirement plans.

...That's Increased Over Time...

The U.S. Money Management Industry
Composition of Assets Under Management
2000 Through 2018



¹ Endowments, foundations and outsourced insurance assets.

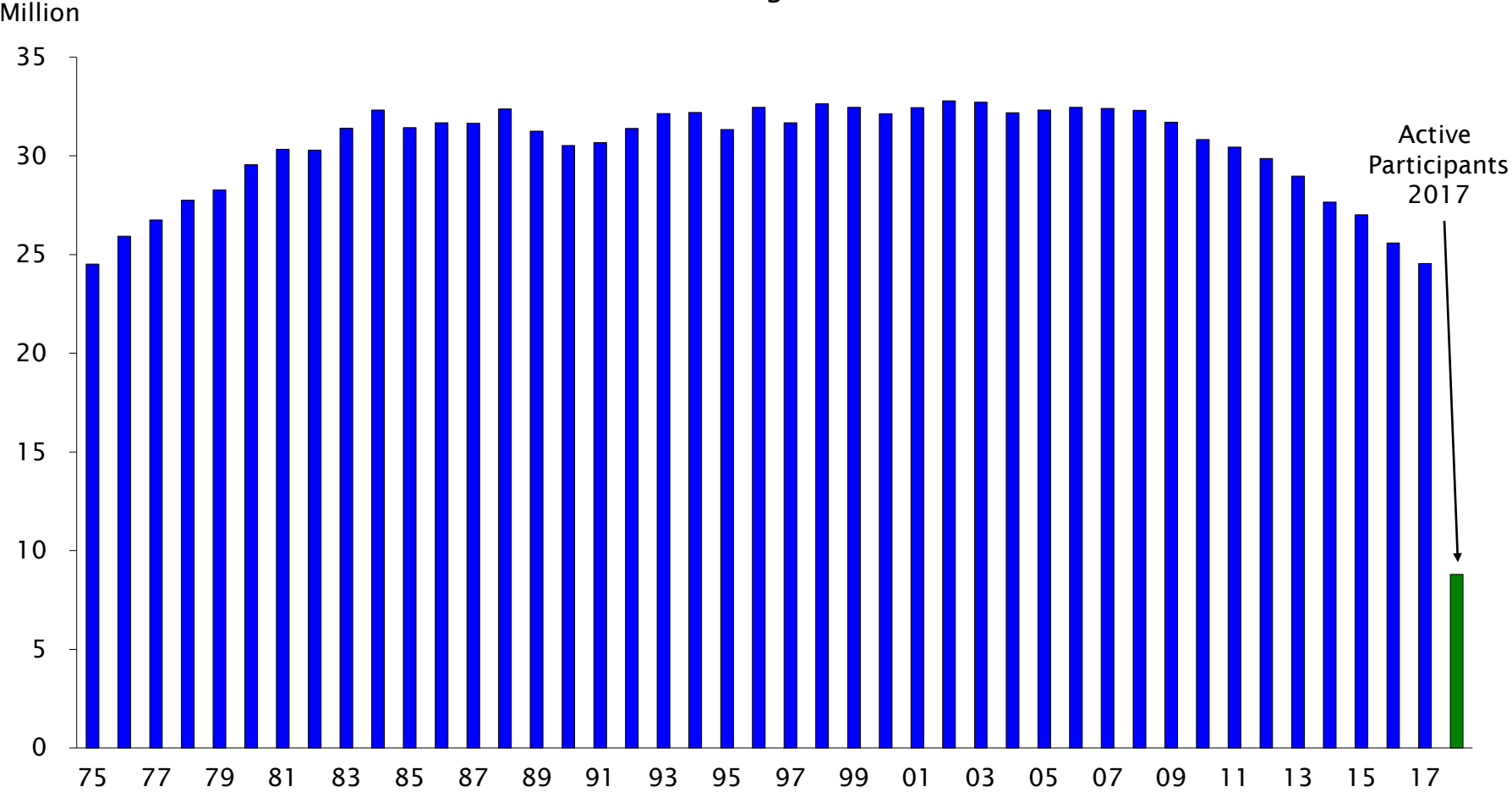
² Includes 401(k), 403(B), 457 and union defined-contribution plans.

³ Includes variable annuities and college savings plans.

⁴ Includes hedge funds and private equity funds.

...As the ERISA Era Has Come Full Circle

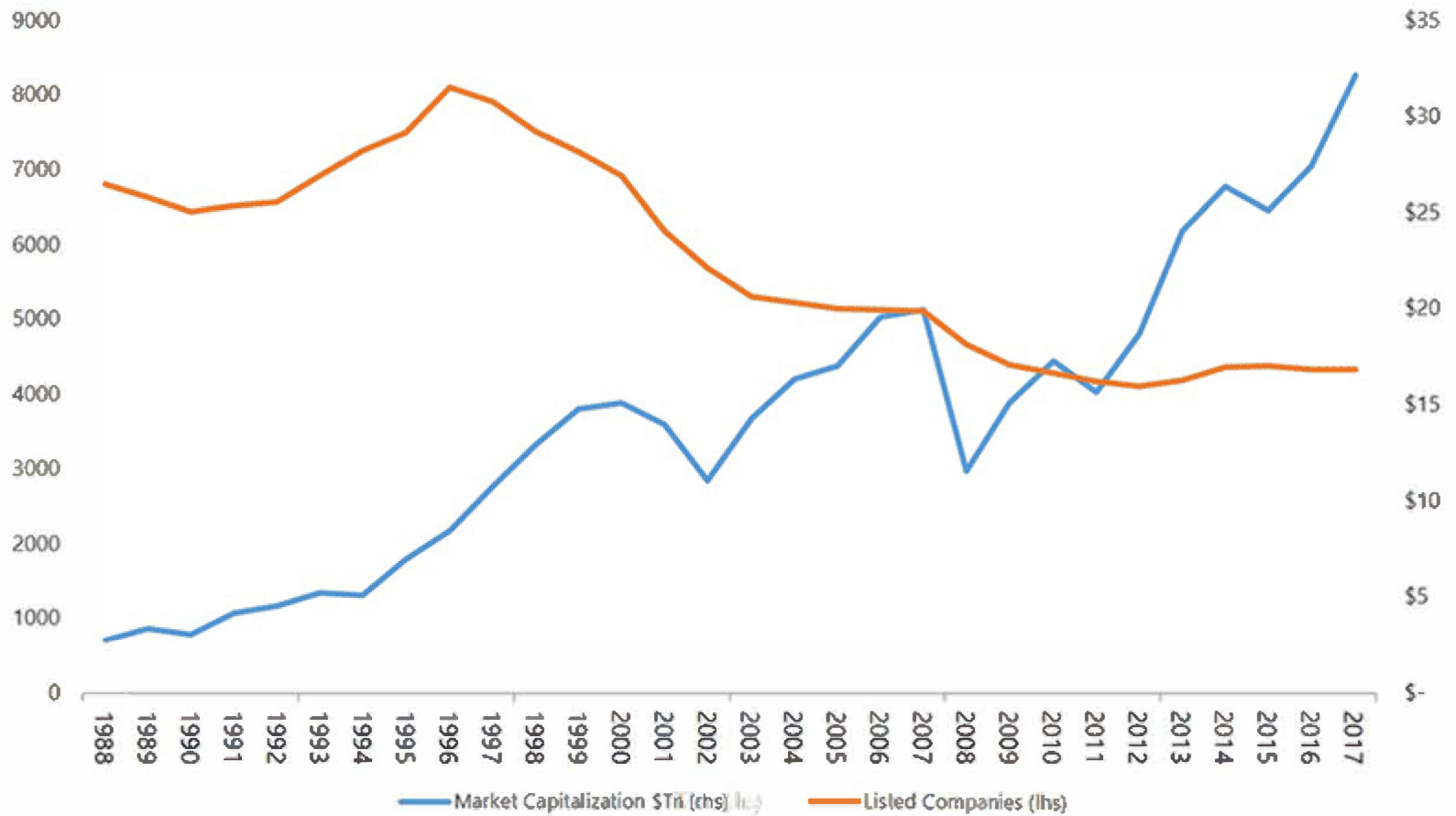
Corporate Defined-Benefit Plans
Number of Participants
1975 Through 2017





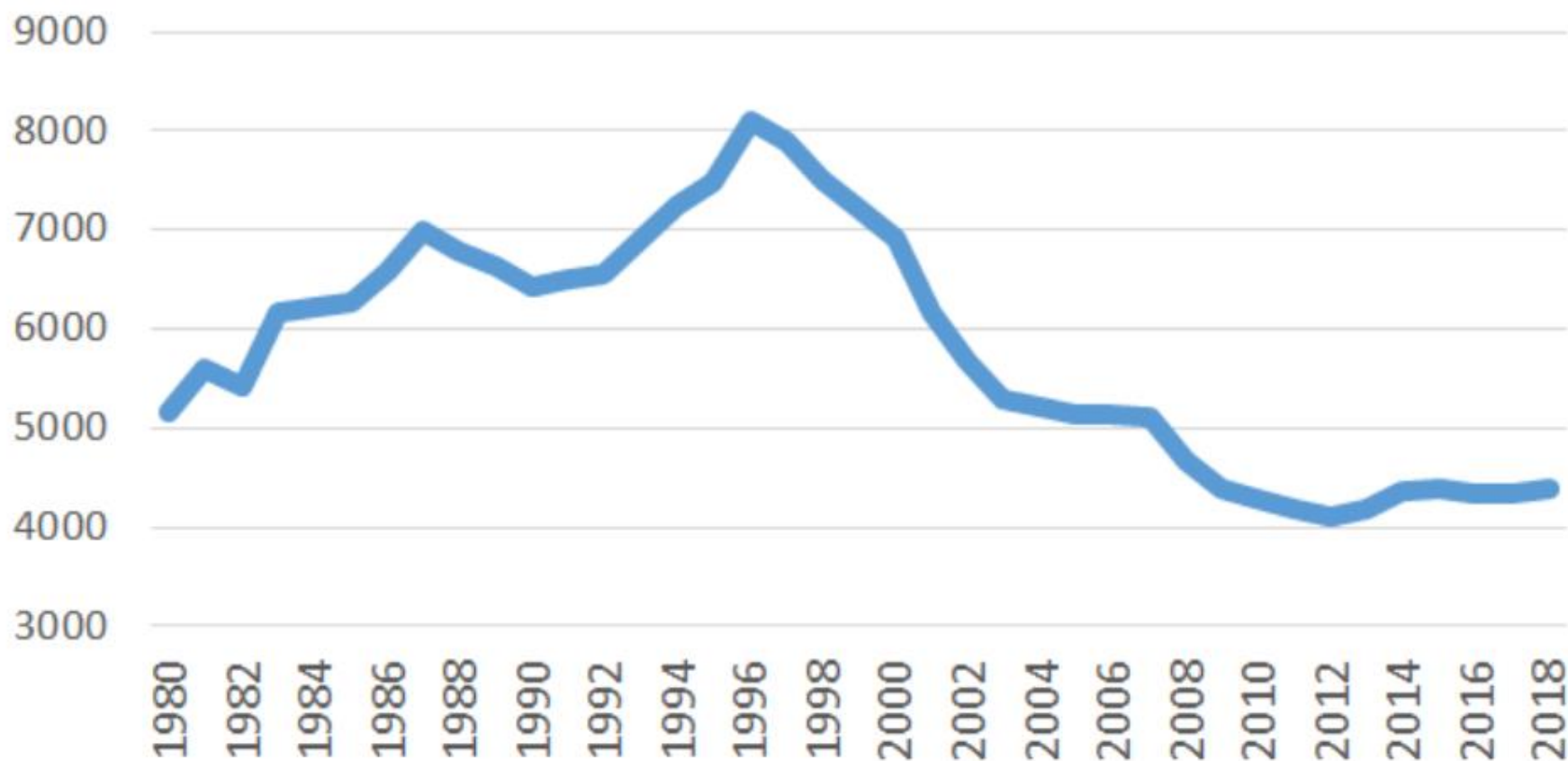
Supply Side

Listed U.S. Companies & Market Capitalization



Source: The World Bank <https://data.worldbank.org/indicator/CM.MKT.LCAP.CD?locations=US&view=chart>

U.S. Listed Domestic Companies



As of 5/30/2019. Source: The World Bank Group

Key Guiding Principle

- Our key guiding principle and our “North star” will be the best interest of Main Street investors.
- That best interest will include balancing protections for the investor with opportunity and access to a wider range of investments.

Workstream 1 – Measuring full cycle returns from private investments

- **Private investments should provide diversifying and /or additive returns over a full investment cycle to a typical public market portfolio or when compared to public market benchmarks**
- Survey prior academic studies
 - Initial work by Erik Sirri has shown limited useful studies
 - Engaging with SEC DERA unit to determine the availability of academic literature regarding potential effects from including private investments in individual investor portfolios
- Seek out industry data providers such as Hamilton Lane and Cambridge Partners and analyze the data
 - Expect inherent limitations in comparability
 - Prefer data that we can analyze ourselves (might request DERA assistance)

Workstream 2— Understanding the current exemptions and restrictions

- **We are reviewing several SEC releases including:**
 - Concept Release on Harmonization of Securities Offering Exemptions – June 2019
 - Proposed to simplify, harmonize, and improve certain aspects of the exempt offering framework to promote capital formation while preserving or enhancing important investor protections – March 2020
 - Proposed rule to amend ‘accredited investor’ definition – Dec 2019
- **Evaluating these in terms of private investment asset classes**
- **“Evolutionary” changes vs “Revolutionary” changes**

Next Steps

- Complete academic survey of private investment returns and share initial conclusions
- Collect data from industry providers and review any similar analysis they have done
- Confirm approach to analyze data collected
- Summarize current exemption and access framework for main asset classes
 - Private equity (distinguish between early stage, growth, late stage potentially)
 - Real Estate
 - Private Debt
 - Others?

Questions and Comments

References and Materials

- [CaseyQuirk-Deloitte US Asset Management Comments](#)
- [Empirical Research – Issues Facing U.S. Money Management Industry](#)
- [McKinsey & Company – Global Trends in Asset Management](#)
- [Concept Release on Harmonization of Securities Offering Exemptions \(June 2019\)](#)
- [Proposing Release, Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Market \(March 2020\)](#)