



Democratizing private markets

Expanding retail
access to alternative
investments



Navigating regulatory shifts, risks, and opportunities in alternative asset democratization

Long-standing regulatory barriers that have traditionally restricted retail investors' access to institutional investments are now beginning to soften. This shift is fueled by technological innovations, evolving regulatory perspectives including the recent August 7 Executive Order promoting greater access for 401(k) investors, and the strong growth potential of alternative asset classes in private equity, private credit, and private real estate. In response, market leaders are developing democratized product offerings designed to bring these assets into the portfolios of less-sophisticated retail investors. They are drawing from market data and recent developments, including collaborative initiatives by leading players across retirement plan administration, alternative asset management, and investment distribution. The following is an outline of industry trends, regulatory considerations, potential risks, and strategic opportunities for financial service firms as they navigate this evolving landscape.



Market trends and industry information



Alternative investment preservation

Historically, alternative investments—particularly in private equity, credit, and real estate—have been the preserve of institutional investors and high-net-worth individuals. Recent market dynamics and technological advancements are catalyzing a shift: democratized products such as target-date funds, managed accounts, interval funds, and closed-end funds are increasingly incorporating alternative asset exposure into retail portfolios (e.g., retirement funds). This trend is underscored by initiatives from major retirement plan administrators seeking to integrate private credit, equity, and real estate into their 401(k) platforms, along with strategic alliances between alternative asset managers and traditional financial institutions.



Expansion of retail access through product innovation and structural adjustments

Recent industry initiatives seek to capitalize on the vast and untapped retail investment market. Partnerships between established asset managers and traditional investment firms are enabling the creation of hybrid portfolios that blend publicly traded assets with private, illiquid alternatives, with the goal of providing continuous liquidity and enhanced diversification. Proponents of this expansion of retail access to alternative investments argue that it can democratize the investment landscape, providing retail investors with opportunities to enter the rapidly growing private markets industry, which was traditionally reserved for institutional investors and other accredited groups and individuals.

Asset managers are developing innovative products including target-date funds with built-in private asset allocations, as well as closed-end and interval funds that allow periodic redemptions while securing capital for investments in alternative assets. To bring these products to fruition, asset management firms are partnering with private market fund managers, incorporating mechanisms designed to address the inherent illiquidity and valuation challenges associated with private assets. For example, incorporating publicly traded securities into 401(k) private market funds can help mitigate the liquidity constraints typically associated with private investments. In this scenario, funds aim to provide daily trading windows and meet near-term investor withdrawals using the more liquid public components of the fund.

Regulatory considerations and industry implications



Evolving regulatory landscape

Regulators have traditionally imposed strict eligibility criteria—such as accredited investor standards (e.g., high-net worth, licensed, or institutional designation required) and minimum investment thresholds—to protect unsophisticated investors. However, recent signals from regulators, legislature, and even the President suggest momentum in the direction of broadened access. Regulatory signals include statements from SEC Chairman Paul Atkins, who recently signaled public support for ending a two-decade-old staff practice that forced retail closed-end funds investing $\geq 15\%$ in private funds to sell only to accredited investors with a \$25k minimum.¹ Legislature initiatives, such as the proposed Increasing Investor Opportunities Act, would prohibit the SEC and exchanges from limiting a closed-end fund's ability, (including Business Development Companies (BDCs)), to invest “any or all” of its assets in private funds or to list and sell shares because of such investments.² Presidential support, in the form of a recent executive order from the Trump administration to increase access to private markets, demonstrates an easing of these restrictions and aims to facilitate broader retail access without compromising investor protection (EO 14330).^{3,4,5}



Balancing innovation and investor protection

While democratization presents significant private fund capital growth opportunities the shift toward alternative investment exposure in retail portfolios introduces complex risks, including potential liquidity mismatches, lack of valuation transparency, and exposure to higher-risk private credit and leveraged investments; risks that historical regulations have attempted to protect less-sophisticated investors from. Opening these private funds to retail investors will require enhanced regulatory guidance, expanded fund disclosure requirements, and a robust risk management, compliance, and controls framework. Identifying, managing, and mitigating these new risks are critical to ensuring that the democratization of private markets does not compromise stability in both the private and public markets or investor welfare. However, while these democratization trends may get ahead of any regulatory guidance, firms will still need to be mindful of their obligations as fiduciaries including the prioritization of their investors' best interests.





Systemic risk factors

Recent reports, including those from the Boston Fed, have raised concerns about the interconnectedness between banks and private credit firms (i.e., “nonbanks”) and the potential for elevated systemic risks through the financing chain.^{6,7} Although many democratized products incorporate features that are marketed as mitigants to these risks (such as liquidity cushions and diversification mandates), continuous oversight is necessary to mitigate vulnerabilities that may arise from a rapidly expanding private credit market, especially under conditions of economic downturn or regulatory changes. For instance, regulators may adjust *diversification* mandates to prevent the sale and marketing of funds with potentially higher-than-advertised correlations.



Potential credit rating woes

Credit ratings function in capital markets as a tool to inform investors concerning the risk of default associated with a particular debt instrument. Critics of private-credit ratings argue there is a conflict of interest inherent in an issuer-paid model, contending that firms can shop for a ratings provider that can provide the most favorable ratings. Such concerns may be reminiscent of the “ratings shopping” phenomenon commonly cited as partially contributory to the subprime mortgage collapse, where the drive for market share led to a systemic underpricing of risk. When conflicting interests like these arise in credit ratings, funds may tend to be rated higher than they realistically should be. If a credit rating does not accurately reflect reality, retail-facing vehicles (e.g., interval funds, tender-offer funds, BDCs) may contain a level of hidden credit risk unbeknownst to the investor. How risky an asset is directly impacts valuation calculations (e.g., Net-Asset Value [NAV], a common private market valuation metric), therefore, an unaccounted-for level of credit risk in a fund could suggest the asset’s *price* is inflated. Inflated asset prices and unknown investor risk exposure would generally be considered a negative and imply an unhealthy market.





Conclusion and recommendations

The democratization of private market assets represents a fundamental transformation in the alternative investment landscape. By expanding retail access, asset managers and financial institutions are attempting to tap into the vast capital available in retirement portfolios, including the nearly \$9 trillion assets held in 401(k) plans,⁸ while citing *diversification* and *higher potential* returns as benefits to these new investors. Recent efforts such as regulatory reductions, executive/legislature support for increased access, and industry partnerships all indicate that investor limitations in private funds may continue to wane in the near term.

Considering the above, firms pursuing democratized products in private markets may consider the following strategic imperatives as risk mitigants:

- Adequate disclosures in Client Relationship Summaries (Form CRS) to prospective investors (fees, risks, conflicts, etc.)
- Clear investor education materials on understanding the unique and inherent risks of investing in these products
- Enhanced controls over marketing and advertising materials and activities when promoting these products to retail investors (i.e., performance presentations and disclosures)
- Develop and implement robust internal controls and risk management frameworks tailored to the unique challenges of illiquid asset classes.
- Engage proactively with regulators to shape a balanced framework that supports product innovation while safeguarding retail investor interests.
- Foster strategic partnerships across disciplines that integrate technical expertise, market knowledge, and distribution capabilities to streamline the onboarding of retail investors into private market products.

Continuing evolution in regulatory thought and market dynamics will necessitate ongoing analysis and agile strategy adjustments. KPMG stands ready to support financial institutions in navigating this complex landscape, encouraging the democratized private market to remain a source of innovation and growth without compromising systemic integrity or investor protection.

For further details or consultation on implementing these strategies, please contact our KPMG Advisory team.

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⁸ Investment Company Institute. (2025, June 18). Retirement assets total \$43.4 trillion in first quarter 2025 (PDF).

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