



PFI ADVISORS INDUSTRY CONTENT SERIES

The Rise of Alternative Investments in the RIA Industry

TABLE OF CONTENTS

Introduction	1
Commonly Cited Challenges	3
Profiles of Alternative Investment Solutions	5
Artivest	5
CAIS	6
iCapital Network	7
PPB Capital Partners	8
Republic Capital Group	9
Conclusion	10
About PFI Advisors	11

INTRODUCTION



Welcome to the fourth white paper in our continuing industry series designed to help advisors in the RIA community build and grow successful businesses.

Based on the outsized success of the independent RIA industry, the trend of breakaway advisors interested in exploring the Independent channel continues to gain momentum. Additionally, not only is the number of advisors interested in the RIA space increasing, but the size of those advisors is increasing as well.

Slowly but surely, the notion that Independence cannot support complex, sophisticated advisors and their clients is being torn down as billion-dollar teams continue to launch RIAs and more industry headlines highlight multi-billion-dollar firms that are successfully executing both organic and inorganic growth strategies in the independent channel. Buoyed by these growth strategies, as well as multiple years of strong market performance, the industry is headed to a point that \$10 billion of AUM will soon become as common as \$1 billion is today.

Our research with advisors contemplating a move to Independence typically focuses on three aspects of their book of clients:

- 1. Safety of Assets**
- 2. Competitive Lending Solutions for Clients**
- 3. Access to Sophisticated Alternative Investments**

When advisors examine the portability of their book from a traditional wirehouse to an RIA, the key question usually revolves around, “How important is my current firm’s brand to my clients’ perception of asset safety? Will my clients pause before transitioning their assets to my newly launched RIA?”



By leveraging the services of well-known, highly capitalized and successful independent custodians servicing the RIA channel, advisors are able to sleep well at night knowing that their client assets are safe. Clients see this through the many national advertising campaigns and year-round sponsorships of sporting events these custodians, such as Schwab, Fidelity, Pershing/BNY Mellon, TD Ameritrade, and Raymond James, are using to cement their brands in the high net worth space. After a cursory review, clients typically conclude that the balance sheets of these institutions are just as secure, if not more secure, than that of the major wirehouse banks, as they do not have exposure to capital market operations and risks. Another hallmark of the RIA space is open architecture, which provides even more comfort and confidence. Advisors and their clients will also benefit from the ability to place assets at multiple custodians, rather than being held captive to only one institution.

As the wirehouses have more aggressively promoted cross-selling bank products over the past few years, advisors are now offering margin loans, mortgages, and non-purpose loans across their books of business. Thus, before wirehouse advisors can commit to a transition to Independence, they must first feel confident that they can recreate these lending solutions for their clients as an RIA. This topic of lending solutions for clients in the RIA space was the subject of our third white paper, **“Innovative Lending Solutions in the RIA Space for Breakaway Advisors.”** Once advisors realize the multitude of options available to them, highlighting the benefits of the RIA space to their clients becomes much easier considering the advantages of shopping the Street for competitive lending solutions.

A similar issue is centered on access to alternative investments. Just as these high net worth products have become more mainstream in the wirehouse community, wirehouse advisors are now using them in greater numbers. Accordingly, they often make the mistake of assuming that this trend has not yet occurred in the independent space. However, once wirehouse advisors look into this issue, they are generally shocked to learn the number of institutional-caliber alternative investment options available to them and their clients in the independent channel.

Just as they have done with lending products, management within the wirehouse community convinces their advisors into thinking that independent advisory firms lack the scale, bandwidth, and expertise of alternative investment products and thus imply that there is a problem in offering high quality solutions to their clients to create barriers to leave.

The good news is that, contrary to what wirehouse advisors are hearing, there is a growing renaissance of alternative investment options and platforms in the RIA community. Accordingly, this white paper will provide the key information advisors need to both get started with alternative investing as well as transition existing alternative investments. Additionally, this report will feature some of the best-in-breed solution providers, as we, as advisor business consultants, continue to encourage sophistication, growth, and evolution within the RIA community.

■ WE WOULD LIKE TO THANK ARTIVEST, CAIS, ICAPITAL NETWORK, PPB CAPITAL PARTNERS, AND REPUBLIC CAPITAL GROUP FOR COMMITTING THEIR TIME AND EXPERTISE TO THIS RESEARCH.



SOLUTIONS TO THE CHALLENGES IN UTILIZING ALTERNATIVE INVESTMENTS IN THE RIA CHANNEL

What are the challenges for RIAs when adding alternative investments to client portfolios? If advisors have grown confident in offering these investments to clients while employed by wirehouses, what stops them from offering these products once they launch their own RIA? We often hear the following challenges cited by independent advisors or those seeking Independence:

Investment Minimums

For an RIA to create their own limited partnership structure for a feeder fund or fund of funds vehicle, the consensus opinion is that \$25 million of investible assets is required to reach cost-effective scale. On top of that, many managers in the alternative investments space have investment minimums of \$10 million or more. Oftentimes, the average RIA does not have the collective investment buying power to reach these thresholds.

Solution

The service providers featured in this white paper aggregate investment dollars across all their clients and achieve scale with managers either in a pre-existing fund available to RIAs on their platform, or they can take an investment idea directly from an RIA and create a fund to meet that RIA's needs.

Due Diligence/Compliance

Many RIA advisors don't have the internal bandwidth to conduct the proper due diligence and create sufficient compliance files to satisfy SEC auditors during a routine exam.

Solution

The alternative investment firms highlighted here (and many others) can provide comprehensive research reports that advisors can rely on when making investment decisions, and can maintain proper due diligence files with the help of these service providers.



Transparency/Education

Many advisors and their clients shy away from alternative investments because performance isn't updated daily, it sometimes can be hard to understand what the managers are investing in, and it often feels like an opaque black box.

Solution

By consolidating their client assets and creating much larger feeder funds into these managers, the service providers highlighted here tend to provide RIAs access to these alternative investment managers that they wouldn't normally be able to achieve on their own. Many of these solution providers also offer technology portals that allow clients to access fund reports and view performance updates in a timely fashion. By pulling back opaque layers to disclose transparency, RIAs and their clients can access these asset classes and strategies with greater confidence.

Access to Quality Managers

Some RIA advisors are intimidated by the sheer size of the alternative investment universe and feel they do not have the expertise to uncover the gems hidden across the vast alternative investment landscape. As discussed earlier, other RIA advisors simply conclude that they cannot achieve the necessary scale to attract top quality managers at an affordable cost.

Solution

By leveraging the research staff, the operations personnel, and the buying power of the service providers highlighted in this report, RIAs can access some of the best fund managers in the country, often at reduced prices.

In-House Cost to Build Proper Infrastructure

From an operations perspective, investing in alternative investments is obviously much different than buying an ETF that trades on an exchange. From the legal aspects of creating a limited partnership to fund accounting and annual audits of each limited partner's ownership of the fund, there are many moving parts that need to be addressed. For private equity investments, there is the additional complication of capital calls and fund distributions that need to be processed and accounted for. Many RIA advisors steer clear of alternative investments not for investment reasons, but simply because they feel they cannot cover the costs associated with these illiquid investments and the operational nuances that come with these investments.

Solution

The alternative investment service providers highlighted in this report specialize in these nuances and can use their scale and years of experience to staff employees specializing in these areas. Because this is all that they do, they can achieve scale and provide these services for much less cost than RIAs could achieve on their own. All of these firms have built customized technologies that streamline the paperwork process for clients as they try to allocate to different alternative investment vehicles.



ARTIVEST

Artinvest is a technology platform that digitizes private equity and hedge fund investing for the high net worth channel. They provide a complete solution for advisors to grow their alternatives business – including hedge funds, private equity, managed futures and more – without disrupting their core practice. With a single login powering diligence, subscription and ongoing reporting, Artinvest applies the user-focused operations and technology of popular e-commerce platforms to the experience of investing in alternatives.

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Head of Distribution

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www.artinvest.co

The Artinvest Platform Includes:

- Diverse array of alternative investments for Accredited Investor and Qualified Purchaser clients alike, accessible at lower minimums
- Fund research, due diligence, and educational content
- Simplified investment process
- Centralized reporting and monitoring
- Custodial and reporting software integrations
- Dedicated product and client services support
- Optional white-labeled site can be added to enhance sales and user experience for those advisors that also manage funds

“INDIVIDUAL INVESTORS ARE DEMANDING THAT THEIR ADVISORS OFFER COMPELLING INVESTMENT OPPORTUNITIES AND THAT THEY USE TECHNOLOGY TO HELP THEM MANAGE THEIR WEALTH MORE EFFECTIVELY AND MORE TRANSPARENTLY. ADVISORS AND ADVISORY FIRMS APPRECIATE HOW ARTIVEST HAS REMOVED THE ‘PAIN’ FROM ALL PARTS OF THE INVESTMENT LIFECYCLE – QUALIFYING THE CLIENT, SHARING MARKETING MATERIALS, EFFECTING SUBSCRIPTIONS AND INTEGRATING REPORTING RESULTS.”

- JAMES WALDINGER; FOUNDER AND CEO OF ARTIVEST



CAIS

CAIS is the leading open architecture financial product platform offering independent wealth management firms access to a diversified menu of alternative investment funds and capital market offerings.

Access to financial products like top alternative investment funds requires concentrated buying power. CAIS is a financial technology platform that enables the independent wealth management community to gain institutional-level access to these sophisticated financial products. Fund and product providers also benefit from their platform's cost-effective and efficient access to the multi-trillion-dollar independent wealth channel, which would otherwise remain largely untapped and hard to reach.

With an unwavering focus on serving the independent wealth community, CAIS has aggregated thousands of RIAs, BDs, single and multi-family offices onto the platform who collectively control hundreds of billions in investable assets. In parallel, CAIS has negotiated improved access to a broad menu of in-demand hedge funds, private equity funds, real estate funds, and bank sponsored capital markets opportunities.

CAIS' Platform Highlights Include:

- Curated menu of alternative investment funds
- Reduced investment minimums
- Independent research and due diligence provided by Mercer
- Automated subscription documents
- Custodian integration
- Product support, events, and education

“CAIS IS LASER FOCUSED ON EMPOWERING INDEPENDENT ADVISORS TO COMPETE FOR NEW BUSINESS AND DELIVER VALUE TO THEIR CLIENTS WITH ALTERNATIVE INVESTMENTS AND SPECIALIZED CAPITAL MARKETS SOLUTIONS. THE TOP FUND MANAGERS AND PRODUCT PROVIDERS ARE TAPPING INTO CAIS FOR ACCESS TO THE GROWING MULTI-TRILLION-DOLLAR INDEPENDENT WEALTH MANAGEMENT MARKET.”

- TIM SHANNON; PRESIDENT OF CAIS

■ CAIS at a Glance:

Founded: 2009

Locations: New York, NY
and Los Angeles, CA

Volume: \$5 billion

Staff: 41

www.caisgroup.com



iCapital
NETWORK | DEMOCRATIZING
ALTERNATIVE
INVESTMENTS

iCapital Network is a financial technology platform that provides modular alternative investment solutions for RIAs, BDs, Private Banks, Family Offices and other sophisticated investors. “iCapital was created specifically to improve the way wealth advisors and their high-net-worth clients allocate to alternatives,” explains Lawrence Calcano, Chief Executive Officer of iCapital Network. “Our goal is to make these asset classes and strategies available to a new universe of investors and deliver a wider selection of institutional-quality options and tools.”

■ **iCapital at a Glance:**

Founded: 2013

Volume: \$2.25 billion

Staff: 72

www.icapitalnetwork.com

The company’s state-of-the-art technology can be leveraged by advisory firms in two ways:

iCapital’s online platform offers independent advisors a turnkey solution for alternative investments:

- Curated menu of third-party alternative asset managers across private equity, private credit, venture capital, real estate and hedge funds
- Single-manager and multi-manager funds, as well as accredited investor products
- Independent origination and due diligence process
- Comprehensive diligence materials and specialist support
- Virtual and in-person sessions with managers
- Online portal for streamlined paperwork and administration
- Integration with major custodians and reporting packages
- Training events and library of educational papers, videos and articles to enhance knowledge of asset classes and strategies

Adopt iCapital’s digital workflows to enhance your alternatives infrastructure:

- Dedicated white-label sites with configurable branding elements
- Custom vehicles for bespoke offerings and direct deals
- Maintain customer profiles and KYC/AML documents in secure digital environment
- Electronic subscription documents
- Monitor capital calls, distributions and other administrative events
- Access performance and tax reports

“ALTERNATIVES BRING THE POTENTIAL BENEFITS OF DIVERSIFICATION, RISK MANAGEMENT AND OUTPERFORMANCE TO A PORTFOLIO, BUT MANY HIGH-NET-WORTH INVESTORS REMAIN UNDER-ALLOCATED TO THESE INVESTMENTS. WE PRODUCE A COMPLEMENT OF DILIGENCE REPORTS AND EDUCATIONAL RESOURCES TO HELP ADVISORS FACILITATE INFORMED INVESTMENT DECISIONS WITH THEIR CLIENTS.”

- NICK VERONIS; CO-FOUNDER, MANAGING PARTNER

For disclosure information, see: <http://www.icapitalnetwork.com/home/communications-disclaimer/>



PPB | CAPITAL PARTNERS

Since 2008, PPB Capital Partners has been building institutional-quality, turn-key fund structures for wealth managers, fund managers, and sophisticated investors seeking a cost-efficient way to invest in alternatives. PPB solves the logistical challenges of investing in private alternative investments.

To create a new fund, wealth managers choose the investment(s) and PPB establishes the fund operating and offering terms and builds the infrastructure of the custom feeder fund or fund of funds. As a fiduciary, PPB manages the daily fund operations with precise adherence to risk and compliance standards. This includes over 45 operational task categories for each fund and a daily checklist where PPB addresses items such as coordinating capital calls and distributions, overseeing audit and tax preparation, responding to counterparty and investor inquiries, managing the expenses of the fund, and monthly/quarterly reporting. This operational expertise and economies of scale reduces financial and opportunity costs for wealth management groups.

Wealth managers can also choose to invest in the funds currently on PPB’s platform, for investment minimums as low as \$100K. The funds on PPB’s platform are accompanied by independent operational and investment risk due diligence reports from Castle Hall Alternatives. For fund managers, PPB provides an efficient process to introduce new high net worth investors to their fund by outsourcing the typical operational challenges that smaller investments can cause.

With experience across all alternative asset classes and a proven, proprietary method for efficient, comprehensive fund development and operational experience, PPB has created a unique way for wealth management professionals and their clients to access exclusive investment managers and niche investment strategies with greater ease than ever before.

■ PPB Capital Partners at a Glance:

Founded: 2008

Location: Conshohocken, PA

Volume: \$900 Million

Staff: 9

www.ppbcapitalpartners.com

PPB Capital Partners’ platform includes:

- Roster of alternative asset managers including private equity, real estate, private debt, venture capital and hedge funds
- Investment minimums as low as \$100K
- Independent due diligence reports from Castle Hall Alternatives
- Facilitate a relationship between the wealth manager and fund manager
- Creation and management of feeder funds and customized fund of funds
- Operational expertise and exceptional client service from start to finish
- Electronic subscription documents in conjunction with DocuSign
- Custodial integrations
- Accounting software integration
- Economies of scale

“SINCE 2008, PPB HAS LIVED BY THE SAME FIDUCIARY PRINCIPLES OF THE WEALTH MANAGERS WE SERVE. THE COMBINATION OF PPB’S CUSTOMIZATION OPTIONS, OPERATIONAL EXPERTISE, ECONOMIES OF SCALE AND INSTITUTIONAL DUE DILIGENCE PROVIDES WEALTH MANAGERS AND THEIR CLIENTS WITH THE MOST TURN-KEY ALTERNATIVE INVESTMENT SOLUTION IN THE INDUSTRY.”

- BRENDAN LAKE; FOUNDER, PRESIDENT & CEO



Republic Capital Group is an investment banking services firm that specializes in serving the RIA community. They focus on serving RIA firms and Family Offices with private investments and M&A. Their team and advisors have extensive experience in private investments and in the RIA and Family Office space.

Republic Capital provides direct and co-investment opportunities while maintaining a network of RIAs and Family Offices to help collaborate on private investments. They help develop custom private investment allocations by partnering with their clients who are some of the world's largest alternative asset management firms. These alternative asset management clients are seeking to work closely with RIA firms.

Republic Capital Group at a Glance:

Locations: Houston, TX; San Diego, CA

Primary Contact:
John Langston, Founder & Managing Director

Email:
jlangston@republiccapgroup.com

www.republiccapgroup.com

Securities offered through Niagara International Capital Limited (Member FINRA, SIPC)
www.niagarainternational.com

Private Investments:

- Custom hedge fund portfolios
- Custom private equity portfolios
- Direct investments
- Private placements in tax advantaged structures
- Streamlining implementation of all aspects of the process related to private investments

“OUR NICHE IS SERVING THE RIA AND FAMILY OFFICE COMMUNITY WITH INVESTMENT BANKING SERVICES IN THE FORM OF PRIVATE PLACEMENTS AND M&A. WE CAN HELP WITH TAX DEFERRED STRUCTURES, DIRECT AND CO-INVESTMENT OPPORTUNITIES AND CUSTOM SOLUTIONS. WE HELP ADVISORS IMPLEMENT THEIR OWN IDEAS USING THEIR OWN INVESTMENT TEAM(S), OR WE CAN HELP THEM PARTNER WITH SOME OF THE INDUSTRY’S LEADING FIRMS.”

- JOHN LANGSTON; FOUNDER, MANAGING DIRECTOR



CONCLUSION

As the RIA industry continues to grow and evolve, more sophisticated approaches are now becoming commonplace, such as the use of alternative investments. With rapid advancements in technology, transparency, and innovative business models, a new category of alternative investment providers is emerging in the RIA space that removes many of the barriers to getting started for RIAs.

As a result, advisors considering independence now have more confidence in their ability to offer sophisticated investing solutions to their clients, once again making the jump to independence even more compelling. Advisors owe it to themselves and their businesses to learn more about how they can provide enhanced investing services through these new platforms, while finding the most optimal business model to best serve their clients.

To learn more about PFI Advisors' business and practice management content, visit www.pfiadvisors.com.



ABOUT PFI ADVISORS

PFI Advisors (“Pure Financial Independence”) was founded in 2015 and remains focused on our mission:

To further evolve the RIA industry from a collection of “practices” to “businesses,” and to be a continued voice in validating the industry as a legitimate landing spot for billion-dollar teams and their clients.

PFI Advisors is pioneering an operational consulting service that supports the unique back office, technology, and operational needs of RIAs in growth mode. PFI Advisors conducts Technology Assessments, manages Technology Conversions, and provides M&A Preparation and Integration Services.

For breakaway advisors, PFI Advisors manages full RIA set up and transition to Independence, including office buildout, RIA infrastructure, client transition, and billing services, all for a simple consulting fee. There is no complicated long-term AUM fee structure or equity stake required to build the firm’s future and provide advisors **Pure Financial Independence.**

