Technology Tools for Today

The Oasis Group

INNOVATIVE STRATEGIES FOR FINANCIAL ADVISORS:

Harnessing the Alts Tech Advantage

BLUEVAULT™

Increasingly, financial advisors are incorporating alternative investments into their client portfolios. This contrasts with the 60/40 approach that had been the traditional investment framework utilized by investment advisors for their clients previously.

The 60/40 portfolio, which refers to an asset allocation of 60 percent equities (stocks) and 40 percent fixed income (bonds), has been a traditional investing rule of thumb for diversified and balanced portfolios for many years. Its primary appeal lies in the complementary nature of stocks and bonds: typically, when stocks decline, bonds tend to perform better, and vice versa. This dynamic provides a degree of risk mitigation while allowing for growth. However, in recent years, there have been debates about the continued relevance of the 60/40 portfolio.

Here are some reasons why this debate has emerged:

1. Low Interest Rates: Central banks around the world have maintained historically low-interest rates since the 2008 financial crisis. This environment has reduced the yields on bonds, making them less attractive as income-generating investments.

2. Potential for Rising Rates: If interest rates rise, bond prices can fall, potentially leading to capital losses for bondholders. This threat has caused concern about the protective nature of bonds in a diversified portfolio.

3. Correlation Concerns: Historically, stocks and bonds have had a negative correlation, meaning that when one rises, the other falls. However, there are concerns that in certain economic scenarios, stocks and bonds might become positively correlated, reducing the diversification benefits. According to Vanguard, the typical 60/40 portfolio declined about 16 percent in 2022—a painful period for balanced investors that has raised doubts about the viability of this strategy.

4. Increased Longevity: As life expectancies rise, retirees may need their portfolios to be more growth-oriented to ensure that their savings last. A 60/40 split might be too conservative for someone with a longer time horizon.

5. Alternative Investments: With the rise of alternative investments like real estate, commodities, hedge funds, and private equity, and structured notes, some investors are looking beyond traditional stocks and bonds to achieve diversification and returns.

While these concerns are valid, it doesn't necessarily mean the 60/40 portfolio is "dead." For many investors, especially those with a moderate risk tolerance and a medium-term investment horizon, a 60/40 portfolio might still be a suitable choice. It provides a balance between growth (from equities) and income and capital preservation (from bonds). It is worth noting that the annualized return for the 10 years through 2022 was 6.1 percent for a globally diversified 60/40 portfolio.

However, the most crucial point is that asset allocation should be tailored to an individual's financial goals, risk tolerance, and time horizon. Some investors might find that a variation of the 60/40 split, or a completely different allocation, is more appropriate for their needs.

It's also worth noting that the concept of diversification remains crucial, whether one adheres to the 60/40 rule or not. Regular reviews and adjustments of one's portfolio in response to changing market conditions and personal circumstances are always essential.

Given the uncertain environment, the correlation concerns, as well as the fact that many investment opportunities are not readily available in public markets, the case for alternatives is strong, and increasingly, financial advisors are responding.

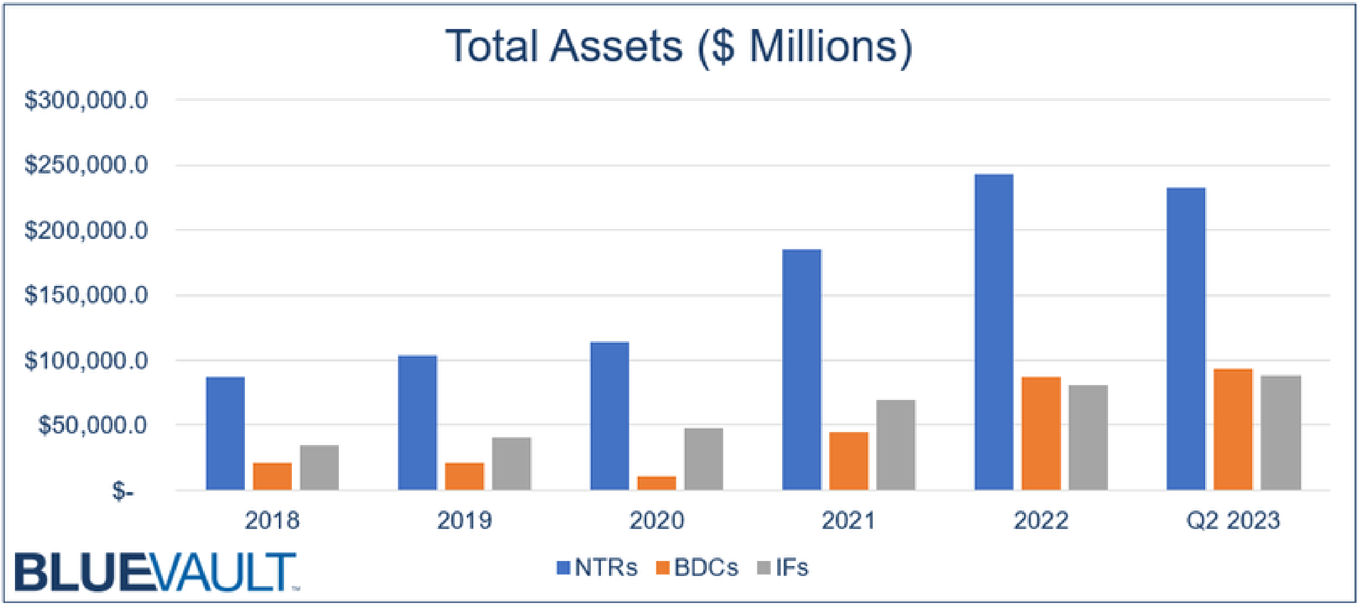
Advisors Embrace Alternative Investments

According to a 2023 survey by the Financial Planning Association (FPA), 52 percent of financial advisors are incorporating alternative investments into their client portfolios. This is up from 48 percent in 2019.

The survey also found that the use of some specific alternative strategies has risen dramatically in recent years. For example, the use of private equity funds has doubled among advisors, from 12.3 percent in 2019 to 23 percent in 2023.

Furthermore, the alternative investment (Alts) category is expected to grow into a $17 trillion asset class by the end of 2025, making it too big for advisors to ignore if they want to achieve broad diversification for their clients.

Blue Vault, a leader in alternative investment research, found that non-tradeable assets such as real estate investment trusts (NTRs), business development companies (BDCs), and interval funds (IFs) have grown steadily over the past five years.



Why Incorporate Alternatives?

There are several reasons why financial advisors are increasingly incorporating Alts into their client portfolios. First, Alts can help to improve portfolio diversification and reduce risk. Second, Alts can offer the potential for higher returns than traditional asset classes, such as stocks and bonds. Third, Alts can be a good way to hedge against inflation.

However, it is important to note that Alts are also more complex and riskier than traditional asset classes. As a result, it is important for financial advisors to carefully consider their clients' individual needs and circumstances before incorporating Alts into their portfolios.

Overall, the trend of financial advisors incorporating Alts into their client portfolios is likely to continue in the coming years. Alts can offer several benefits, such as improved diversification, reduced risk, and the potential for higher returns. However, it is important for financial advisors to carefully consider their clients' individual needs and circumstances before incorporating alts into their portfolios.

Types of Alternative Investments

The term alternate investment in the RIA market encompasses a broad range of investments. These include:

1. **Private Equity:** Involves directly investing in private companies or conducting leveraged buyouts of public companies to take them private. Returns are typically realized when companies go public or are sold.

2. **Hedge Funds:** Pooled investment funds that might use a variety of strategies to earn active returns for their investors. These can include strategies like long-short equity, merger arbitrage, or global macro trading.

3. **Real Assets:** This category includes real estate, infrastructure, and commodities. It could involve direct ownership (like owning a building) or indirect ownership through a vehicle like a Real Estate Investment Trust (REIT).

4. **Private Debt:** Unlike publicly traded bonds, private debt involves lending money to private entities, often with customized terms.

5. **Venture Capital:** Investments in startups and early-stage companies with high growth potential.

6. **Tangible Assets:** Collectibles such as art, wine, antiques, or other valuable physical goods.

7. **Structured products:** Structured products typically encompass fixed income markets, which offer investors periodic returns akin to dividends from government or corporate bonds. Additionally, these products incorporate derivatives - securities deriving their value from an underlying asset or a basket of assets like equities, bonds, or market indices. Credit Default Swaps (CDS) and Collateralized Debt Obligations (CDO) serve as prime examples of structured products.

In essence, alternative investments offer opportunities distinct from traditional markets. They have unique risk-return profiles, requiring thorough due diligence, expertise, and often a longer-term investment horizon. However, they can play a crucial role in portfolio construction, providing potential for enhanced returns and diversification benefits.

Incorporating alternative investments into client portfolios requires a systematic and thoughtful approach. Here's how financial professionals can introduce and implement alternative assets:

1. **Client Assessment:**
   - Risk Tolerance: Understand the client's risk appetite. Some alternative investments can be volatile or illiquid.
   - Investment Objectives: Does the client want capital appreciation, income, diversification, or inflation protection?
   - Time Horizon: Alternatives, especially illiquid ones like private equity, likely require longer holding periods.

2. **Education:**
   - Explain the nature of alternative investments, their risks, rewards, fees, and how they differ from traditional assets.
   - Discuss the potential benefits, such as diversification, potential for higher returns, and inflation hedging.

3. **Due Diligence:**
   - Thoroughly research the specific alternative investment opportunities. Understand the strategy, management team, fee structure, historical performance, and associated risks.
   - Leverage professional industry tools, comprehensive databases, and independent research to critically assess and validate prospective investments..

4. **Diversification:**
   - Avoid concentrating a client's portfolio heavily in a single alternative investment or category. Instead, adopt a strategy of diversification among various alternatives, which aids in mitigating risk..

5. **Implementation:**
   - Decide on the appropriate allocation to alternatives based on the client's risk tolerance and investment objectives.
   - Select suitable vehicles for exposure, such as direct investments, funds, platforms, or structured products.
   - Continuously monitor the portfolio and adjust as needed based on performance and changing client needs.

6. **Liquidity Management:**
   - Ensure the client's liquidity needs are met. Given the illiquid nature of certain alternative assets, professionals need to manage redemptions, distributions, and capital calls carefully.

7. **Fee Awareness:**
   - Be transparent about all fees associated with alternative investments. This includes management fees, performance fees, and any other charges.
   - Evaluate the net-of-fee potential returns against the benefits provided by the investment.

8. **Reporting and Communication:**
   - Regularly update clients on the performance of their alternative investments.
   - Explain any complex strategies or structures to ensure clients remain informed and comfortable with their holdings.

9. **Regulatory and Compliance Considerations:**
   - Ensure that the alternative investments recommended are suitable and comply with regulations.
   - Some alternatives might be limited to accredited or institutional investors, so confirm that clients meet required criteria.

10. **Continuous Learning:**
    - The world of alternative investments is vast and ever evolving. Professionals should stay updated on industry trends, new investment vehicles, and evolving strategies.

By carefully selecting and integrating alternative investments, financial professionals can potentially enhance portfolio returns, reduce volatility, and better achieve client objectives. However, they must also be vigilant about the unique risks and complexities involved, ensuring clients are well-informed and comfortable with their investment choice

Advisors Have Faced Challenges Implementing Alts into Portfolios

Advisors have access to a robust and varied ecosystem of tools that allow them to construct, implement and monitor traditional portfolios. These include:

- **Research databases that support proper due diligence**
- **Portfolio construction and analytics tools**
- **Client education tools**
- **Custodians**
- **Client onboarding tools**
- **Trading tools**
- **Reporting tools**
- **Rebalancing tools**

There is also a fair degree of integration amongst the various tools that allows advisors to create an integrated technology stack that supports integrated workflows. Due to some of the unique features of alternative investments, and due to their relatively new popularity among advisors, mature, end to end alternative investment platforms are beginning to emerge in the advisory space.

Until recently, incorporating alternatives into a client portfolio was a relatively time-consuming, labor-intensive exercise that involved collecting a great deal of client information, entering it manually and often requiring a wet signature just to invest in a single offering. The ongoing management of and reporting on alts was also challenging in many ways.

Thankfully, the landscape is starting to change. There are several platforms that can automate much of the alternative investment process, and we expect further advances. There are others that play a role in one or more of the systematic approaches discussed above.

Below, we will provide a few examples of the best-known integrated platforms, as well as some point solutions to help readers better understand that state of the alt technology ecosystem. This is not intended to be a comprehensive list of resources, but rather some examples of firms that can facilitate the alt investment process.

CAIS

CAIS is one of the better-known names in the independent RIA space. They have invested significantly over the past several years in building their comprehensive platform. The platform includes:

- **Extensive advisor education capabilities:** There are educational videos on investing in alts generally, more in depth education on specific types of alts, and there are product specific videos. The platform monitors how users learn as they work with the platform, and customizes the content based on the user's leaning style. Larger institutions can configure the platform, requiring an advisor to complete product specific training before the advisor can add the alternative product to a client's portfolio.
- **Research**: CAIS partners with Mercer for product research and due diligence. Mercer provides in-depth analysis for every investment product on the platform. In addition to the investment analysis, Mercer provides an operational review of the product firm which includes an on-site visit. Every product receives a Mercer grade based upon the findings.
- **Onboarding:** CAIS claims to have a totally digital on-boarding process. Advisors can enter the required client data digitally, but if the system already contains some or all the data, it will be entered automatically. The application can then be routed to the end client for digital signature. One completed, it can be digitally routed to the product manufacturer and to the custodian.
- **Custody:** CAIS integrates with several RIA custodians.
- **Ongoing Monitoring:** A digital dashboard presents advisors with all client positions and relevant information about the alternative investment.
- **Performance:** CAIS provides performance data within their platform, but most RIA firms prefer to provide their clients with a single consolidated performance report. CAIS integrates with several performance reporting firms to provide consolidated portfolio management and reporting for RIA clients.

iCapital

iCapital is a financial technology company that provides a digital platform for alternative investments. It serves independent registered investment advisors (RIAs) by providing them with access to a curated menu of private market funds, as well as the tools and services they need to efficiently manage their clients' alternative investments.

iCapital's platform offers RIAs several benefits, including:

- **Access to a broad range of private market funds**: iCapital provides RIAs with access to a wide range of private market funds, including private equity, venture capital, private credit, and private real estate. This allows RIAs to diversify their clients' portfolios with alternative investments that have the potential to generate higher returns than traditional assets.
- **Streamlined investment process:** iCapital's platform streamlines the investment process for alternative investments, making it easier and more efficient for RIAs to invest in these assets on behalf of their clients.
- **Compliance and reporting tools:** iCapital provides RIAs with the compliance and reporting tools they need to manage their clients' alternative investments in a compliant manner.
- **Educational resources:** iCapital provides RIAs and their clients with access to educational resources about alternative investments. This helps RIAs to better understand and manage these assets, and to educate their clients about the potential benefits of alternative investments.

In addition to its platform, iCapital also offers several other services to RIAs, including:

- **Portfolio construction assistance:** iCapital can help RIAs to construct portfolios that incorporate alternative investments alongside traditional assets.
- **Risk management:** iCapital can help RIAs to manage the risks associated with alternative investments.
- **Client reporting:** iCapital can help RIAs to generate custom reports for their clients on their alternative investments.

Overall, iCapital provides RIAs with a comprehensive solution for managing their clients' alternative investments.

Here are some specific examples of how iCapital serves RIAs:

- iCapital's platform allows RIAs to easily identify and research private market funds that align with their clients' investment objectives and risk tolerance.
- iCapital provides RIAs with access to due diligence reports and other information on private market funds, which can help them to make informed investment decisions.
- iCapital's platform automates many of the administrative tasks associated with alternative investments, such as account opening, subscription management, and reporting.
- iCapital provides RIAs with a dedicated support team to help them with any questions or challenges they may have.

iCapital's platform and services have been well-received by RIAs. In a 2023 survey, 98 percent of RIA respondents said that iCapital's platform had made it easier for them to invest in alternative investments on behalf of their clients. Additionally, 97 percent of respondents said that iCapital's platform had helped them to improve their overall client service.

Moonfare

Moonfare is a technology platform that makes private equity and other alternative investments accessible to individuals and their advisors. It serves registered investment advisors (RIAs) in the alternative investment area by providing them with:

- **Access to a curated selection of private market funds:** Moonfare carefully selects a range of private equity funds from top-tier managers. It uses a proprietary due diligence framework to assess the funds' investment strategies, track records, and team quality.
- **Lower minimum investment** requirements: Moonfare's investment offerings are structured to enable RIAs to invest in private equity funds with lower minimum investment requirements than typically required. This makes private equity more accessible to a wider range of clients.
- **A streamlined investment process:** Moonfare's platform streamlines the investment process for alternative investments. RIAs can use the platform to identify and research funds, subscribe to funds, and manage their clients' investments in a single place.
- **Compliance and reporting tools:** Moonfare provides RIAs with the compliance and reporting tools they need to manage their clients' alternative investments in a compliant manner.
- **Educational resources:** Moonfare provides RIAs and their clients with access to educational resources about alternative investments. This helps RIAs to better understand and manage these assets, and to educate their clients about the potential benefits of alternative investments.

Moonfare is a valuable resource for RIAs who want to offer their clients access to private equity and other alternative investments. It provides them with the tools and resources they need to streamline the investment process, manage risk, and comply with regulations.

Here are some specific examples of how Moonfare serves RIAs:

- Moonfare provides RIAs with a list of curated private equity funds that have been vetted by Moonfare's investment team. This saves RIAs time and effort in researching funds.
- Moonfare offers RIAs access to due diligence reports on each fund, which can help RIAs to make informed investment decisions.
- Moonfare's platform allows RIAs to subscribe to funds and manage their clients' investments in a single place. This simplifies the investment process and makes it more efficient.
- Moonfare provides RIAs with compliance and reporting tools to help them manage their clients' alternative investments in a compliant manner.

Overall, Moonfare is another comprehensive platform that provides RIAs with everything they need to offer their clients access to private equity and other alternative investments.

CAIS, iCapital, and Moonfare offer white-label solutions that RIAs can use to offer their clients access to private equity and other alternative investments. This can help RIAs to differentiate themselves from their competitors and attract new clients.

Blue Vault

Blue Vault is a digital platform that provides investment professionals with independent research, education, and networking opportunities in the alternative investment space. Established in 2009, Blue Vault has been anchored in the conviction that clarity, learning, and availability are fundamental to enabling wealth advisors to integrate alternative investments into their practices and choose the most suitable options for their clients.

- **Comprehensive research:** Blue Vault provides its users with access to a comprehensive database of alternative investment research, including reports, white papers, and case studies.
- **Educational resources:** Blue Vault offers a variety of educational resources on alternative investment strategies and trends, including webinars, online courses, and in-person events.
- **Insights:** Blue Vault offers frequent commentary and perspectives on alternative investments in their Blue Vault Minute. Their Blue Vault Minute videos are influenced by their deep research and data.
- **Networking opportunities:** Blue Vault provides its users with opportunities to network with other investment professionals in the alternative investment space.

One of the challenges facing RIA's in the alts space is access to independent, data and analysis across the comprehensive list of alternative products. Blue Vault specializes in providing independent data and analysis. Blue Vault's educational resources are not limited to any products that are supported on an investment platform. In addition, Blue Vault hosts a highly acclaimed annual conference that brings together advisors and alt professions for networking and education.

BLUE VAULT™

Alternative Providers

The alternative space has enjoyed significant growth in the number of service providers and asset managers offering services in this space.

A small sample of asset managers providing alternative investment solutions in the market include Ashford Securities, BC Partners, Bluerock, Cantor Fitzgerald, CIM Group, Cottonwood, ExchangeRight, Hines, Inland Group, Invesco, J.P. Morgan, NexPoint, Sealy & Co., StratCap, and Triton Pacific.

A sample of additional service provider firms providing technology solutions to wealth advisors using alternative investments include AIX, Altigo, Black Diamond, Orion, and Nitrogen.

Consider Alternative Investments for Your Clients

As alternative investments continue to gain traction, the need for reliable and comprehensive research becomes increasingly apparent. Independent alternative investment research plays a pivotal role in this regard. Independent research firms, such as Blue Vault, provide unbiased analysis and insights into the alternative investment market. In a market that is as complex and diverse as the alternative investment sector, independent research can be a valuable tool for advisors. It not only helps in understanding the risk and return characteristics of these investments but also in identifying the opportunities that align best with their client's investment objectives.

The increasing role of independent alternative investment research in this sector underscores the value of expert, unbiased guidance in helping advisors tap into these opportunities effectively and responsibly. With the right approach and a clear understanding of the risks involved, alternative investments can be a valuable addition to any investment portfolio. So, it is important for advisors to keep themselves updated on the latest trends and developments in this rapidly evolving market through sources such as Blue Vault.

Alternative investments are not just a passing trend, but a significant asset class that is here to stay. As traditional markets become increasingly volatile, the demand for alternative investments is only expected to grow. Therefore, it is essential for advisors to educate themselves about alternative investments and seek out reliable research sources to make informed investment decisions.

John O'Connell
The Oasis Group

Technology Tools for Today

Joel Bruckenstein
Technology Tools for Today

BLUE VAULT

Stacy Chitty
Blue Vault