



Private Wealth Advisors Need the Right Portfolio Analytics Tools

March 2024



Lawrence Calcano, Chairman and CEO of fintech firm iCapital, explains the challenges advisors face in helping clients gain exposure to alternatives products - and why having a purpose-built, comprehensive portfolio construction tool matters.

Why are private wealth investors increasingly calling for access to alternative investments?

In recent periods of heightened market volatility, the traditional 60/40 portfolio has come under stress. In 2022, investors with this allocation experienced one of the worst years for returns on record as stocks and bonds moved downward in lockstep, prompting many individual investors to search for new sources of return, income, and diversification. During the same period, private markets delivered returns significantly higher than stocks and bonds with much lower volatility.¹

With the potential to enhance returns and reduce portfolio volatility, alternative investments can be a valuable addition to a portfolio. However, alternative investment strategies account for a very small percentage of individual investors' assets, estimated at less than 5%. Despite holding about half of global wealth, individual investors are underrepresented in the alternative investment capital base.²

What's preventing advisors from meeting private wealth client demand for alternatives?

The wealth management channel represents a multi-trillion-dollar opportunity set, but accessing this client base requires support and a strategic approach, tailored to financial advisor needs.

Historically, individual investors and their advisors have faced significant headwinds when it comes to investing in alternatives. Many of these barriers to entry - including large investment minimums, limited access, illiquidity, and cumbersome processes - have been mitigated by ongoing product innovation and technological enhancements that have expanded access and simplified the investment process.

However, these advancements alone are not enough. To successfully expand the adoption of alternative investments

in the wealth management channel, advisors need comprehensive foundational and fund-specific educational resources. They also need portfolio analytics tools to help them visualize how alternatives fit in a portfolio, how they interact with existing investments, and how they shift overall exposures and risk.

How well are current portfolio analytics tools serving this use case?

Portfolio analytics tools are often geared toward traditional investments, and do not account for the unique characteristics of alternatives and structured investments. This makes it challenging for advisors, as well as alternatives asset managers, to communicate how a particular alternative investment can benefit an investment portfolio or help an investor meet their specific goals.

How can portfolio analytics tools be improved to support the adoption of alternatives in the private wealth channel?

Our partners in the wealth management community have long asked for a comprehensive tool to effectively evaluate the inclusion of alternatives and structured investments in client portfolios. Advisors want to be able to seamlessly design robust, personalized portfolios for their clients, leveraging alternatives and structured investments alongside traditional asset classes.

That's why we developed Architect, our first-of-its-kind portfolio construction tool. Architect equips advisors with the analytics they need to explore allocations to alternatives and structured investments, support diversification goals, and ultimately build holistic portfolios that potentially offer enhanced return and income opportunities.³

Our solution supports traditional investments, including equity, fixed income, ETFs, and mutual funds, and

extends beyond these asset classes and products to include alternatives - private equity, private credit, hedge funds, and private real estate funds, as well as structured investments. Advisors can create new asset allocations, visualize key risk drivers, compare scenarios, simulate historical performance, and design outcome-oriented, personalized client portfolios using cutting-edge analytics.

Architect is also a valuable tool for client engagement, enabling advisors to explore a greater asset allocation universe with opportunities for enhanced return and increased diversification. The platform's advanced analytics provide advisors with a transparent view of potential outcomes, empowering them to make strategic investment decisions with greater confidence.

How is the role of advisors evolving as the alternatives market continues to grow?

We have moved far beyond the traditional 60/40 model of investing. Financial advisors are leveraging alternative investments to diversify portfolios, driven by client demand and the expectation of better performance from private markets. In our 2023 iCapital Financial Advisor Survey, 60% of advisors said they expect private markets to outperform their public counterparts this year. Beyond that, 95% of advisors said they expect to maintain or increase their investment in alternatives.⁴

As a result, the adoption of alternative investments within the private wealth channel is anticipated to grow exponentially. While individual investors account for roughly \$4tn in alternatives assets under management

today, that number is expected to reach \$12tn in the next ten years.⁵

For private wealth investors looking to invest in alternatives this year, where do you see the most promising opportunities?

We continue to see opportunities in private credit, including private equity sponsor-backed direct lending. The floating rate nature of these loans ensures that the spread over the benchmark rate will remain attractive, even in a rate cutting environment. In addition, the current market environment allows direct lenders to secure stronger protective covenants and better loan-to-value ratios.

We also view real estate credit as a potentially attractive investment opportunity. With \$1.2tn of commercial real estate debt to mature in the next two years, real estate debt managers can deploy fresh capital in an environment that includes much higher interest rates and fewer banks willing to lend.

Lastly, as the valuation reset continues to take effect, we view the current market environment as an attractive entry point for both early- and late-stage venture managers. Newer venture capital vintage funds are well positioned to invest in innovation, benefiting from numerous secular tailwinds, including increased technology adoption and private companies staying private longer. These tailwinds help private companies capture a larger portion of gains than public markets.

END NOTES

1. iCapital, Trading Places: Mapping the Impact of Alts in a Traditional Portfolio, Feb. 21, 2024.
 2. Bain & Company, Global Private Equity Report 2023, as of Feb. 27, 2023. Excludes ultra-high-net-worth and family offices.
 3. iCapital's portfolio construction tool Architect is available to more than 350,000 US financial advisors on iCapital Marketplace. [Contact the iCapital Architect team](#) to learn more.
 4. iCapital, [2023 iCapital Financial Advisor Survey: Alternative Investments – Closer to Core](#), Aug. 17, 2023.
 5. Bain & Company, Global Private Equity Report 2024, as of Mar. 11, 2024.
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Lawrence Calcano is Chairman and CEO of **iCapital**. He began advising and working with iCapital shortly after its 2013 founding, leading key strategic and business development initiatives, before joining full time as CEO in early 2014. Since then, he has led the rapid growth of iCapital - both organic and through acquisition - building it into a leading global fintech company. Prior to iCapital, Lawrence was a Partner and Managing Director at Goldman, Sachs & Co., where his last role was Co-Head of the Global Technology Banking Group, part of the Investment Banking division.

PUBLISHING

This article originally appeared in Preqin's [Alternatives in North America 2024 Report](#).

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