iCapital

Untapped Potential: Alternative Investments and the Wealth Management Channel

March 2023

Fund managers are looking beyond institutional investors to expand their LP base, but tapping into the wealth management channel requires a strategic approach, tailored to financial advisor needs.

Alternative investments present wealth managers with a significant opportunity to produce better investment outcomes for their clients. Despite the potential benefits, individual investors are poorly represented in the alternative investment capital base. As noted by Bain & Company, individual investors held roughly half of global wealth ($140–150tn) in 2022, with a nearly equal amount being held and managed by institutional investors ($135–145tn).[1] For individual investors, however, alternative investment strategies account for a very small percentage of their investable assets (estimated at less than 5%).[2]

This presents a significant opportunity for both financial advisors and alternative fund managers. However, fund managers face substantial headwinds when it comes to accessing the fragmented wealth management channel, given unique educational and coverage considerations.

Cerulli estimates that in 2021, approximately 288,000 segmented financial advisors oversaw $30.7tn in individual investor assets.[3] While the sheer size of this market is compelling, fragmentation in the channel makes it difficult for fund managers to reach this considerable investor base and limits access to this important asset class.

Education and asset allocation considerations

In an asset class where manager and strategy selection are paramount, financial advisors need quality educational content to make smart, strategic decisions for their clients. Empowering financial advisors with both foundational and fund specific educational resources is a prerequisite for fund managers to successfully cover this channel.

In addition, understanding how financial advisors think about asset allocation will help fund managers communicate the value proposition of their alternative investment strategies. Over the past year, the focus on meaningful diversification has increased dramatically.[4] Financial advisors are increasingly seeking uncorrelated sources of return to mitigate risk in their clients' traditional stock/bond portfolios. Fund managers should ensure their strategies serve these investment goals and portfolio use cases can be explained to clients.

Coverage considerations for fund managers

Fund managers should be mindful of the distinct attributes of the individual investor client base when developing a distribution and coverage strategy. Some areas to consider include:

- Channel access: Technology-enabled platforms have made it possible to aggregate individual investor commitments into feeder funds at lower minimums. This allows managers to access a larger segment of the wealth management channel, while effectively only dealing with a single entity, just as they would a typical institutional investor. However, fund managers should plan for additional time for fundraising given the lower investment minimums and time needed to develop financial advisor understanding.

- Sales coverage: For institutional investors, fund managers can provide customized pitch books, arrange one-on-one meetings, and spend hours handling follow-up calls. But this model is not scalable in the fragmented wealth management channel. Financial advisors need knowledgeable alternatives specialists who can explain alternatives strategies and how they fit within a portfolio. Managers should assess whether their current teams have this capacity and consider building a dedicated sales force or engage with an alternative asset distribution team.

- Due diligence: Unlike institutional investors, many individual investors require support in conducting investment and operational due diligence when assessing alternative investments. Fund managers should ensure potential investors understand the strategies they are considering. Financial advisors play a key role in helping clients achieve a comprehensive understanding of alternative investment strategies, and how a particular offering will impact their overall investment portfolios.

Operational and infrastructure considerations

In addition to developing a strategic education and coverage approach, fund managers should consider how to integrate into the financial advisors' operating ecosystem. Technology-enabled platforms offer automated and simplified processes financial advisors have come to expect. These include streamlined subscription and redemption functionality, dashboards that provide performance, capital call, and cashflow information, and automated tax reporting. Partnering with a technology-enabled platform allows fund managers to seamlessly integrate, and scale operations and distribution, within the wealth management channel.

Conclusion

The wealth management channel represents a multi-trillion dollar opportunity set but requires a strategy that addresses the unique needs of financial advisors and their clients. Technology-enabled platforms connect fund managers and financial advisors with automated end-to-end alternative investment solutions, allowing both parties to better achieve their goals and objectives.

END NOTES

1. Source: Global Private Equity Report 2023, Bain & Company, as of Feb. 27, 2023
2. Source: Global Private Equity Report 2023, Bain & Company, as of Feb. 27, 2023. Excludes ultra-high-net-worth and family offices.
3. Source: The Cerulli Report: U.S. Intermediary Distribution 2022.
4. Source: Preqin Investor Surveys, November 2022.

COMPOSED BY

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 **Fundraising from Private Wealth: A guide to raising capital.**

iCapital®

60 East 42nd Street, 26th Floor
New York, NY 10165
212.994.7400

www.icapital.com

North America	*Europe*	*Asia*
New York City	Zurich	Hong Kong
Princeton	London	Singapore
Greenwich	Lisbon	
Boston		
Boca Raton		
Toronto		
Birmingham		

IMPORTANT INFORMATION

The material herein has been provided to you for informational purposes only by Institutional Capital Network, Inc. ("iCapital Network") or one of its affiliates (iCapital Network together with its affiliates, "iCapital"). This material is the property of iCapital and may not be shared without the written permission of iCapital. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of iCapital.

This material is provided for informational purposes only and is not intended as, and may not be relied on in any manner as, legal, tax or investment advice, a recommendation, or as an offer or solicitation to buy or sell any security, financial product or instrument, or otherwise to participate in any particular trading strategy. This material does not intend to address the financial objectives, situation, or specific needs of any individual investor. You should consult your personal accounting, tax and legal advisors to understand the implications of any investment specific to your personal financial situation.

ALTERNATIVE INVESTMENTS ARE CONSIDERED COMPLEX PRODUCTS AND MAY NOT BE SUITABLE FOR ALL INVESTORS. Prospective investors should be aware that an investment in an alternative investment is speculative and involves a high degree of risk. Alternative Investments often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; can be highly illiquid; may not be required to provide periodic pricing or valuation information to investors; may involve complex tax structures and delays in distributing important tax information; are not subject to the same regulatory requirements as mutual funds; and often charge high fees. There is no guarantee that an alternative investment will implement its investment strategy and/or achieve its objectives, generate profits, or avoid loss. An investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of their investment.

iCapital Markets LLC operates a platform that makes available financial products to financial professionals. In operating this platform, iCapital Markets LLC generally earns revenue based on the volume of transactions that take place in these products and would benefit by an increase in sales for these products.

The information contained herein is an opinion only, as of the date indicated, and should not be relied upon as the only important information available. Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance. The information contained herein is subject to change, incomplete, and may include information and/or data obtained from third party sources that iCapital believes, but does not guarantee, to be accurate. iCapital considers this third-party data reliable, but does not represent that it is accurate, complete and/or up to date, and it should not be relied on as such. iCapital makes no representation as to the accuracy or completeness of this material and accepts no liability for losses arising from the use of the material presented. No representation or warranty is made by iCapital as to the reasonableness or completeness of such forward-looking statements or to any other financial information contained herein.

Securities products and services are offered by iCapital Markets, an SEC-registered broker-dealer, member FINRA and SIPC, and an affiliate of iCapital, Inc. and Institutional Capital Network, Inc. These registrations and memberships in no way imply that the SEC, FINRA, or SIPC have endorsed any of the entities, products, or services discussed herein. Annuities and insurance services are provided by iCapital Annuities and Insurance Services LLC, an affiliate of iCapital, Inc. "iCapital" and "iCapital Network" are registered trademarks of Institutional Capital Network, Inc. Additional information is available upon request.