
REGISTERED INVESTMENT ADVISORS AND PRIVATE EQUITY

Despite a need for diversified sources of alpha and a desire to offer in-demand products, most investment advisors have not included private equity in their wealth management offering.

Better access, lower investment minimums and greater transparency would help many advisors broach the subject of private investments with their wealthiest clients.

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iCapital
NETWORK

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KEY FINDINGS

ONE-THIRD OF RIAs SURVEYED HAVE PROVIDED PRIVATE EQUITY INVESTMENTS to their wealthy clients within the last five years.

OF THE GROUP DELIVERING PRIVATE EQUITY TO ITS CLIENTS:

- **About 60% offered funds, about 40% assisted with direct investments** and about 15% handled a combination of the two.
- Nearly 90% of RIAs offering private equity said **their clients invested between \$1 million and \$10 million in funds**, or an average of approximately \$5.2 million per high-net-worth client.
- In almost all cases, the **number of clients investing in private equity funds represents less than 10 percent of the advisor's client base.**
- **Direct investments are identified through a variety of sources by both advisors and their underlying clients**, with nearly 80% turning to friends and family to find opportunities and about one-third relying on angel investor networks and syndicates for deal flow.
- The most common direct investments facilitated by advisors for their high-net-worth clients are **commercial real estate and small companies.**

OF THE GROUP THAT IS NOT CURRENTLY DELIVERING PRIVATE EQUITY TO ITS CLIENTS:

- **About two-thirds agree that wealthy clients are interested in private equity investments**, while just 27% of advisors have proactively broached the subject.
- The top five obstacles to offering private equity funds to high-net-worth clients are **lock-up periods, the minimum required investment, number of clients with appropriate wealth and time horizons, access to high-quality offerings and transparency.**

MANY TYPES OF PROFESSIONAL ORGANIZATIONS—LIKE FINANCIAL PLANNING FIRMS, MUTUAL FUND COMPANIES, HEDGE FUND MANAGERS, BROKER-DEALERS AND OTHER FINANCIAL SERVICES PROVIDERS—BECOME REGISTERED INVESTMENT ADVISORS (RIAs) IN ORDER TO CONDUCT BUSINESS. FOR THE PURPOSES OF THIS REPORT, WE ARE FOCUSING ON THE REGULATED ENTITIES THAT PROVIDE ADVICE PRINCIPALLY TO INDIVIDUALS AND FAMILIES ABOUT SECURITIES AND OTHER TYPES OF INVESTMENTS.

As the financial services industry has evolved and the amount of private wealth has increased, the number of RIAs in the United States has grown in response to the demand for objective, personalized advice. At the same time, many RIA firms have expanded beyond the traditional definition of investment advisor and now offer a full suite of wealth management services to assist their high-net-worth clients.

Wealth management encompasses related services that span from investment advice to estate planning, charitable giving, tax management, banking, accounting support, financial reporting and much more. Some firms that cultivate deep, holistic relationships with their wealthy clients may also coordinate a selection of lifestyle services such as private security, concierge medicine and estate management.

Given that investment advice and management is the core offering for the majority of RIAs—and the primary source of revenue—most firms strive to have a robust advisory practice that includes a wide range of asset classes, investment vehicles and strategies. This is especially important as the potential for yield in the public markets has declined and volatility has increased, prompting both individual investors and advisors to consider new ways of achieving return targets in long-term investment portfolios.

One such method is an allocation to alternative investments such as hedge funds, private equity, managed futures, real estate and commodities which carry the potential for outperformance and other benefits such as diversification and risk mitigation. Historically, private equity fund investments (which is used in this report to cover private, commingled funds that employ strategies targeting private equity as well as private credit investments) have almost exclusively been the domain of institutional investors such as pension funds, insurance companies and endowments, and accessing these types of opportunities required individual investors and their advisors to do so on terms that were established for large, sophisticated organizations.

New end-to-end platforms are helping to democratize private equity for individuals, however, our research indicates that only a minority of RIAs are actively helping their qualified clients access private investments through funds and on a direct basis. At the same time, the majority of RIAs have acknowledged high levels of client interest in private equity and are increasingly looking for ways to help these opportunities become more accessible for high-net-worth investors.

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BENCHMARKING ADVISORS AND PRIVATE EQUITY

To establish a benchmark for how RIAs invest in private equity, iCapital Network partnered with R A Prince & Associates, Inc. for its extensive experience conducting primary research on high-net-worth topics.

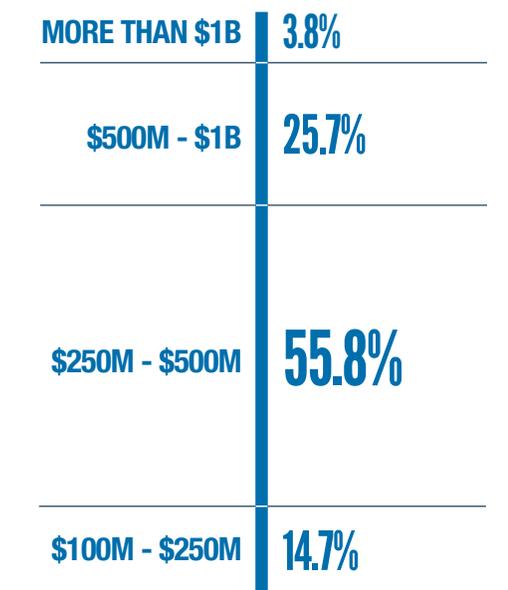
The survey was conducted with more than 400 advisory professionals inquiring about their use of private equity over the past five years including preferred methods of investing, client assets invested, ways of sourcing new opportunities, perspectives on client demand and perceived obstacles.

Each of the respondents met the following criteria:

- Firm represented was a registered investment advisor
- Individual respondent was a senior executive of the RIA firm
- The RIA firm has been in the investment advisory business a minimum of 5 consecutive years
- At least 20 percent of the RIA firm's clients are qualified purchasers, owning investable assets of \$5 million or more

The RIAs surveyed reflect a wealth management-centric business model and approach, typically offering a wide range of inter-related services around a core of investment management to a select number of wealthy individuals and families. As such, more than 85 percent of survey respondents manage more than \$250 million in client assets (Exhibit 1) and more than half of these firms focus their practice on fewer than 100 high-net-worth clients (Exhibit 2).

EXHIBIT 1 | Assets Under Management



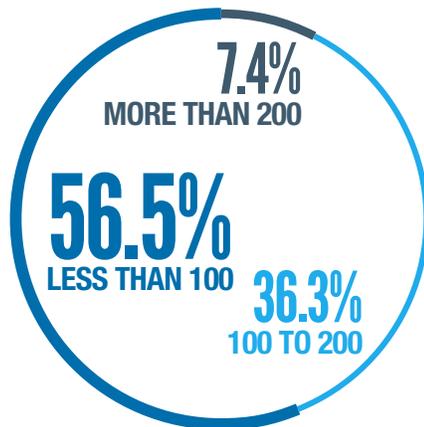
N = 443 RIAs

“The surge in private wealth creation has directly influenced a trend toward more transparent, objective financial advice. As a result, the typical offering from RIAs is very attractive to affluent investors, as they seek holistic solutions to their financial and wealth management needs and plan for the multi-generational transfer of assets.”

– **Lawrence Calcano**
Managing Partner
iCapital Network

BENCHMARKING ADVISORS AND PRIVATE EQUITY (continued)

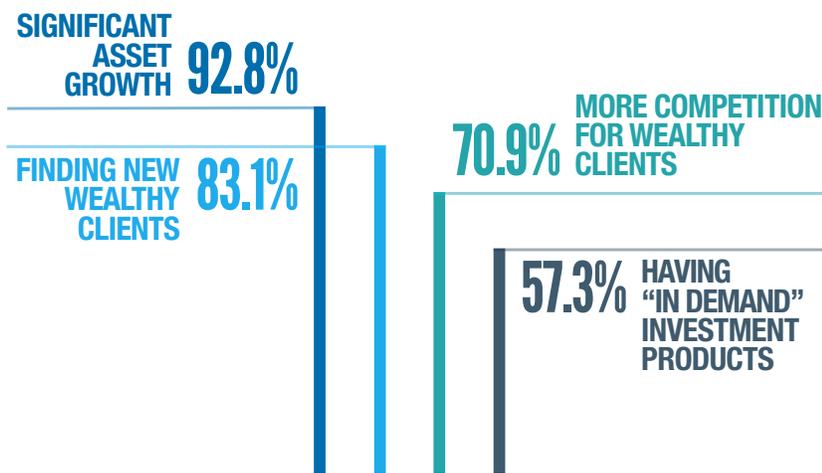
EXHIBIT 2 | Number of Clients



N = 443 RIAs

The firms themselves are focused on achieving growth and navigating the competitive environment for new wealth management business (Exhibit 3). These issues take on increasing complexity for advice practitioners amid market volatility, an evolving regulatory landscape and the growing role of robo-advisors.

EXHIBIT 3 | Key Concerns for RIAs



N = 443 RIAs

“In our experience, RIAs with the most affluent investor bases tend to have the highest level of comfort and familiarity working within the alternative investing landscape. That’s because this asset class—private equity—is on point for qualified clients, those individuals with investable assets of \$5 million or more.”

– **Nick Veronis**
Managing Partner
iCapital Network

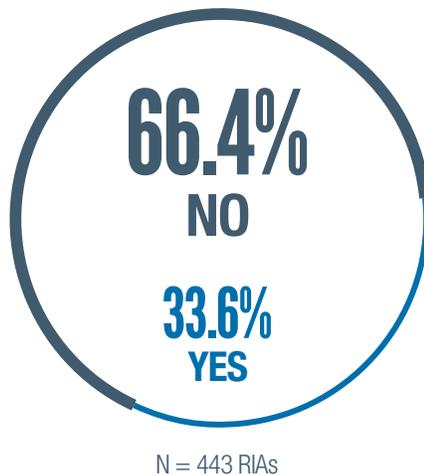
“The wealth advisory industry continues to evolve in an increasingly competitive and challenging environment. Growing assets remains the biggest priority for RIAs. Hand in hand with that priority is the need to consistently find and retain high-net-worth clients. To that end, the most successful advisory professionals are looking for ways to continually advance their suite of offerings to ensure they are considering the most thoughtful ways to achieve superior long-term return targets.”

– **Hannah Shaw Grove**
Chief Marketing Officer
iCapital Network

DELIVERING PRIVATE EQUITY

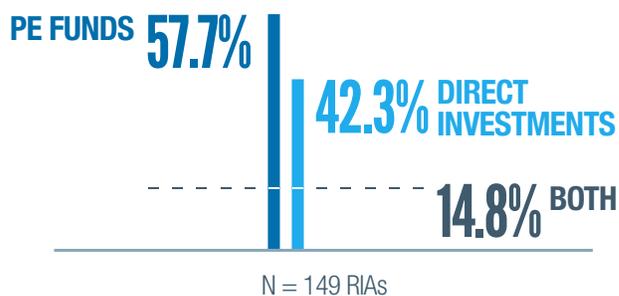
Over the last five years, one-third of RIAs surveyed provided private equity investments to a subset of their wealthy clients (Exhibit 4).

EXHIBIT 4 | Provided Private Equity Investments to HNW Clients Within the Last Five Years



For the 149 RIAs delivering private equity investments to their high-net-worth clients, there are two primary ways this was accomplished (Exhibit 5). Nearly 60 percent of practitioners use private equity funds, more than 40 percent were involved in direct investments and about 15 percent help clients achieve exposure to the asset class through a combination of both approaches.

EXHIBIT 5 | Ways to Deliver Private Equity



“The private capital market is increasingly an important component of a large, well-diversified portfolio. But sourcing and evaluating private equity investments can be a complex and challenging process. That said, we have come a long way in just the past few years in terms of qualified purchasers seeing opportunities to obtain holdings in private equity funds.”

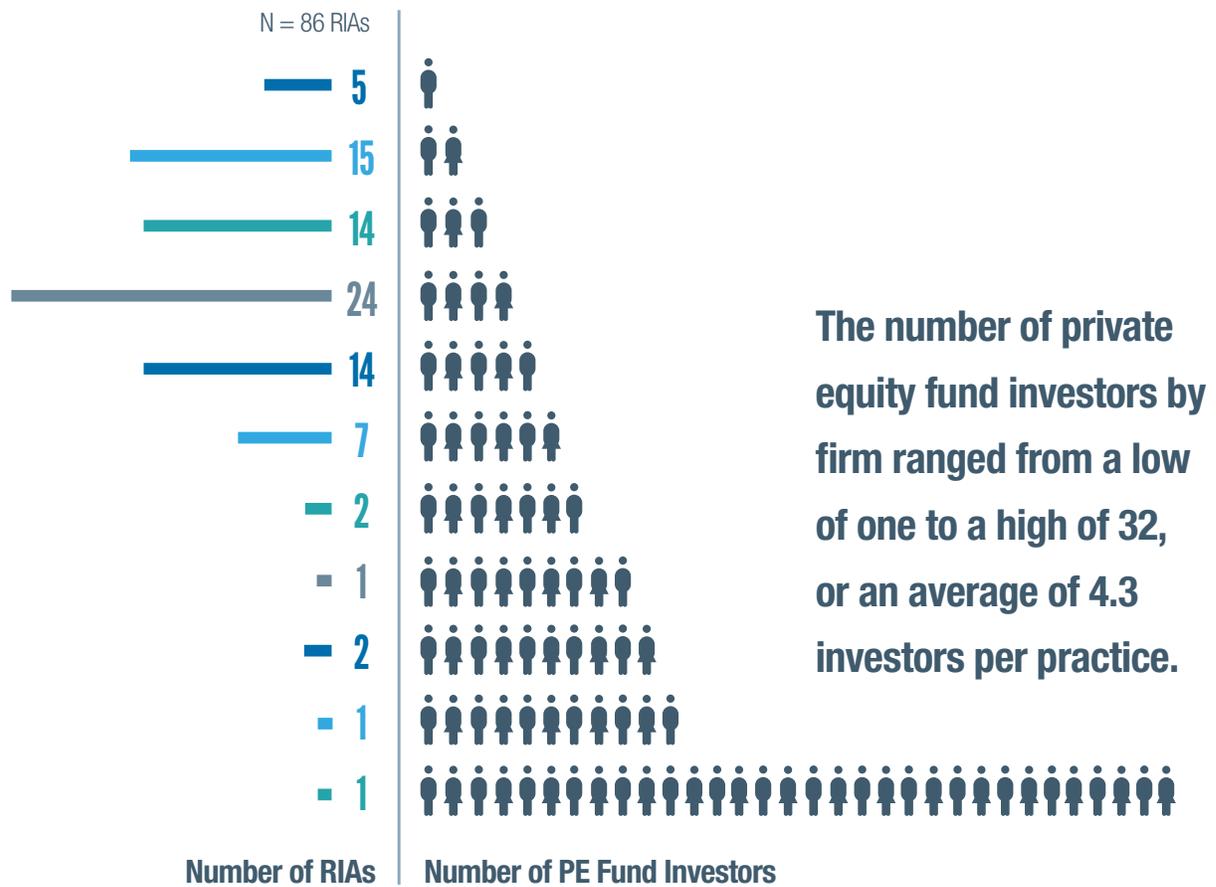
– Eileen Duff
Managing Director
iCapital Network

PRIVATE EQUITY FUNDS AND THE HIGH-NET-WORTH INVESTOR

The large majority of our survey respondents indicate that investments in private equity funds are concentrated among a handful of their clients. With just two exceptions, the number of investors per firm represents less than 10 percent of each advisory firm's client base (Exhibit 6).

While RIA firms can range widely in size, 93 percent of those surveyed had less than 200 clients. The number of private equity fund investors by firm ranged from a low of one to a high of 32, or an average of 4.3 investors and a median of 4 investors per practice. It's worth noting that RIAs with low private equity participation may have numerous qualified purchasers within their client base, but for various reasons—such as personal preferences, portfolio composition, age and time horizon—those individuals are not currently investing in private equity funds.

EXHIBIT 6 | Investors in Private Equity Funds by Practice

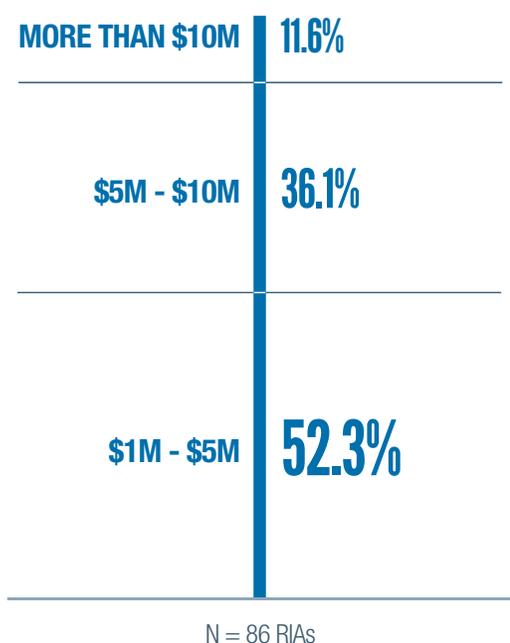


PRIVATE EQUITY FUNDS AND THE HIGH-NET-WORTH INVESTOR (continued)

As far as financial commitments to PE funds, more than half of high-net-worth clients invested between \$1 million and \$5 million (Exhibit 7) which is likely a function of the investment minimums established by the funds themselves. About one-third invested between \$5 million and \$10 million and a much smaller group, about 12 percent, invested more than \$10 million in private equity funds.

To provide some additional perspective about the assets deployed, iCapital estimates that at least \$445 million, or approximately \$5.2 million per high-net-worth client, went into private equity funds via the responding RIAs over the past five years.

EXHIBIT 7 | Average Client Investment in Private Equity Funds



“Accessing high quality private equity funds with affordable minimums remains one of the most challenging aspects of gaining exposure to the alternatives landscape. As a result, the majority of private equity fund investments currently reside in the portfolios of the wealthiest clients. However, we expect to see more qualified purchasers embrace private investments, reflecting the ever-increasing interest in this asset class throughout the advisory space.”

– **Dan Vene**
Managing Partner
iCapital Network

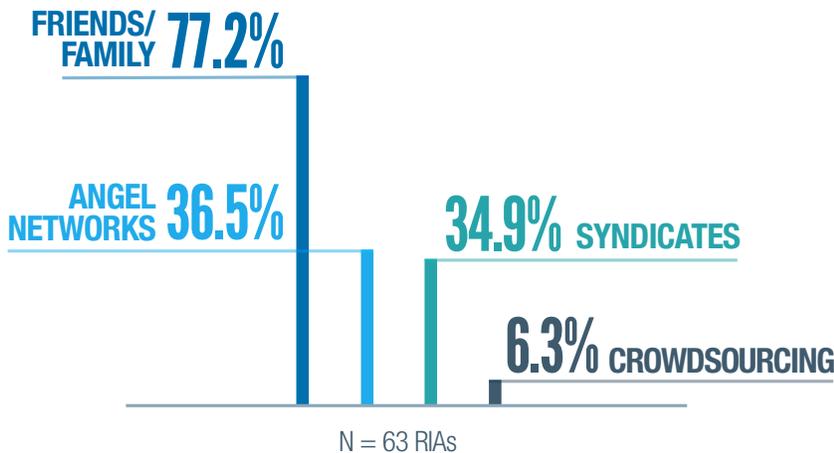
FACILITATING DIRECT INVESTMENTS

Most advisors work collaboratively with their wealthy clients on direct investments. In some scenarios individuals bring potential opportunities to their advisors for assistance with due diligence and an assessment of how well the asset fits with stated investment objectives. In others, advisors will source and vet opportunities on behalf of clients. As a result, advisors and clients rely on a variety of sources (Exhibit 8) to find a wide range of direct investments (Exhibit 9).

Information from friends and family is the most common way of finding direct assets, as indicated by almost 80 percent of respondents. At the same time, about one-third of RIAs cite both angel investor networks and syndicates as sources of more consistent deal flow, and far fewer, just 6 percent, rely on crowdfunding platforms.

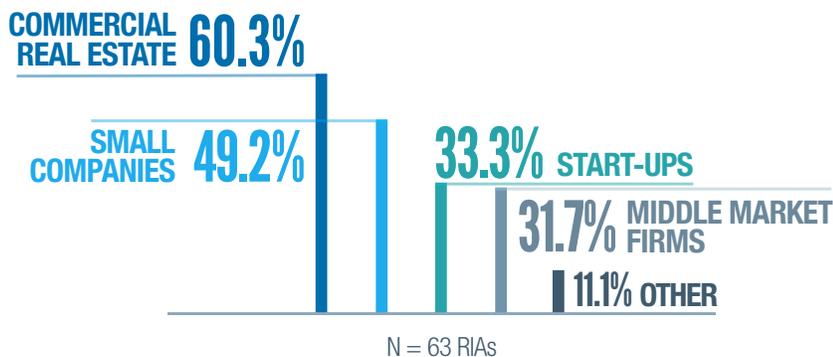
FACILITATING DIRECT INVESTMENTS (continued)

EXHIBIT 8 | Sources for Direct Investments



According to RIAs surveyed, the most popular direct asset held by their clients is commercial real estate, followed by companies at various stages in the business cycle. About half of RIAs cited small companies and one-third cited start-ups and early stage ventures, with a similar number focused on middle-market firms. Just one in 10 RIAs mentioned other types of direct investments including such diverse things as patents and intellectual property, technology, royalties, broadcasting rights and collectibles, among others.

EXHIBIT 9 | Types of Direct Investments



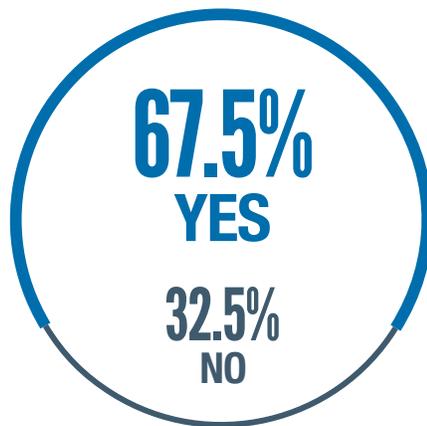
“Given that the wealthiest clientele dominate the private investment category, it’s understandable that direct investments are an important feature of the portfolios. In a number of cases, the ultra-high-net-worth investor will have established his or her original capital from real estate or the establishment of family businesses so there’s a certain level of comfort with these types of investments. The RIA plays an integral role in helping to vet the new opportunities, and it’s important to have that counsel throughout the process.”

– **John Imbriglia**
Senior Vice President
iCapital Network

APPETITE FOR PRIVATE EQUITY

Nearly seven out of 10 RIAs who are not currently offering private equity say that their high-net-worth clients are interested in private equity investments (Exhibit 10) based on conversations with and specific inquiries from them.

EXHIBIT 10 | Wealthy Clients Interested in Private Equity



N = 357 RIAs

Despite the expressed interest, just one-quarter of practitioners say they have proactively raised the subject indicating that most conversations have been initiated by the clients themselves (Exhibit 11). Given the degree of client interest in private equity, it is likely that some high-net-worth investors are sourcing and investing in these types of opportunities away from their primary advisors, either through their personal networks or with competitors.

EXHIBIT 11 | Initially Broached the Subject of Investing in Private Equity



N = 357 RIAs

“In some ways, the industry is at an inflection point. There is an understanding among RIAs serving the upper echelons of individual investors that clients have an increasing appetite and need for alternative investing opportunities. Consequently, the independent wealth advisory community is looking for the best ways to meet that need and ensure they provide a well-rounded offering.”

– **Ryan Van Geons**
Senior Vice President
iCapital Network

OBSTACLES TO DELIVERING PRIVATE EQUITY

Private equity represents a unique opportunity for many investors, but also carries a number of risks and obstacles that are distinct from more readily accessible investment offerings like stocks, bonds, mutual funds and ETFs. As such, advisors that provide (or are planning to provide) private equity investments to their qualified clients must understand how they are different and develop a competence around them.

Many of the top obstacles cited by our survey respondents who are not currently offering private equity are related to core characteristics of the asset class (Exhibit 12). The biggest obstacle, as cited by more than eight out of 10 RIAs, is the lock-up period for private equity funds. Lock-ups can vary depending on the type of fund but may range from the relatively short duration of 4-5 years for a private credit fund to 12-13 years at the high end for a venture capital fund, with other strategies falling in between those two.

For about three-quarters of RIAs, the minimum investment required by most fund managers can be problematic. The standard industry minimum for a private equity fund is \$5 million, but some proven managers have minimums as high as \$20 million, making them off limits even for ultra-wealthy clients.

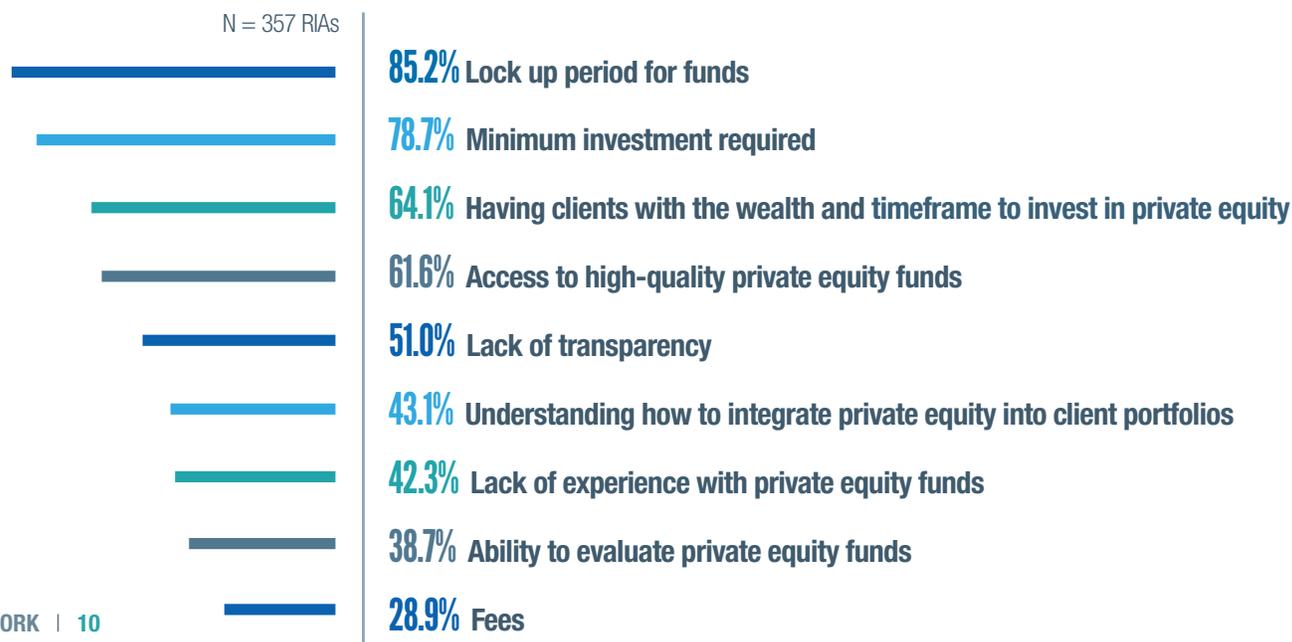
About two-thirds of RIAs say they lack sufficient clients with the requisite wealth and time frame needed to invest in private equity funds. And slightly fewer, about six in 10 RIAs, are impeded by their inability to access high-quality funds which have typically prioritized institutional investors that can commit tens of millions to hundreds of millions of dollars to a single fund.

Transparency is cited by roughly half of survey respondents and refers collectively to visibility into portfolio companies, frequency of reporting and overall access to information. Approximately four in 10 RIAs identify issues associated with their own level of familiarity surrounding the asset class—knowing how to integrate private equity into a traditional portfolio, overall experience with private equity funds and the ability to conduct due diligence on managers and funds. And, finally, fees (management, incentive and/or transaction) were seen as an obstacle by around 30 percent of RIAs surveyed.

“RIAs face certain hurdles when navigating private investing opportunities with their clients. For most, lock-up periods can be the biggest barrier to entry. Investment minimums and access to high quality funds can also be problematic, although today those latter two are less of an issue.”

– Peter Montgomery
Senior Vice President
iCapital Network

EXHIBIT 12 | Obstacles to Providing Private Equity Funds



In closing, our research finds that a small group of advisory professionals are currently helping their wealthy, qualified clients with private equity, meaning that many high-net-worth investors may be under-allocated to illiquid assets like private equity funds and direct investments. Based on the data, it's likely that many more RIAs could confidently meet client interest in the asset class if they found reliable methods of overcoming key obstacles.

IMPLICATIONS

In addition to providing a useful snapshot of how RIA firms and their high-net-worth clients are investing in private equity at the present time, the research data in the report may have some broader implications that should be considered.

Competitive Positioning

Private equity investments can play a potential role in attracting wealthy clients to an advisory practice and increasing assets under management that generate revenue. In addition, these types of investments may help broaden and strengthen an advisory firm's overall platform of capabilities on an absolute basis and vis-à-vis the competition.

Revenue Generation

Based on the expressed interest from high-net-worth investors and the strong historical performance of private equity^[1], the possibility exists for significant future commitments to the asset class that can, in turn, create relationship adhesion with important clients and long-term revenue generating opportunities for RIAs.

Outsourcing and Resource Allocation

Because a relatively small percentage of individual investors are potential candidates for private equity investments, many RIA firms will need to find a turnkey solution to sourcing, conducting due diligence and executing on these types of opportunities so as not to distract critical resources from their core business. Continued adoption by wealthy investors and their advisors will help increase scalability.

Practice Development

Advisors need to climb the learning curve on illiquid products so they understand the mechanics, the investor experience and the vernacular of private equity before broaching the matter with their wealthiest clients.

Client Engagement

Inquiries and interest from clients that remain unaddressed can be interpreted in a variety of ways—from poor follow-through to a lost opportunity—and cause damage to trust-based relationships. Whether or not private equity is an appropriate asset class for an RIA firm or its clients, the subject may present an opening for advisors to engage with clients about their priorities and preferences while demonstrating fiduciary expertise.

^[1] According to an analysis from Cambridge Associates, US private equity funds have produced net returns of 13.03%, 11.17%, 10.89% and 12.81% over the last 5, 10, 15 and 20 years, respectively. Cambridge Associates' US Private Equity: Fund Index Summary: Horizon Pooled Return as of December 31, 2015. Past performance is not indicative of future results.

Research Director

Russ Alan Prince is President of RA Prince & Associates, Inc., a globally-recognized research and consulting firm specializing in the study of private wealth creation and management. Mr. Prince is the author of 49 research-based books including the widely acclaimed *The Middle-Class Millionaire* (2008), *High-Net-Worth Psychology* (1999), *Cultivating the Affluent* (1995) and *The Seven Faces of Philanthropy* (1994). He is a Co-Founder and the Executive Director of *Private Wealth* magazine and writes the *Serious Money* blog for Forbes.com. Prince received an MBA with distinction from Columbia Business School and an MA in sociology with a concentration in research methodologies from the State University of New York at Stony Brook. www.ruslanprince.com



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Hannah Shaw Grove is Chief Marketing Officer at iCapital Network where she oversees the firm's marketing, education and thought leadership initiatives. Ms. Grove is the author of 11 books and a Co-Founder of *Private Wealth* magazine where she served as Executive Editor for eight years. Previously, Grove was managing director at Merrill Lynch Investment Managers (merged with BlackRock) and held strategic management roles at Prudential and Fidelity Investments. She is a member of the Hedge Fund Association's high-net-worth advisory board and a *cum laude* graduate of Harvard University.



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Dan Vene is Co-Founder and Managing Partner of iCapital Network where he leads the development of the firm's proprietary technology platform, including integration with major industry platforms and white-label solutions. Prior to founding iCapital, Mr. Vene was head of private real estate capital raising at Fir Tree Partners and a partner responsible for real estate and real asset fund origination, structuring and distribution at Eaton Partners. Previously, Vene was founder and CEO of Earnings.com, which was acquired by Thomson Reuters. He is a graduate of Cornell University.



Nick Veronis is Co-Founder and Managing Partner of iCapital Network where he leads the firm's due diligence and origination efforts. Mr. Veronis spent more than a decade at middle-market private equity firm Veronis Suhler Stevenson as managing director responsible for originating and structuring investment opportunities in the business information services sector, spearheading VSS's investment strategy in the financial software and data sector. He is an operating advisor to Atlas Advisors, an independent investment bank based in New York, and a graduate of Trinity College.



iCapital Network is a financial technology platform offering simplified access to alternative investments. We support a rapidly growing group of RIAs, family offices and other sophisticated investors with powerful research tools, extensive due diligence and access to a curated selection of private investment opportunities, including private equity and hedge funds. Our platform has an intuitive interface and fully automated subscriptions, administration and reporting, making it a powerful complement for a thriving high-net-worth advisory practice.

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