



IPAVision 2018
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How to Sell to RIAs

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About Us



- Serves Individual Investors
- Full Service Fee-Based Wealth Advisor
- Specializes in “Endowment Style” Investing



- Serves RIAs and Broker-Dealers
- FINRA / SEC Compliance Consulting Firm
- Direct Investment Sub-Advisor



- Serves Sponsors
- Direct Investment Capital Markets Firm
- Focus Solely on Fee-Only Advisors



How Can We Help You?



Aliso Advisors helps financial intermediaries secure sustainable growth by providing ongoing compliance services, c-suite education, and hands-on project-based consulting engagements. We also help financial intermediaries prudently integrate direct investment opportunities into their clients' portfolios.

Our solutions include:

- Broker / Dealer and RIA Registration
- Mock FINRA / SEC Audit Examinations
- Regulatory Examination Assistance
- Compliance Procedures Assistance
- Annual Compliance Meetings
- Transactional Compliance Protocols
- Due Diligence Protocols Assistance
- Ongoing Due Diligence Advisory Services
- Advisor Compliance and Sales Training
- E&O Insurance Assistance



How Can We Help You?



Link Portfolio Alternatives helps investment sponsors gain access to Registered Investment Advisers (RIAs) and other fee-based financial intermediaries. Through its partnership with Aliso Advisors, Link Portfolio Alternatives is able to help solve any bottlenecks or resistance factors that prevent otherwise interested fee-based financial intermediaries from utilizing quality illiquid investments. Our services include:

- Educational Workshops
- Due Diligence Events
- Product Creation Consulting
- RIA-Specific Wholesaler Training
- RIA Market Segmentation Consulting
- Adjunct Capital Market Support
- End-to-End Capital Market Solutions



Agenda

Part 1

A Primer on Financial Intermediaries

RIA Market Potential

Part 2

RIA Segments

RIA's Top Challenges with Alts

Creating RIA Sales Segments

Part 3

Components of an RIA Sales Channel

Tips on Selling to RIAs

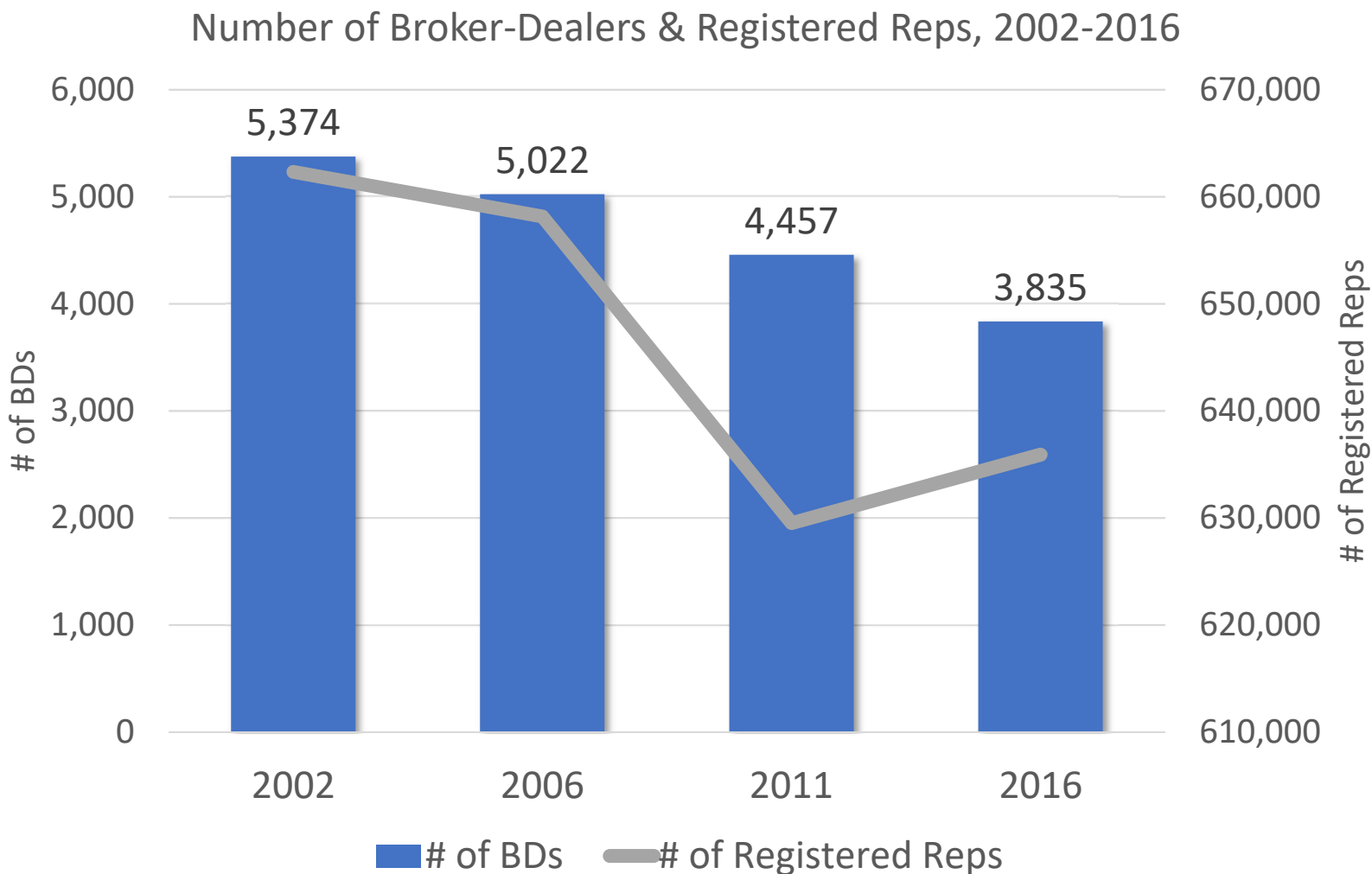
Thoughts on RIA-Focused Alternative Product Development

Part 1: A Primer on Financial Intermediaries





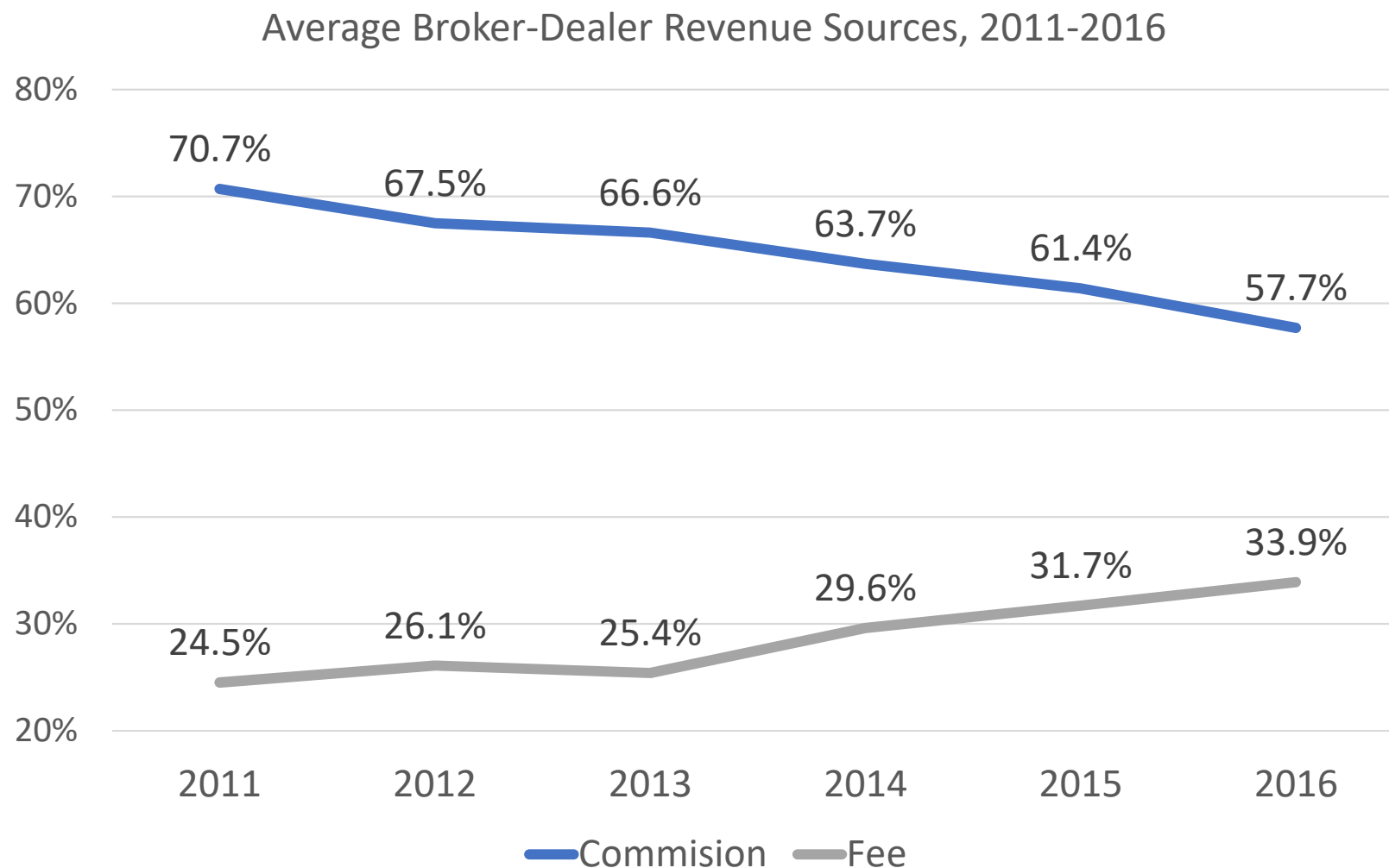
The Decline of the Broker-Dealer Model



Source: FINRA



The Changing Revenue Landscape



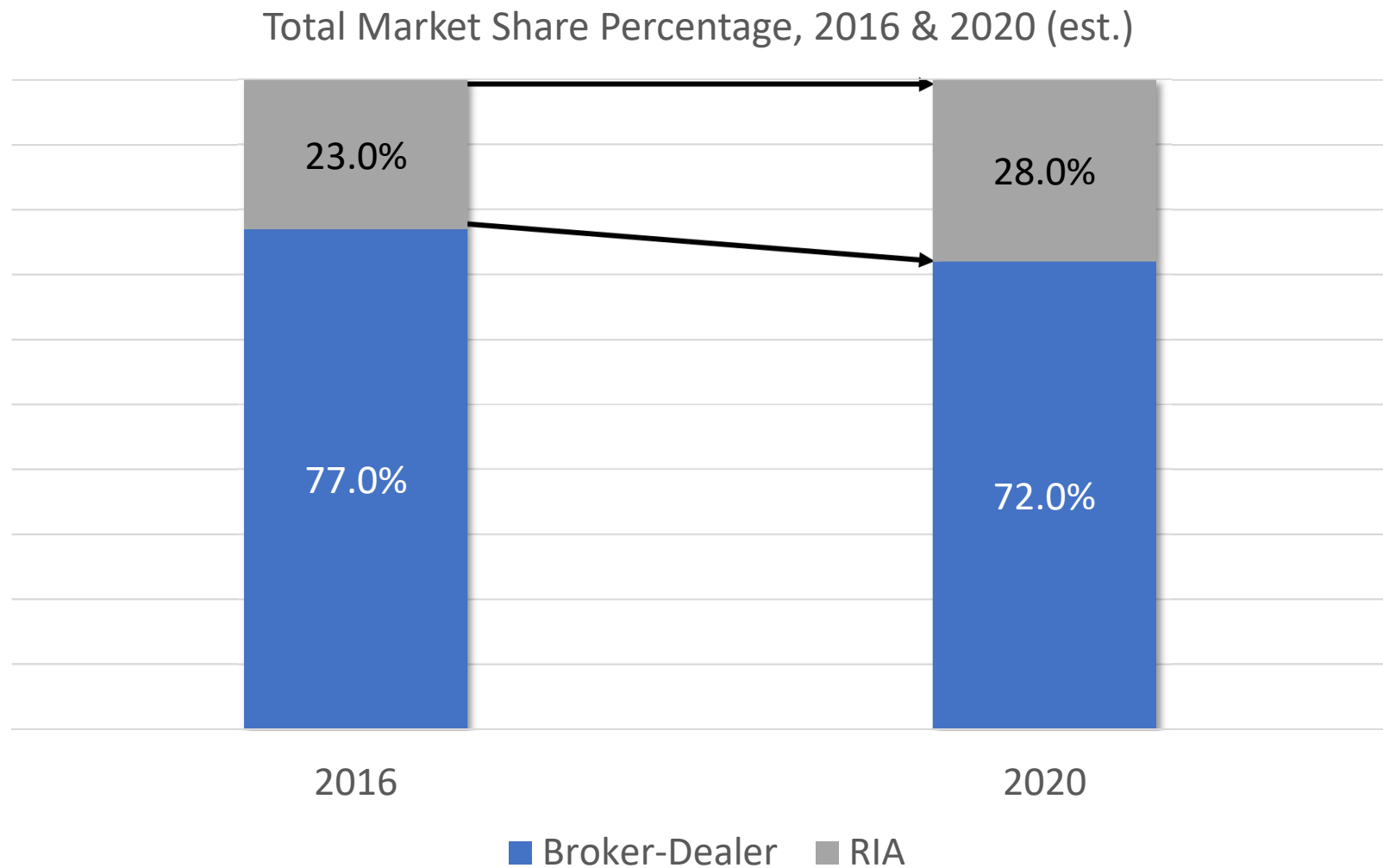
Source: InvestmentNews Research

RIA Market Potential





RIAs are Capturing Market Share

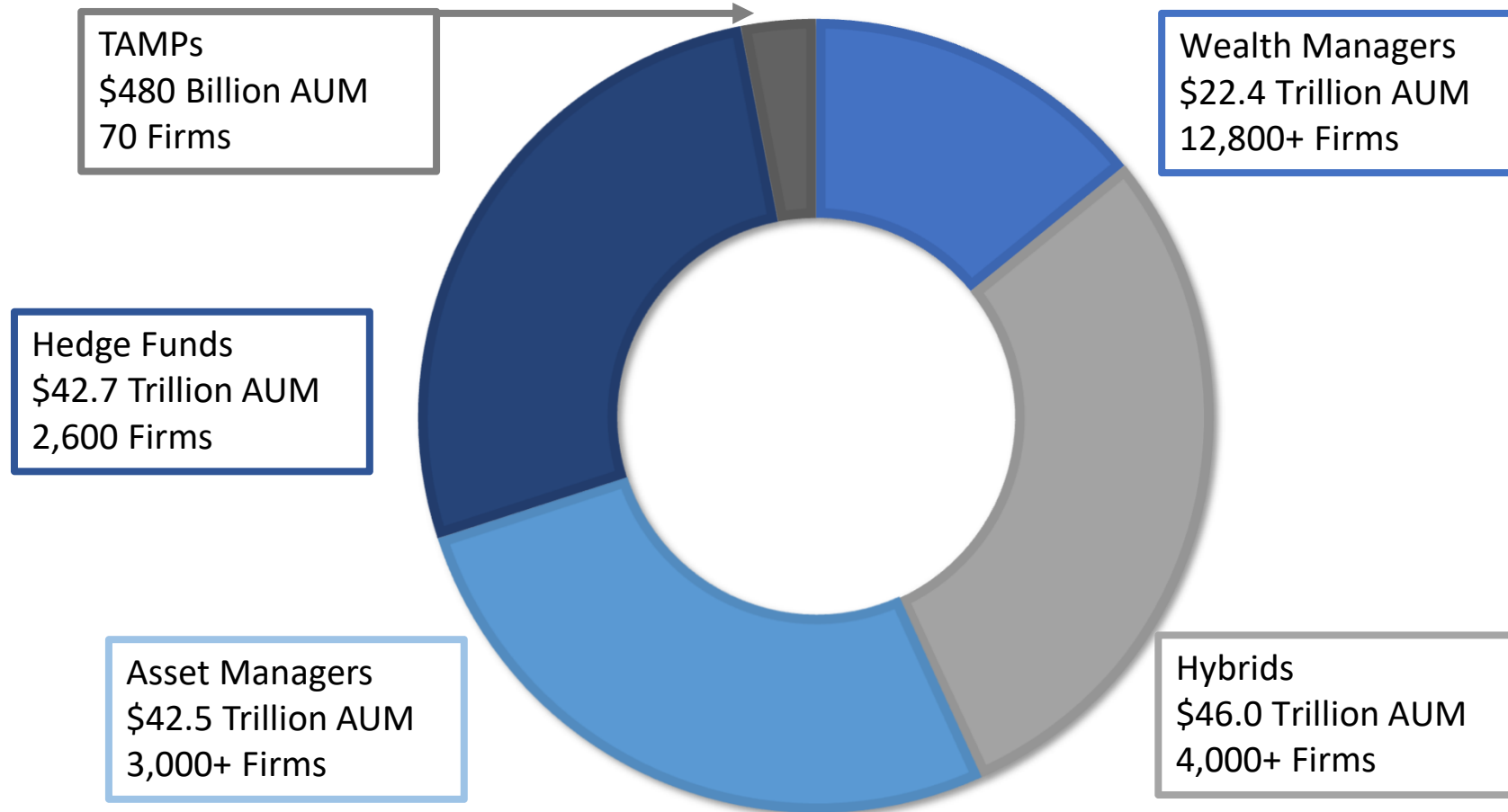


Source: Cirulli Associates



The RIA Market is Large and Diverse

RIA MARKET BY SIZE, TYPE, & # OF FIRMS, 2016

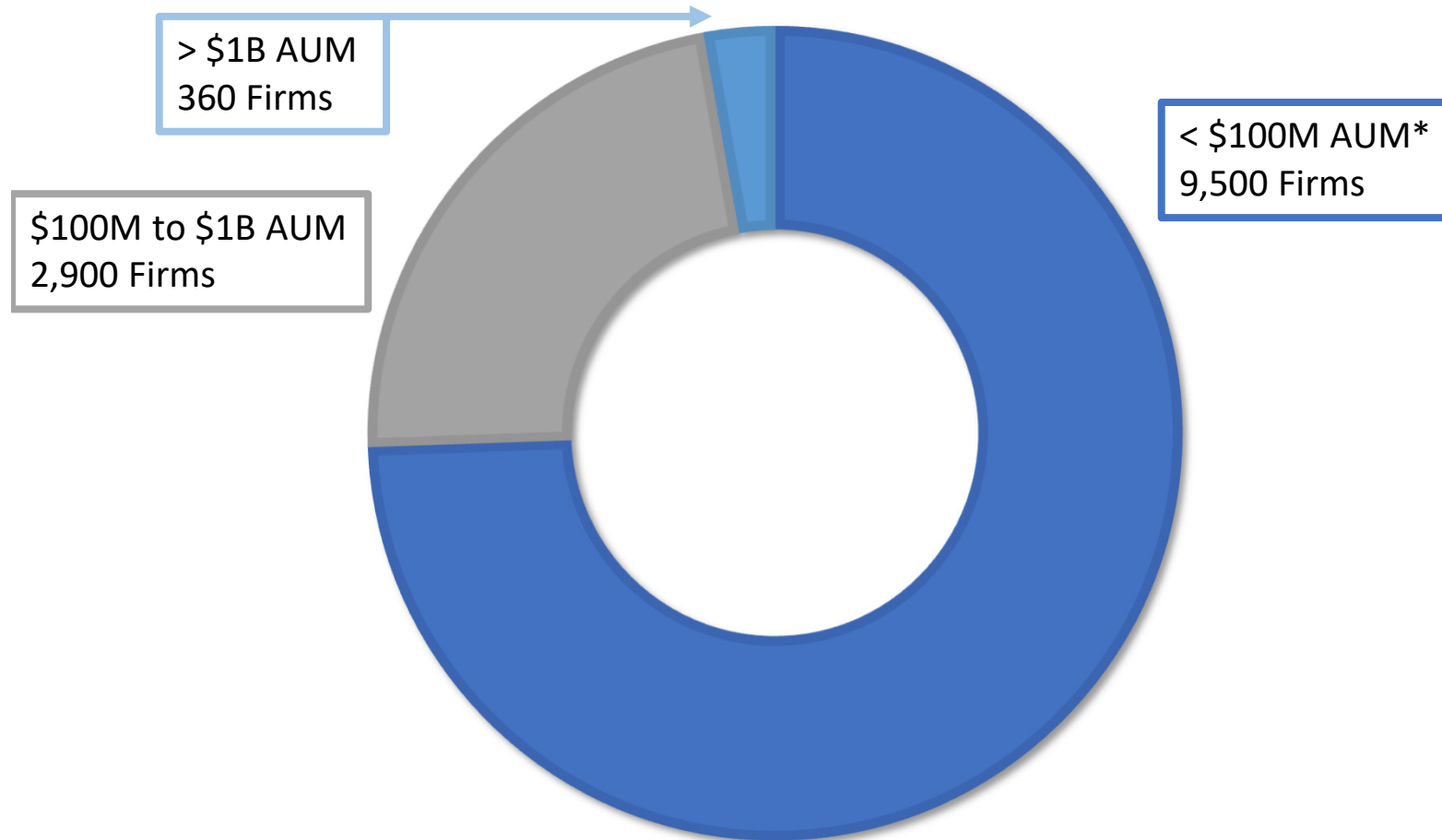


Source: RIA Database



Wealth Manager Segmentations

OF WEALTH MANAGERS BY AUM, 2016



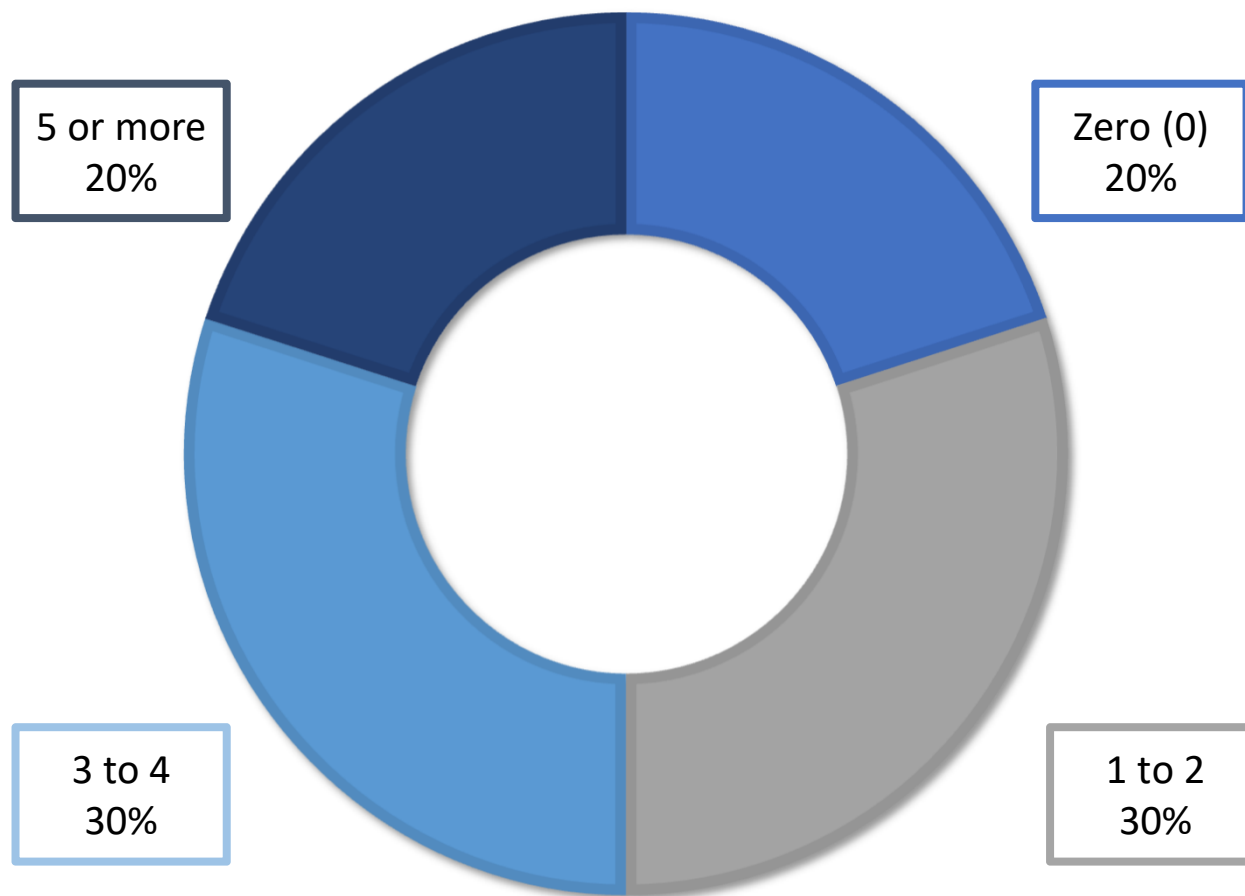
Source: RIA Database

* More than half of RIAs in the sub-\$100M AUM category manage more than \$50M.
(Source: Morningstar)



Survey: # of Alternative Products per Client

AVERAGE NUMBER OF ALTERNATIVE PRODUCTS UTILIZED

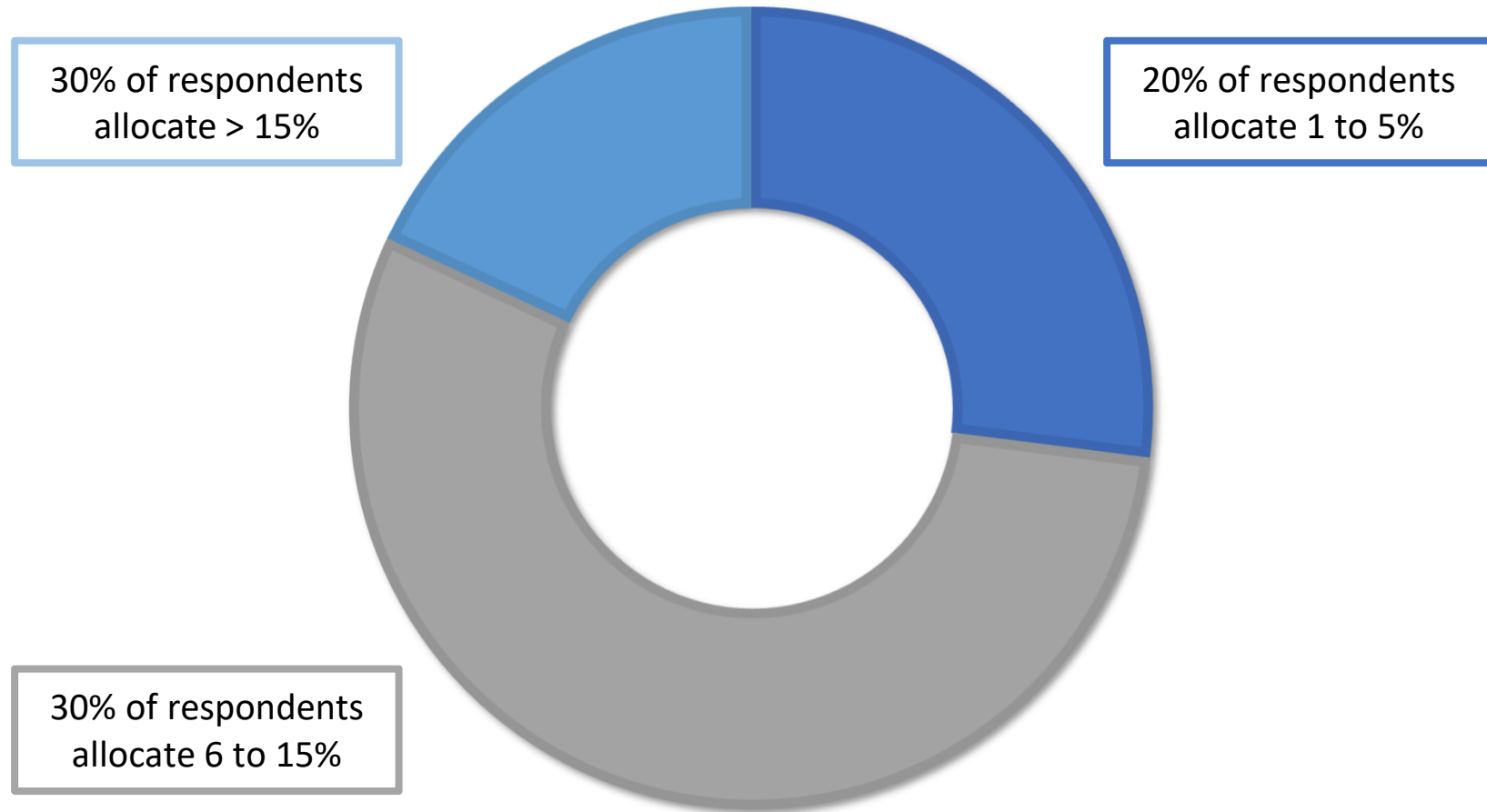


Source: 2015 Pershing survey of 1,200 RIAs about their perception and use of alternative investments.



Survey: Optimal Allocation of Alts in Portfolio

OPTIMAL ALLOCATION OF ALTERNATIVE INVESTMENTS

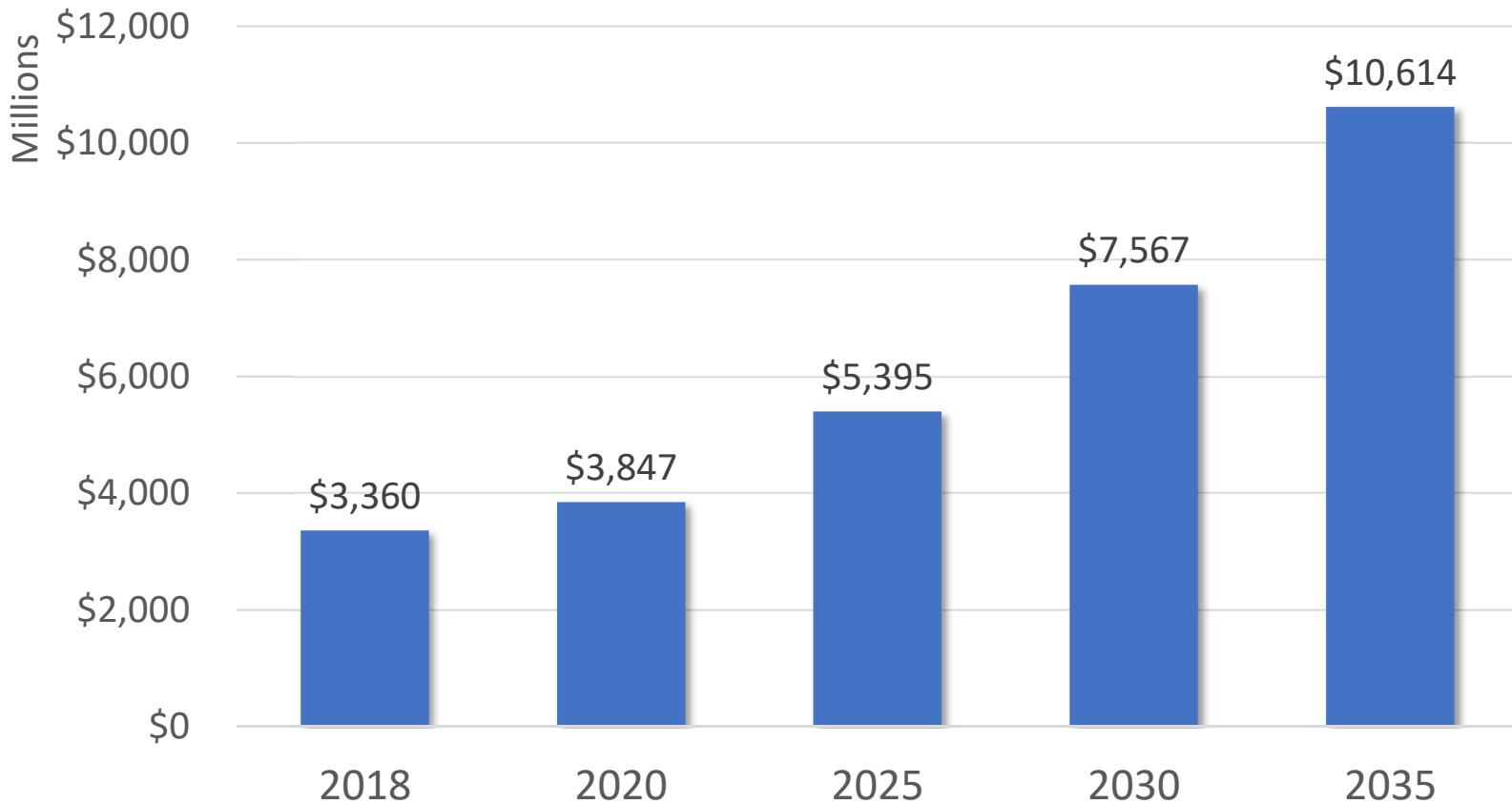


Source: 2015 Pershing survey of 1,200 RIAs about their perception and use of alternative investments.



Alternatives / Wealth Manager Market Potential

Projected Market Size of Alternatives Distributed Through
Wealth Managers (in millions)



Wealth managers control approximately \$22.4 trillion in AUM. This projection assumes wealth managers allocate approximately 15% of their AUM to alternatives, and RIA AUM growth continues at rate of 7% per year (source: InvestmentNews).

Part 2: RIA Segmentations



Understanding RIA Challenges With Alternative Investments





Top 4 Challenges RIAs Face with Alternatives

1) Data

For reporting and billing purposes, RIAs must have timely, consistent, and accurate data regarding an investment's valuation, distributions, capital invested, and any partial returns of capital. Lack of usable data is perhaps the biggest barrier to entry for illiquid sponsors attempting to enter the RIA channel.

2) Operations

RIAs, especially those with < \$750M AUM, must find operational efficiencies in order to maintain profitability. RIAs are constantly turning to outsourcing and technology in order to gain incremental gains. Unfortunately, most TAMPs and platform providers have no capability to integrate alternative investments.

3) Compliance

Most RIAs have never had to manage suitability, concentration, and other alternative-specific regulations. Additionally, most RIAs have not adjusted their ADV and Fee Agreement disclosures to meet SRO's guidelines.

4) Education

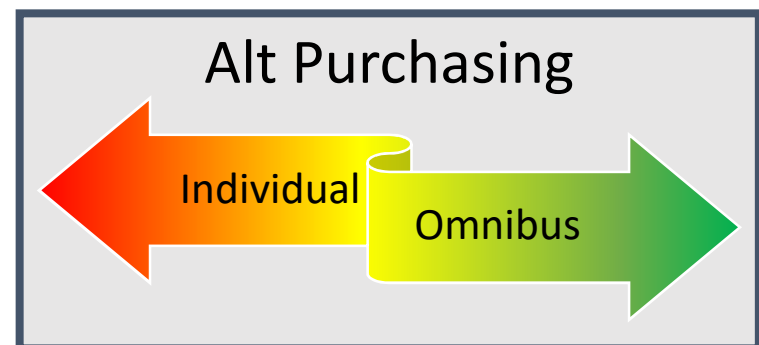
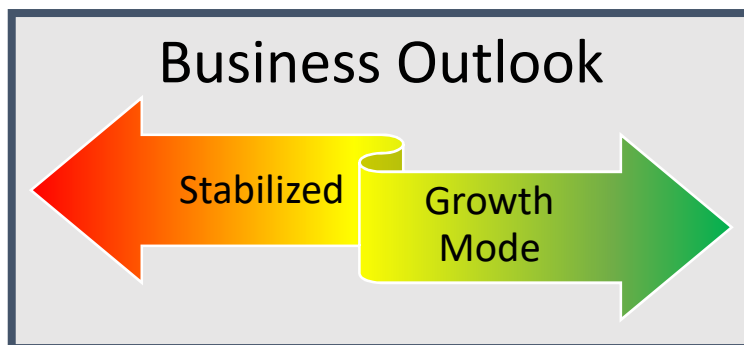
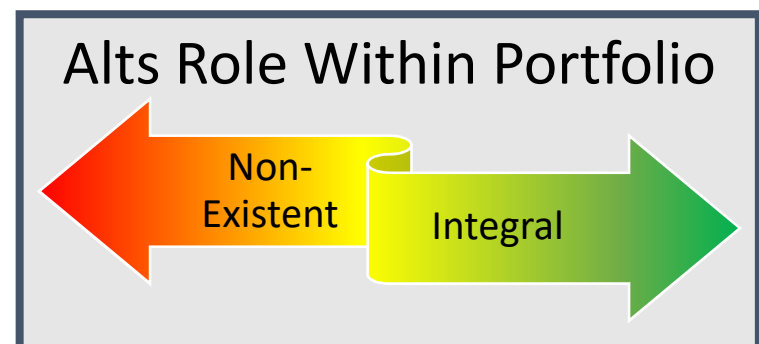
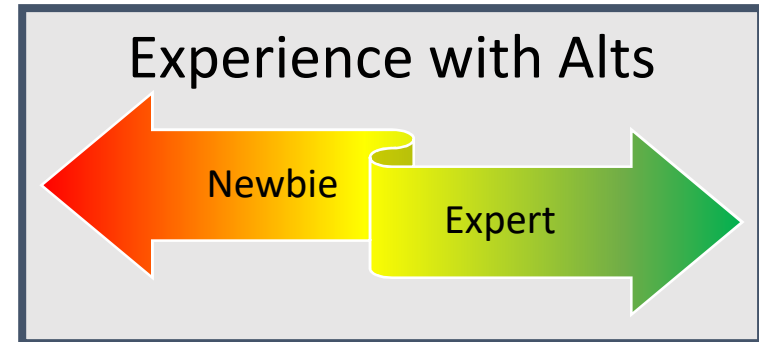
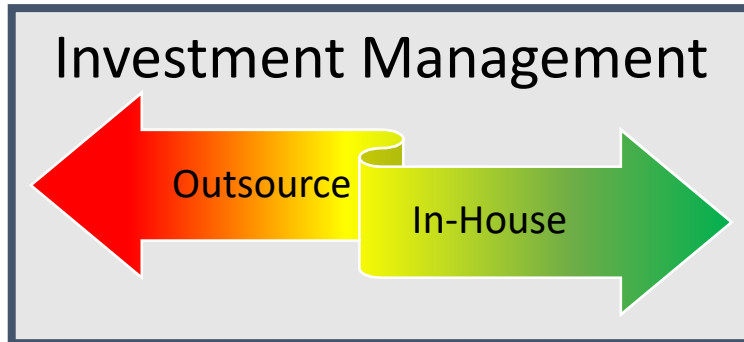
The universe of alternative investments is foreign to most RIAs. Moreover, its core purpose is effectively counter to what is essentially dogma in the RIA community (MPT). Advisors need ground up education on not just what are alternatives and their benefits, but also their key risks and how to best utilize illiquid investments in a portfolio.

Creating RIA Segments



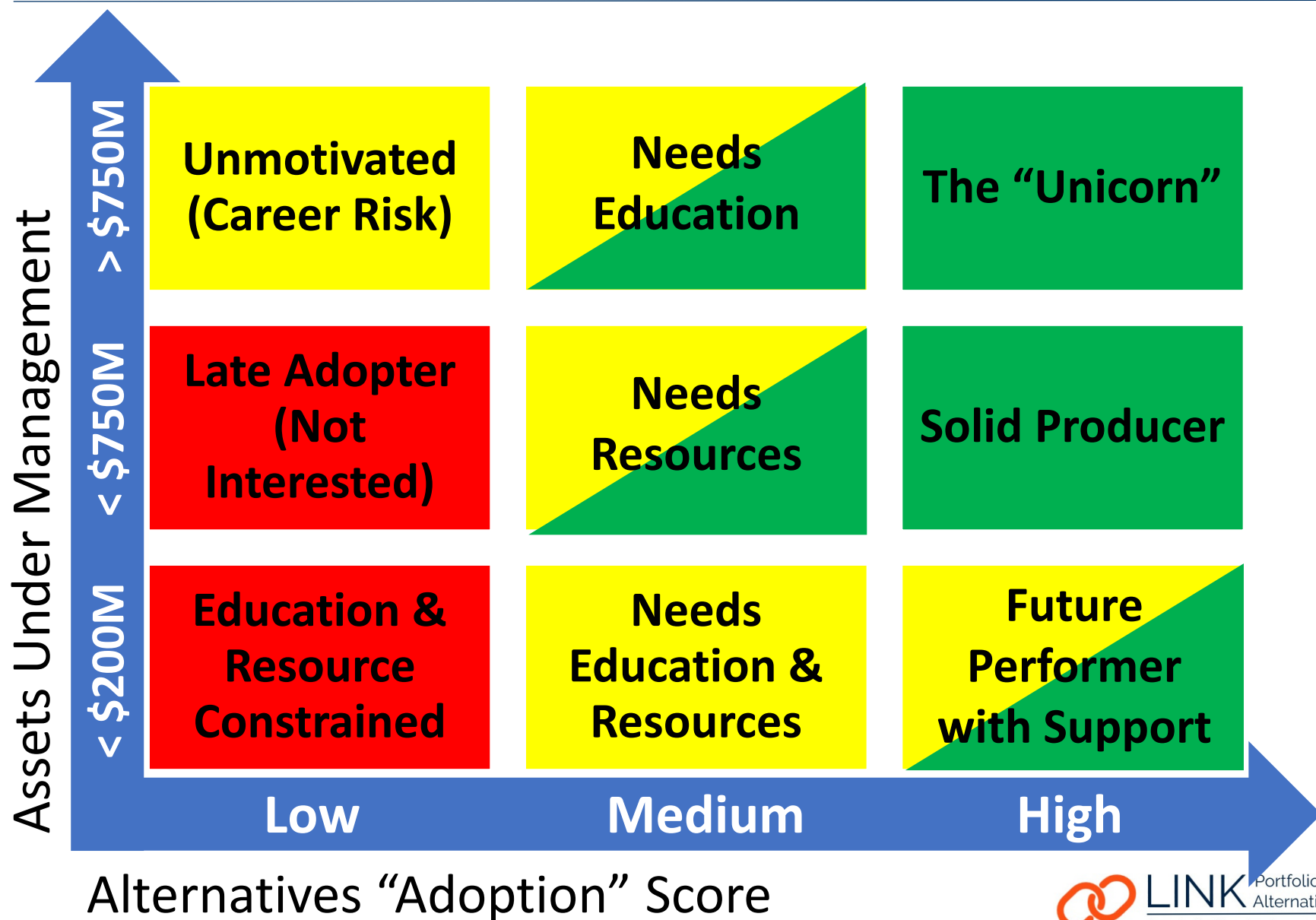


RIA's Alternatives "Adoption" Dynamics



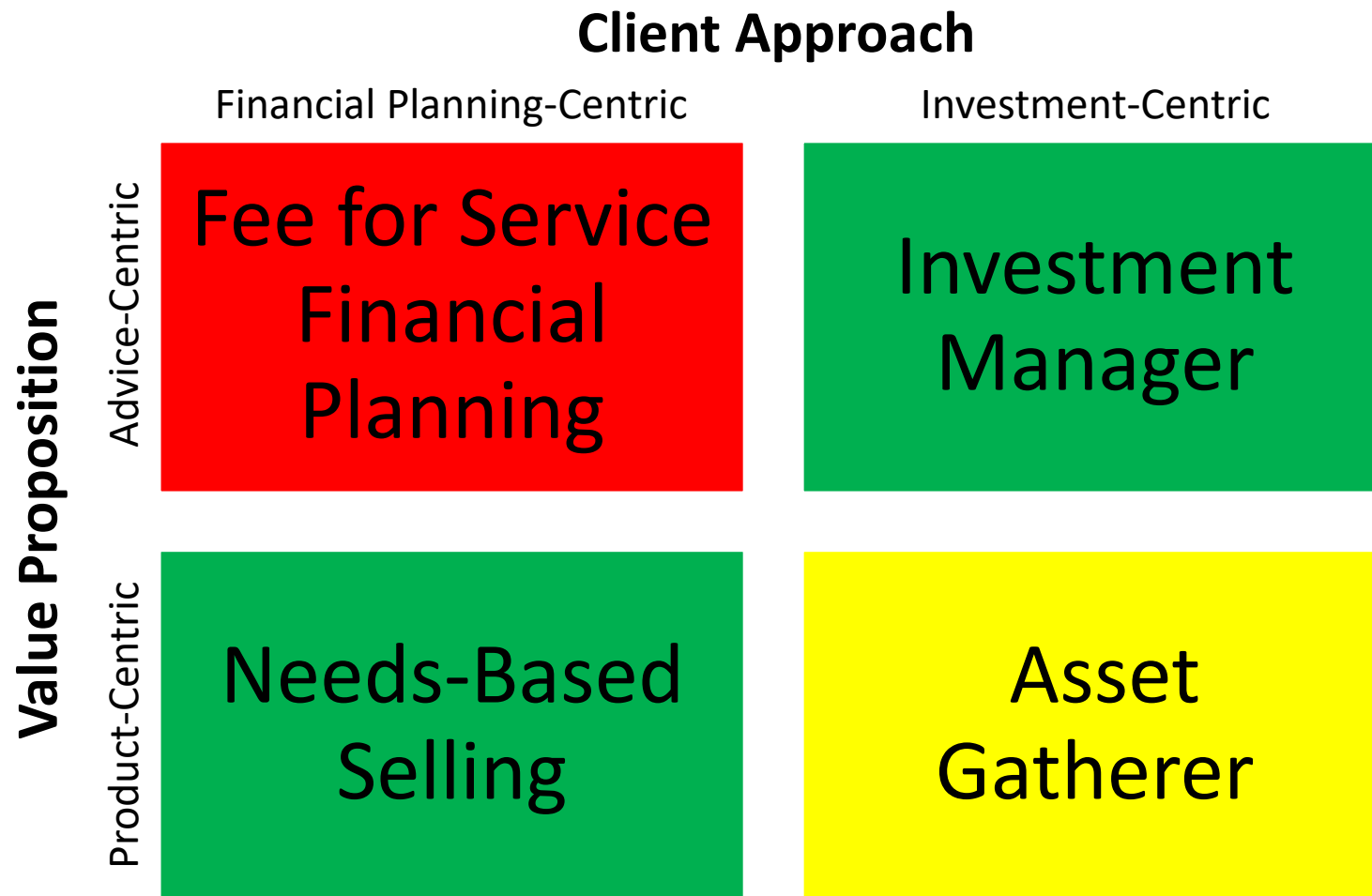


RIA Alt-Adoption Based Segmentation





RIA Value Proposition Based Segmentation



Part 3: Components of an RIA Sales Channel





RIA Sales Channel Key Components

Overall Goal	Accelerate time to investment by streamlining RIA due diligence and onboarding processes
	Ensure regulatory compliance at sponsor, B/D, and fund level
Client	Determine approach for each client type. Mitigate “cannibalism” threat
	Determine regulatory / processing requirements for each client type
Messaging	Establish context with portfolio, effective positioning and differentiators, risk mitigations
	Ensure all messaging is SRO compliant
Due Diligence	Expedite RIA due diligence process
	Ensure positive 3 rd party due diligence feedback
Marketing	Develop compelling RIA/BD-only marketing materials
	Develop compelling general solicitation compliant marketing materials (to be distributed by RIA)
Sales	Establish national accounts go to market strategy. Identify prospects and pipeline
	Develop wholesaling territories and sales procedures, sales training, sales supervision
Transaction	Develop compliant and easy-to-use subscription documents
	Establish ticket processing protocols: investor verification, cures, custodial platform support, etc.
Reporting	Establish RIA and investor communication calendar
	Establish data feed into data aggregator (e.g., DST Fan Mail)
Back Office	Ensure accounting accuracy with investment performance, investor allocations, distributions
	Provide BD compliance, sales supervision, sales training

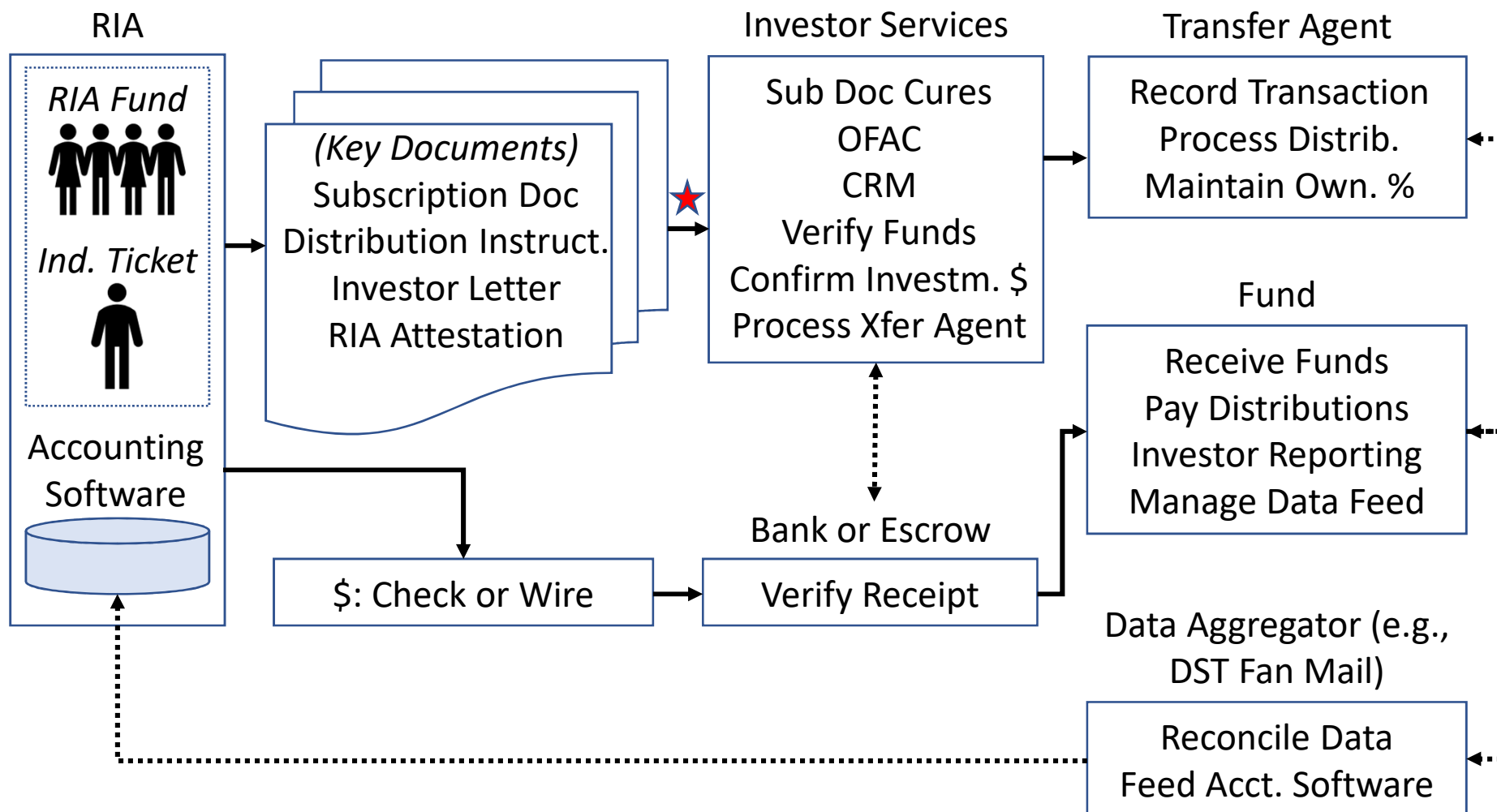


Component: Messaging

Sponsor Purpose & Story	Much like Sinek's famous book, "Start with Why", it is easier for RIAs to evaluate a sponsor's culture when it has a clearly defined purpose statement. Moreover, RIAs generally use stories and analogies to help clients understand concepts and investment ideas. Sponsors should leverage this by creating a story about itself and its strategy in terms that are understandable by retail investors.
Product Context	For the most part, RIAs consider themselves asset allocators, which means they view any one investment as serving a specific role within a portfolio. Sponsors need to help RIAs understand what role within a portfolio its investment product serves. For example, if it provides consistent current cash flow, it might be positioned as a bond replacement or fixed income supplement.
Key Risks & Mitigations	While a prospectus will outline nearly every conceivable risk, RIAs want sponsors to provide analysis on key risks or assumptions that have the greatest sensitivity to the success/failure of the program. Within that, sponsors should outline how it attempts to mitigate these key risks.
Objection Handling	Every sponsor and every program will naturally have several common objections that the RIA community will find. Sponsors should proactively uncover these objections and incorporate responses to these objections as part of its introduction. Addressing objections before the advisor "discovers" it can help reduce its negative impact.
Competitive Analysis	Sponsors, in particular their wholesalers, should have a solid grasp of the competitive landscape. This includes not only direct competition, but also suitable alternatives within a portfolio. Wholesalers are then in a position to advise advisors who misunderstood another product offering, and are able to position one's own product as a complement to other investment products that have already been approved by the RIA.



Component: Streamline RIA Ticket Processing



★ If investing through custodial platform, insert custodian here



Component: Streamline RIA Ticket Processing

E-Docs

Subscription documents and any other forms must be PDF fillable with appropriate tabbing and metadata. Sponsors should proactively integrate documents with commonly used e-signature providers, such as DocuSign.

Accredited Verification

For sponsors that utilize 506(c) Reg D, they will need to educate advisors on the compliance requirements around the “reasonable steps” rule for accredited investor verification, which is different than 506(b).

Custodial Platform

The top custodians that allow alternative investments are, in order of AUM: Schwab, TD Ameritrade, Pershing, Folio (via Kingdom Trust), Fidelity. Sponsors should proactively engage custodians for permission to clear directly. Note, all custodians charge a platform fee, typically ranging between 40 bps and 100 bps. A sponsor should plan for these costs.

Data Solution

The most important issue for sponsors to solve is how to provide timely, accurate, and consistent data regarding a program’s valuation, distributions, and any partial returns of capital. This must be in a format that allows the RIA to seamlessly upload into its accounting and/or reporting software. Failure to provide ready-to-use data will be the biggest hinderance to accessing the RIA market.

Tips on Selling to RIAs





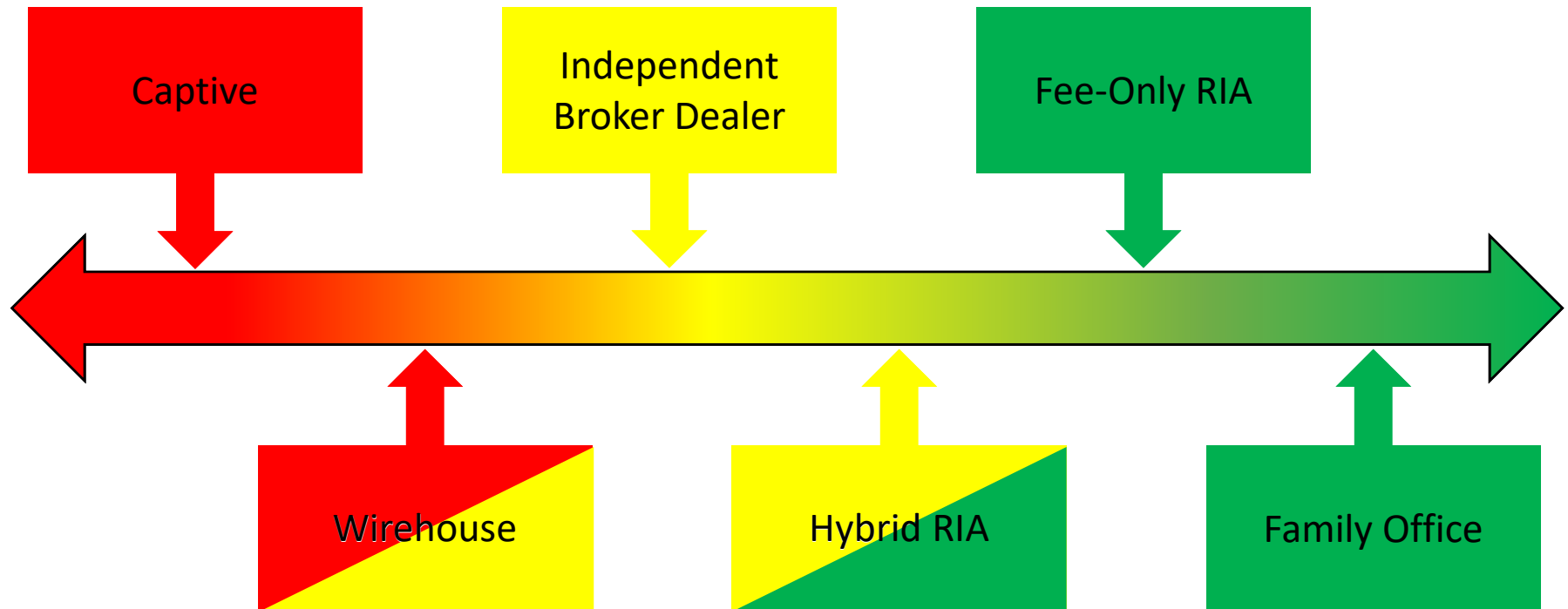
How to Find / Get in Front of RIAs

RIA Databases	Investment Adviser Public Disclosure Database
	RIADatabase, Discovery Data, Financial Media Group
Conferences	Custodian-Specific: Schwab, TD, etc.
	Alternative Specific: IPA, ADISA, FA Inside Alternatives
	Due Diligence: Buttonwood, Mick, SK, Fact Right
Media Outlets	General: Financial Advisor, SourceMedia, ThinkAdvisor
	Alt Focused: Real Assets Adviser, DI Wire

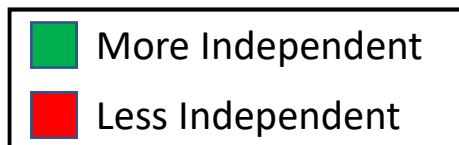


Get to the Decision Maker

Advisor's Ability to Choose New Products



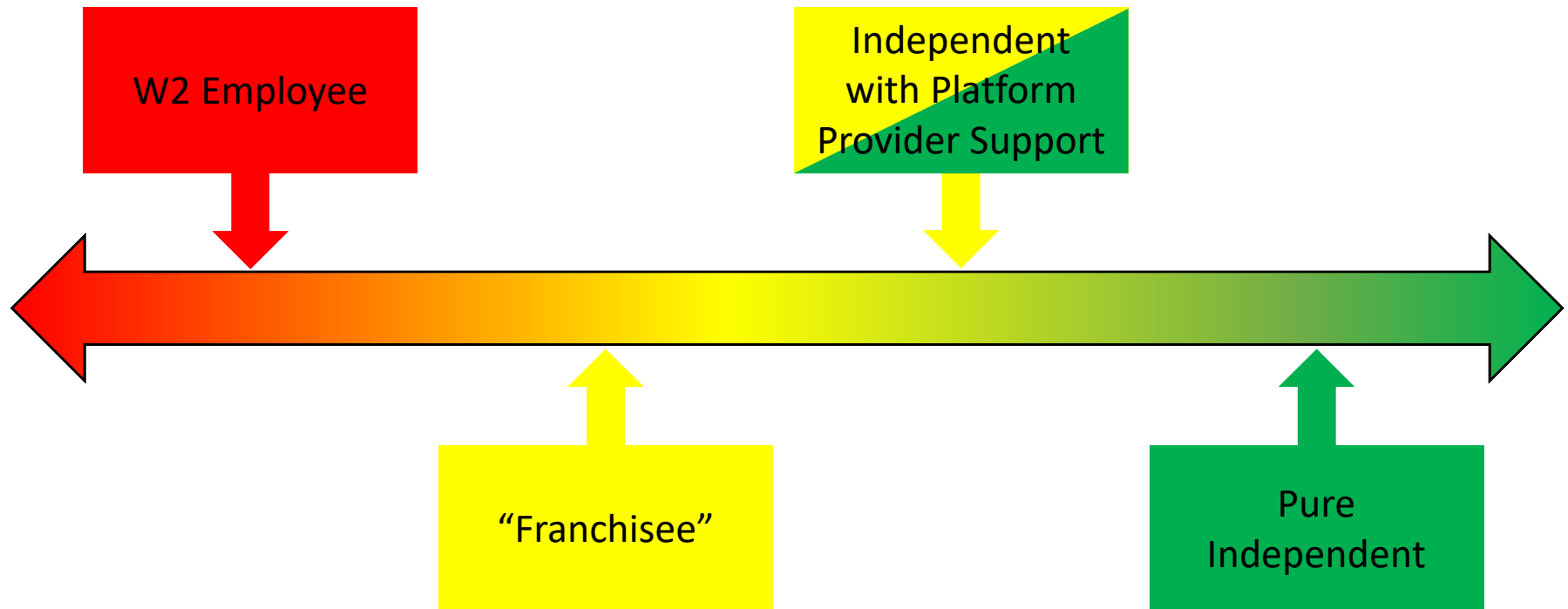
Independence Scale





Get to the Decision Maker with RIAs

IAR's Ability to Choose New Products



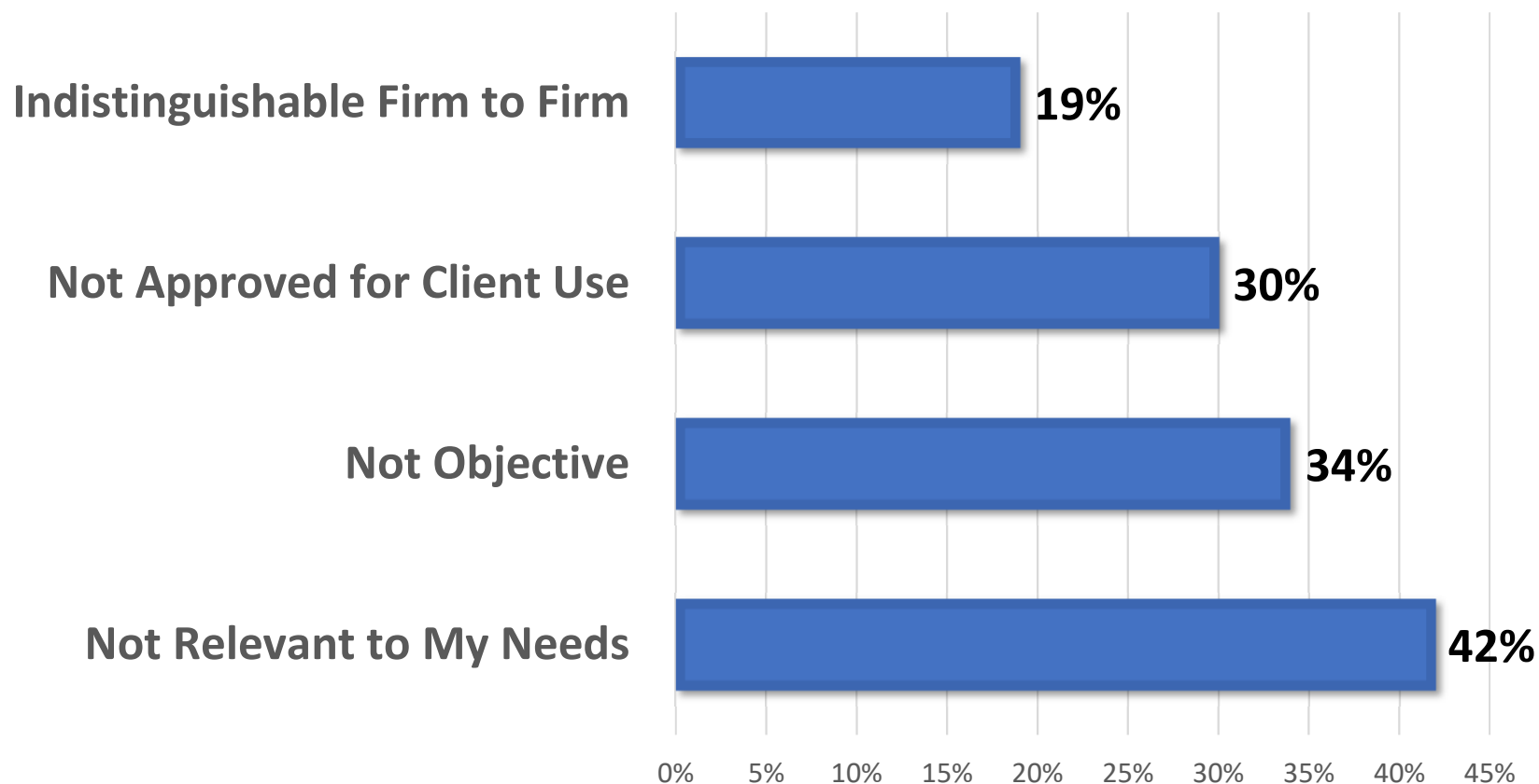
Independence Scale

- More Independent
- Less Independent



Be Relevant and Objective

IAR'S BIGGEST COMPLAINTS ABOUT INVESTMENT MARKETING COMMUNICATIONS



Source: Swandog Survey 2009



Understand that IARs are not like Reps

Things to know about IARs:

Are more apt to
read emails than
Reps

Spend more time,
more frequently,
online than Reps

Are less likely than
Reps to visit a
sponsor's websites

Don't see great
value in sales calls,
whether in-person
or via telephone



Understand What Motivates IARs

Primary Reasons for Using Alts

- Reduce Portfolio Volatility
- Low Correlation to Stocks, Bonds
- Enhance Overall Return

Primary Reasons for NOT Using Alts

- Too Expensive
- Too Complicated
- No Clear Path to Liquidity

Source: 2015 Pershing survey of 1,200 RIAs about their perception and use of alternative investments.



Start the Conversation Right

How do you describe your overall approach to portfolio management to prospective clients?

What is your firm's approach and philosophy to utilizing alternative investments?

How do you consider direct investing, particularly illiquid investments, as part of your value proposition?

What is your approach to alternative investments that are not available through your custodian?

Do you have any concentration limits with respect to illiquid investments? On average, how many alternative investment products do you use within a portfolio?

How are investments approved at your firm? What information can we provide to assist with due diligence?



Have the “Perfect” Introductory Fact Sheet

- ☐ Sponsor’s mission statement. Make sure it really is a mission statement...
- ☐ Briefly describe sponsor and any key management members
- ☐ Identify 3rd party sub-advisors, if any
- ☐ Briefly describe investment strategy
- ☐ Briefly describe how investment fits within a portfolio (i.e., “asset-backed fixed income replacement”)
- ☐ Anticipated life span of offering and likely exit options
- ☐ Identify current distributions, if any. Identify whether distribution is fully covered or not
- ☐ Describe preferred return and promote structure, if any
- ☐ Offering structure and investor suitability requirements
- ☐ Identify any states in which offering is subject to additional Blue Sky requirements
- ☐ Minimum investment amount
- ☐ Effective date of offering
- ☐ Anticipated close date

- ☐ Total capital raise and green shoe, if any
- ☐ Capital raised to date (updated quarterly)
- ☐ Describe share classes, if any
- ☐ Briefly describe use of proceeds
- ☐ Identify advisor commission or if a fee-only product. Describe what happens if purchased through RIA, if not obvious (i.e., gross up)
- ☐ Early redemption provision, if any
- ☐ Identify whether investment is subject to UBTI
- ☐ Identify if investors receive a 1099 or K-1
- ☐ List custodial platforms available, if any
- ☐ Describe how valuation and distributions data is provided if not available through custodial platform
- ☐ Identify which 3rd Party Due Diligence firms have completed a report
- ☐ Sponsor’s website
- ☐ Sponsor’s due diligence contact information
- ☐ Managing Broker-Dealer contact information



Value Add: Assist with Regulatory Priorities

DOL	Fiduciary rule (Dead. Possibly replaced by SEC's "Best Interest")
	401(K) rollovers into investments with higher expenses
SEC	Cybersecurity
	RIAs that also offer robo-advice
	Working with the elderly
FINRA	High risk firms (i.e., "Bad Actors")
	Cybersecurity
	Suitability and sales practices for complex products
	Working with the elderly
NASAA	De-facto fiduciary
	Management fees on illiquid investments
	Justifying illiquid investments when liquid options exist



Value Add: Solve a Problem

Client Acquisition / Retention	Leverage general solicitation rules to create leads for RIAs with selling agreements (506(c) and Reg A +)
	Host regional events that allow multiple RIAs to participate. Alternate between social and educational focuses
	Create end-to-end client-focused education campaigns (e.g., content, invitation, collateral) Examples: Why add alts? Personal cybersecurity...
Operations	Provide post-selling agreement product onboarding and paperwork training for operations staff
	Provide industry education and product training specific to compliance staff (e.g., DOL, SEC, FINRA, NASAA)
	Provide technology and compliance consulting to RIAs that are new to alternatives. Help with data issues and transactional procedures
Education	Provide advisor-focused education that helps RIA understand how to utilize illiquid alternatives within a portfolio
	Provide post-selling agreement advisor-focused product sales and compliance training sessions (e.g., AI Insight)
	Provide best practices insight. Examples: How to use illiquid investments with the elderly, Charging fees on illiquid investments, Regulatory issues...

Thoughts on RIA-Specific Alternative Product Development





As You Build Your RIA-Focused Product...

Liquidity	Don't fall into the liquidity trap. RIAs say they want liquidity, but only neophytes require daily liquidity. Most RIAs are comfortable with illiquidity so long as there is a clear path to a return of capital after a specific period of time.
Minimums	Minimum ticket size is a signal as to what size RIA you want to work with. A \$25,000 minimum signals your will to work with all RIAs. A \$100,000 minimum signals you only want to work with large RIAs.
Advertising	While 506(c) Reg D and Reg A+ allow for general solicitation, no sponsors have utilized this feature in conjunction with a RIA sales channel. A sponsor could use general solicitation rules in order to increase brand awareness or even general leads, which could then be referred down to its RIA partners.
Cannibalism	If you are, or intend to, solicit retail clients directly, such as through a crowd-funding site, stop immediately. If advisers believe you are competition in an form, they will never do business with you.
Competition	Beware of homogenization. Currently, the adoption rate of alternatives by RIAs is relatively small. At the same time, there are enough direct investment programs that it is very easy to start looking like everything else out there. Sponsors must crucially evaluate their offering's uniqueness.
Expenses	Front-end loads should be kept to an absolute minimum (<3%). Ongoing management fees should be in line with industry standards. Additional acquisition, financing, and disposition fees should be kept to a minimum, and also should be fully disclosed. Do not mark up assets as they enter the fund.
Valuation	Provide an official valuation at least quarterly. If that is not possible, provide a quarterly communication that establishes current value as the same as it was the prior quarter. This information is imperative so that RIAs stay in compliance when billing.
Data	Look to provide timely, accurate, and consistent data that can be automatically uploaded into an RIA's accounting and billing software. Data must separate cash distributions from return of capital. Metadata must be correct in order to provide performance reporting.



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Thank You!

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