

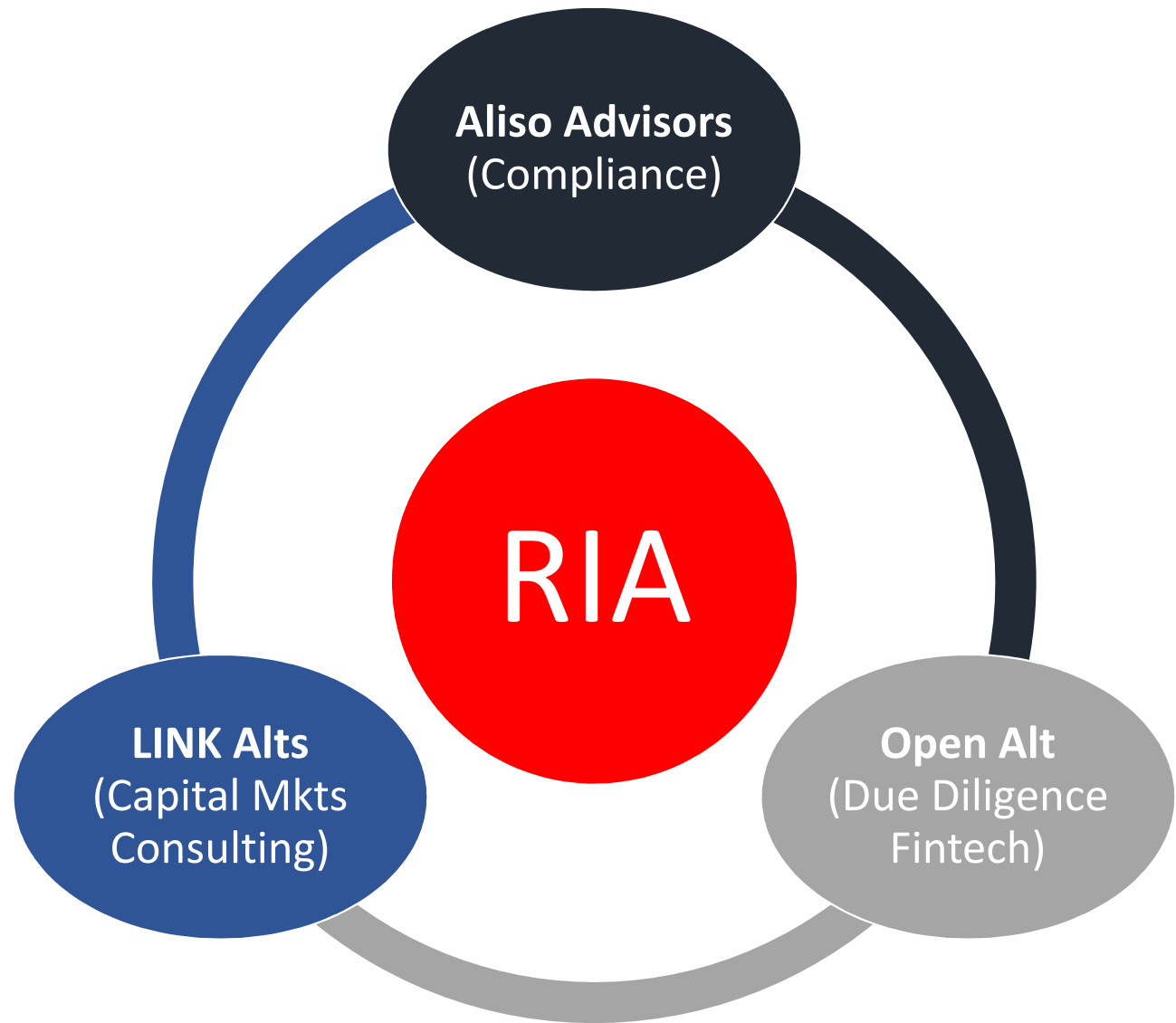


# XALT RIA FORUM 2019

## RIA SEGMENTATION DYNAMICS

## OUR ECOSYSTEM

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## ABOUT ALISO ADVISORS

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- ☐ FINRA / SEC Registration Services
- ☐ Mock Audits
- ☐ Compliance Protocols Assistance
- ☐ Outsourced CCO
- ☐ Outsourced Alternatives CIO

## ABOUT OPEN ALT

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- ☐ Collaborative due diligence platform
- ☐ Sharable, customizable templates
- ☐ Audit trail on all activities



HOME

DUE DILIGENCE

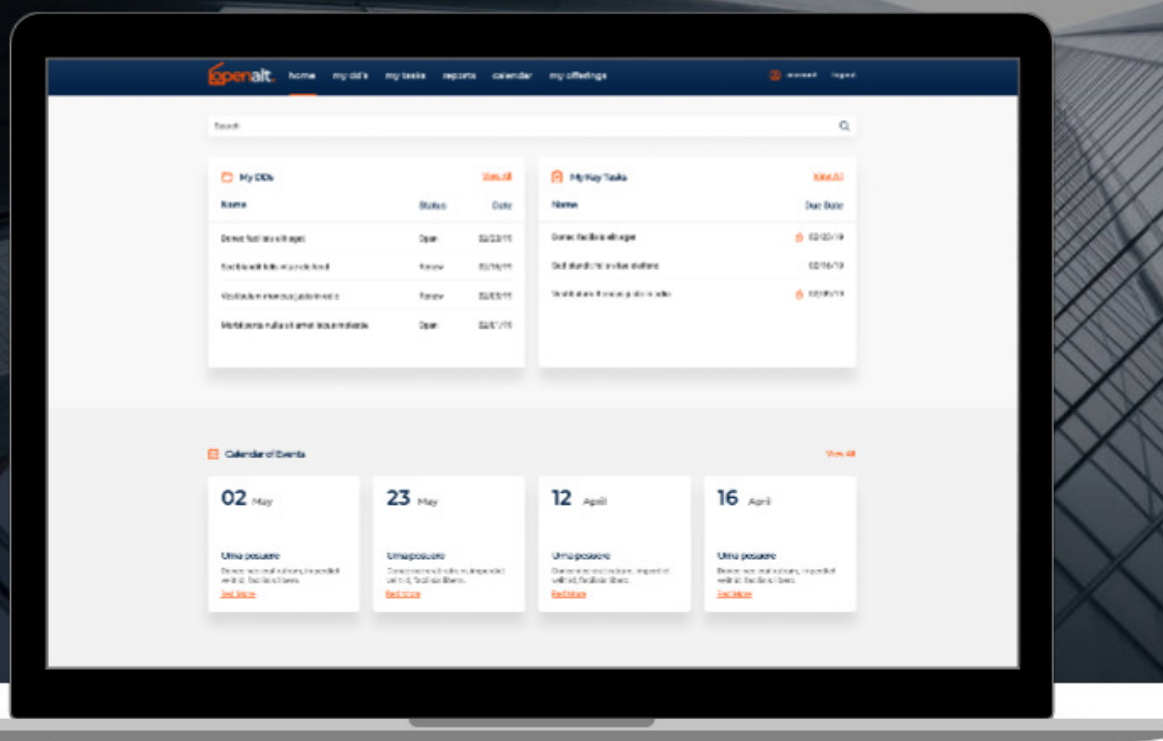
ABOUT

👤 LOG IN / SIGN UP

# The World's First Collaborative Alternative Investment Due Diligence Platform

Bridging Financial Advisors and  
Alternative Investments

Register



## ABOUT LINK ALTS

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- ☐ RIA-only capital markets consulting
- ☐ Offering creation consulting
- ☐ RIA research & market segmentation
- ☐ Non-exclusive placement agent

XALT RIA  
FORUM  
PURPOSE

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**To help financial intermediaries achieve sustainable growth through the proper utilization of illiquid, non-traditional investments.**

# AGENDA

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**1**

**Market Dynamics**

**2**

**RIA Segmentation Elements**

**3**

**Using an Alts Score to Segment**

**4**

**RIA Sales Channel Elements**

**5**

**Product Positioning for RIAs**



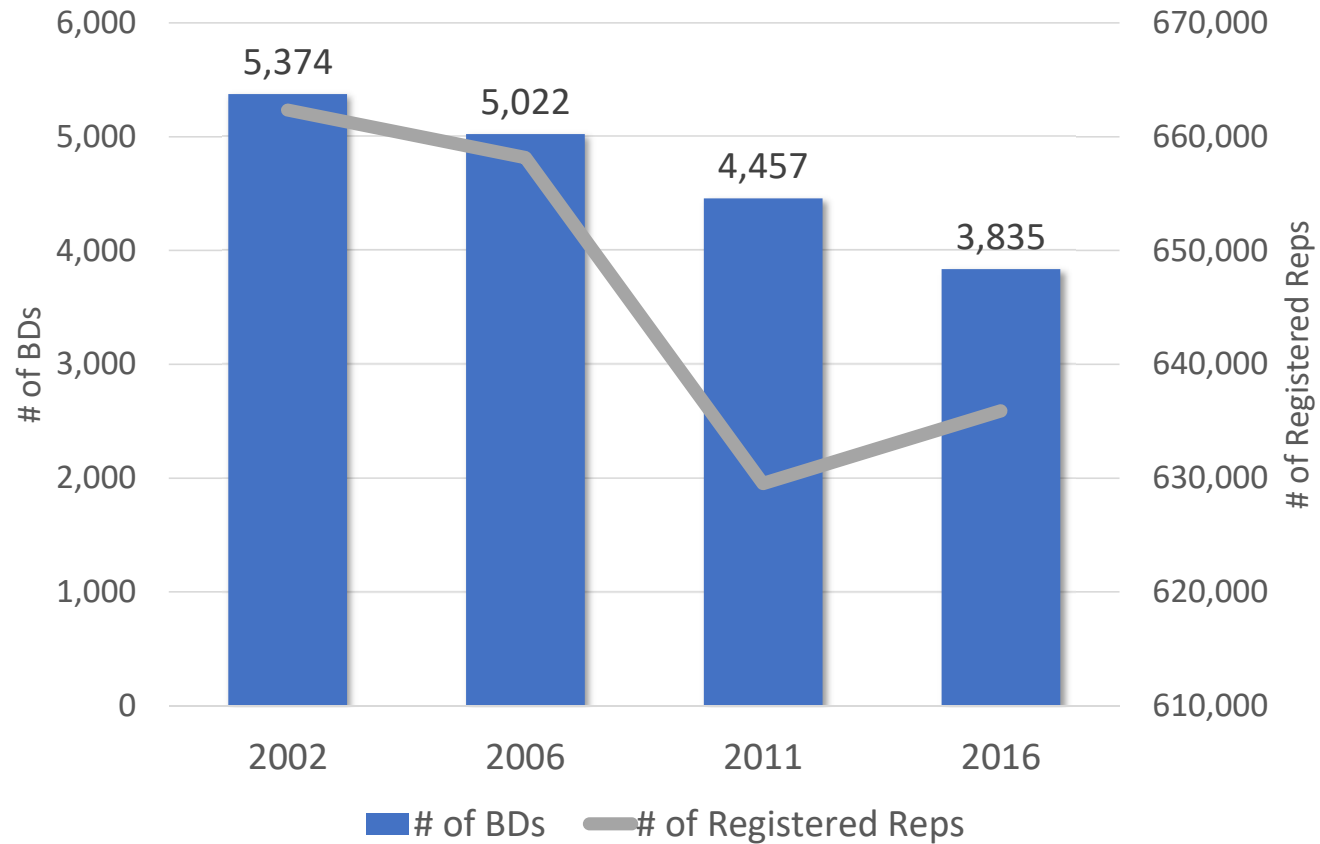


# MARKET DYNAMICS

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# THE DECLINE OF THE BROKER- DEALER MODEL

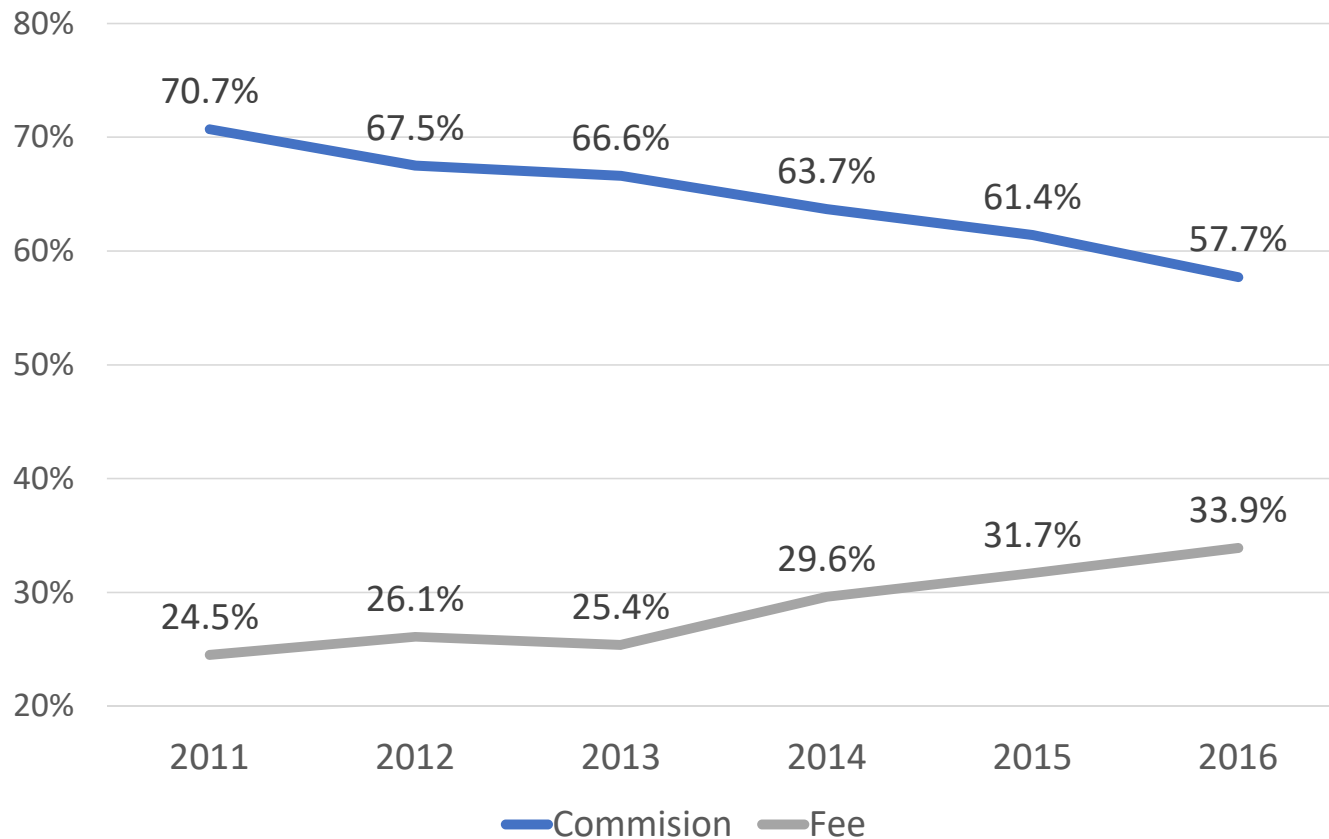
NUMBER OF BROKER-DEALERS & REGISTERED REPS, 2002-2016



Source: FINRA

# THE CHANGING REVENUE LANDSCAPE

AVERAGE BROKER-DEALER REVENUE SOURCES, 2011-2016

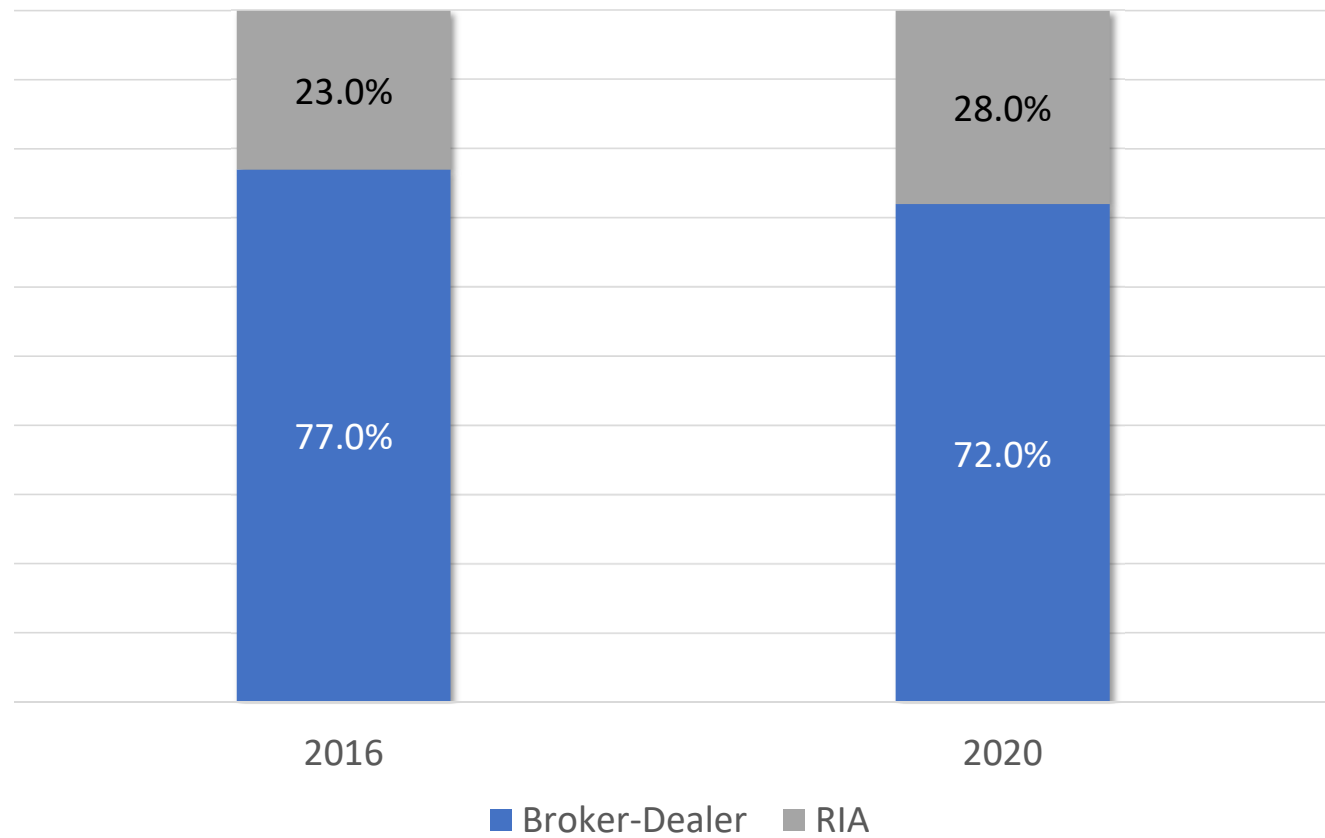


Source: InvestmentNews Research

# RIAS ARE CAPTURING MARKET SHARE

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TOTAL MARKET SHARE PERCENTAGE, 2016 & 2020 (EST.)



Source: Cirulli Associates



# RIA SEGMENTATIONS

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TIER 1 RIA  
SEGMENTATION  
ELEMENTS  
(THINGS YOU CAN'T  
CHANGE)

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**Demographics**



**Ability to Add New Products**



**RIA Positioning**

# DEMOGRAPHICS

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Geography



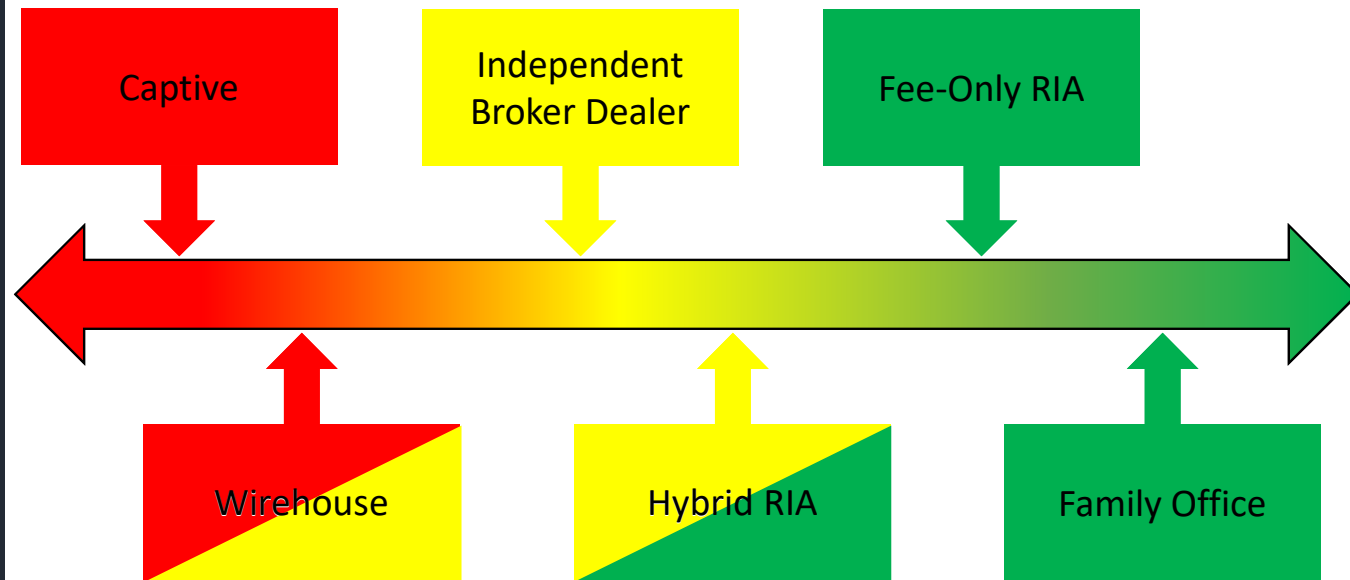
AUM



Firm Type

# ADVISOR'S ABILITY TO CHOOSE NEW PRODUCTS

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Independence Scale

- More Independent
- Less Independent



# RIA PROPOSITIONING MATRIX

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		Client Approach	
		Financial Planning-Centric	Investment-Centric
Value Proposition	Advice-Centric	Fee for Service Financial Planning	Investment Manager
	Product-Centric	Needs-Based Selling	Asset Gatherer

# TIER 2 RIA SEGMENTATION ELEMENTS (THINGS YOU CAN HELP)

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**Data Needs**



**Operational Capacity**



**Compliance Capabilities**

# DATA NEEDS

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Reconciliation  
Requirements



Valuation /  
Reporting



3<sup>rd</sup> Party  
Software

# OPERATIONAL CAPACITY

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Transaction  
Protocols



Billing  
Procedures

# COMPLIANCE CAPABILITIES

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WSPs, ADV,  
Agreements...



Allocation /  
Concentration



Due  
Diligence

TIER 3 RIA  
SEGMENTATION  
ELEMENTS  
(THINGS YOU CAN  
INFLUENCE)

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**“Alt” Educational Level**



**Psychographics**



**Alts Outlook**

# “ALT” EDUCATION LEVEL

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Asset Class



Key  
Assumptions



Risk

# PSYCHOGRAPHICS

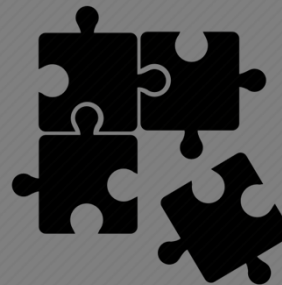
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Worldview



Business  
Outlook



Overall  
Sophistication

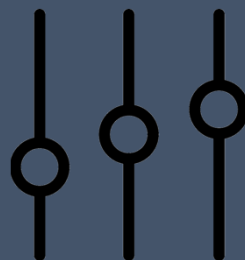


# ALTERNATIVE INVESTMENT OUTLOOK

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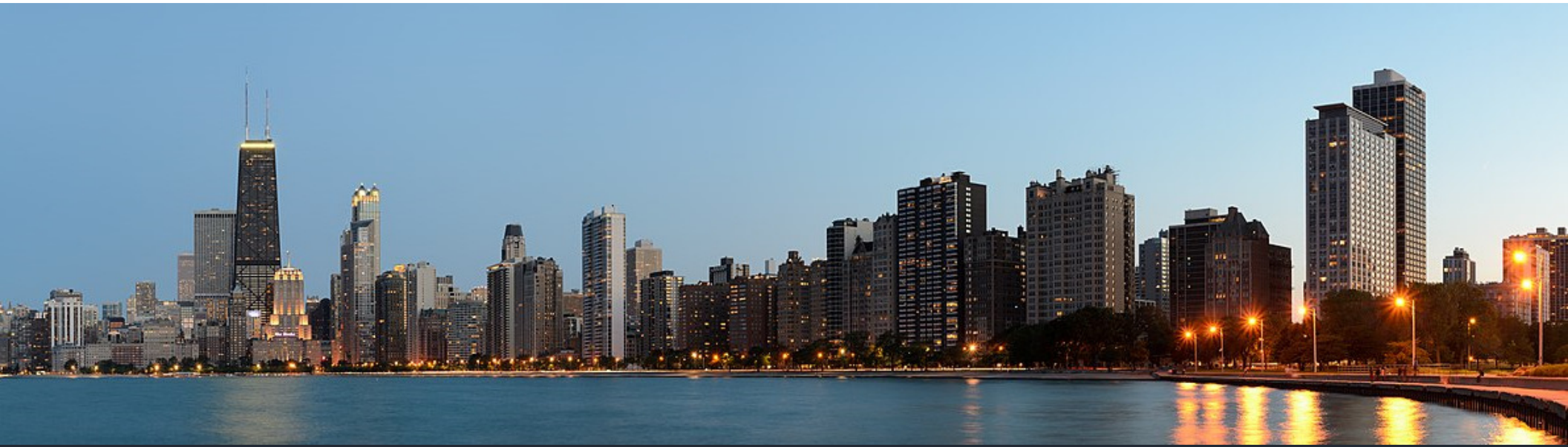
Prior  
Experience



View on Role  
of Alts



Illiquidity  
Premium



# USING AN “ALTERNATIVES ADOPTION” SCORE TO SEGMENT RIAs

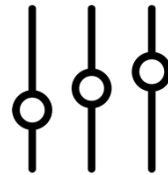
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# ALTERNATIVES ADOPTION SCORE EXAMPLE



Prior Experience  
with Alternatives

4



Views on the Role of  
Alternatives within a Portfolio

8



Views on Liquidity and  
Illiquidity Premium

10



Compliance and  
Operational Capabilities

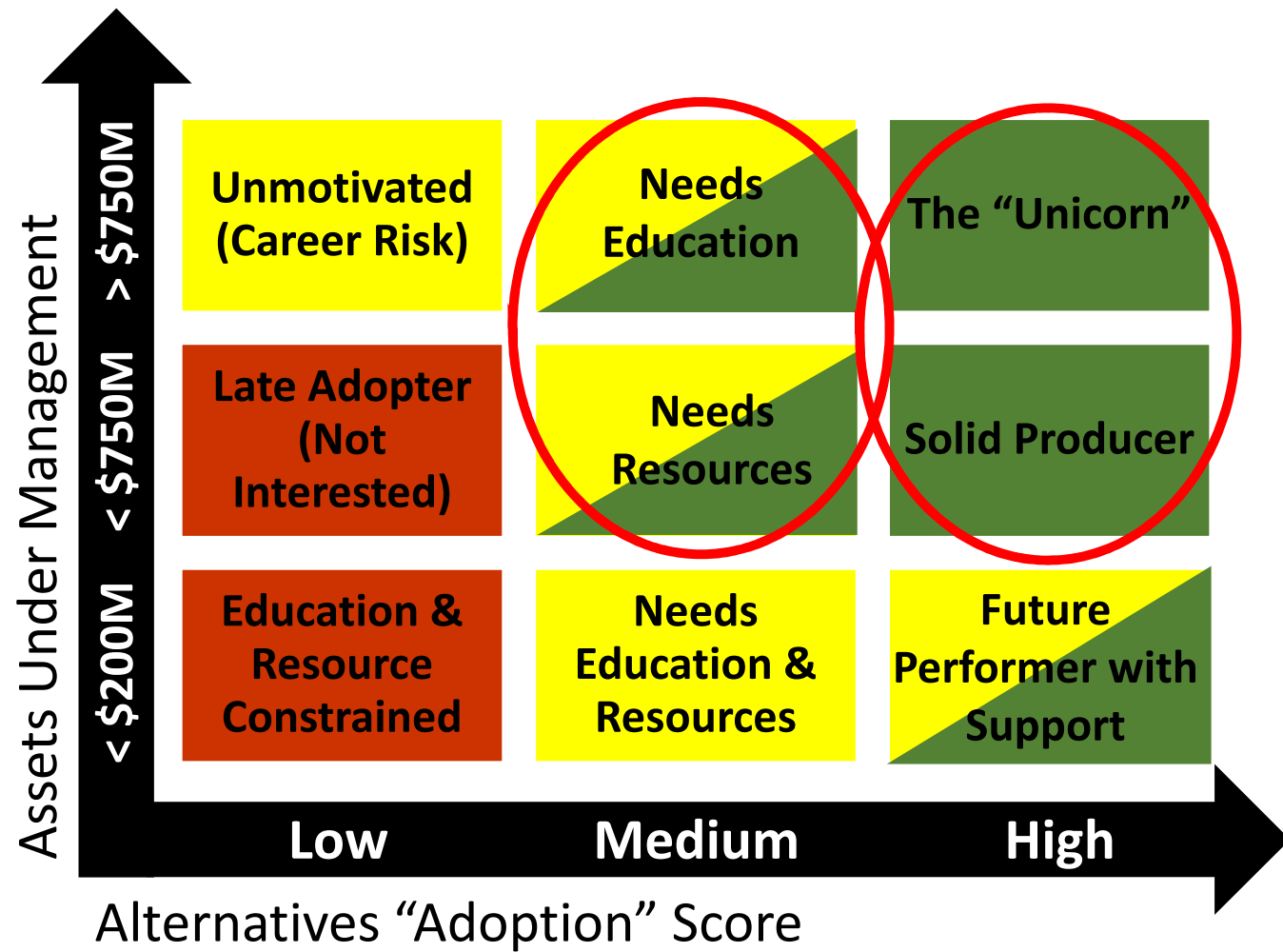
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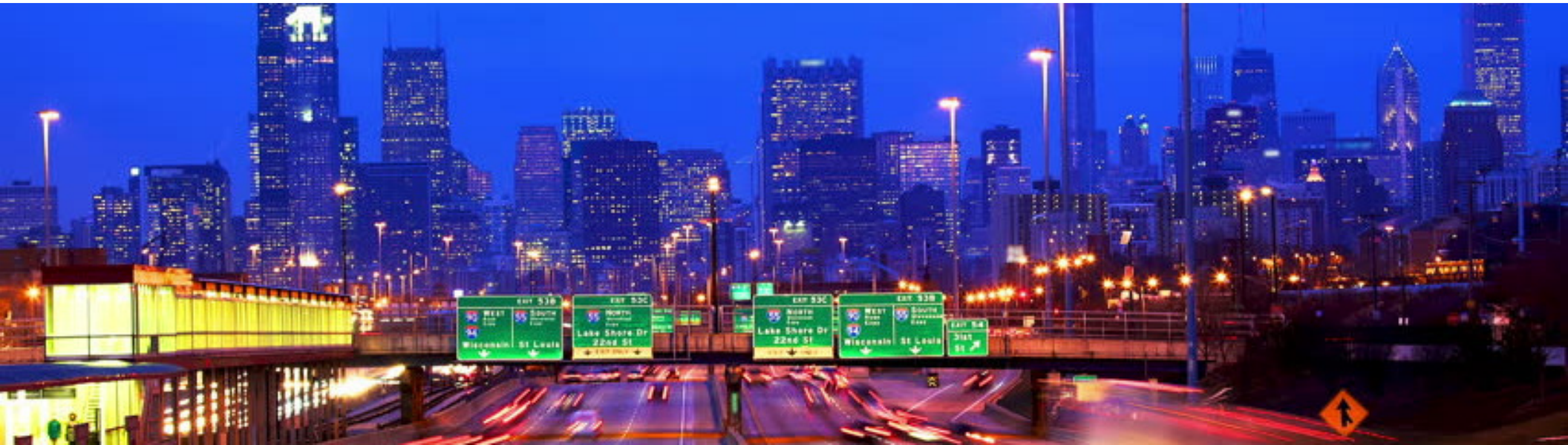
Score:

24/40

Analysis: Good Opportunity with High Support Needs

# SEGMENTATION MATRIX





## “RIA-FRIENDLY” PRODUCT DEVELOPMENT

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# RIA-FOCUSED PRODUCT DEVELOPMENT CONSIDERATIONS

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**Liquidity / Exit Strategy**



**Income vs Total Return**



**Minimums**



**Expenses**



**Valuation Intervals**





# RIA SALES CHANNEL ELEMENTS

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# HOW MUCH OF IBD PLAYBOOK IS REUSABLE WITH RIAs

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# UNDERSTAND THAT IARS ARE NOT LIKE REPS

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## SOME 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

Source: Swandog Survey 2009

# UNDERSTAND WHAT MOTIVATES IARs

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## Primary Reasons for Using Alts

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

## Primary Reasons for NOT Using Alts

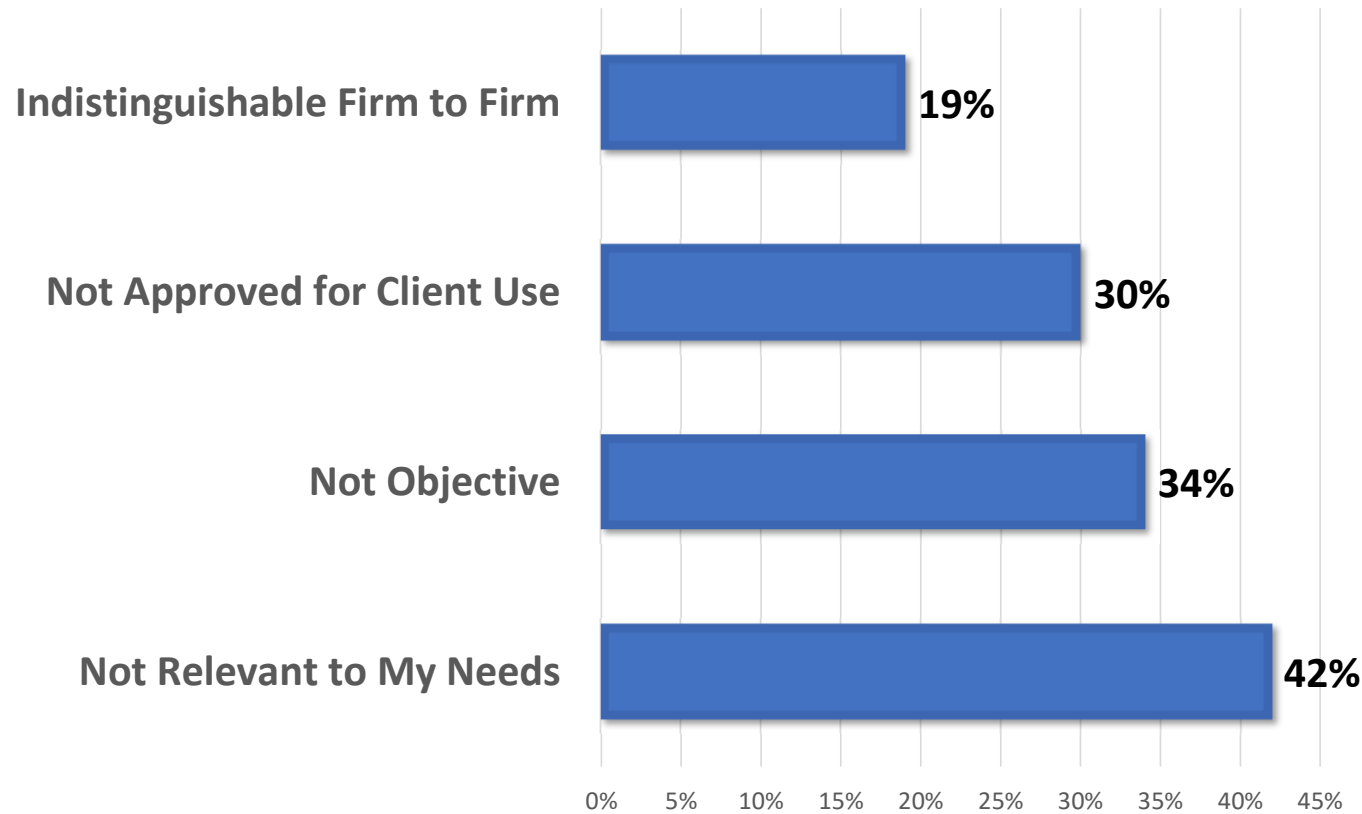
- Too Expensive
- Too Complicated
- No Clear Path to Liquidity

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

BE RELEVANT  
AND OBJECTIVE

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## IAR'S BIGGEST COMPLAINTS ABOUT INVESTMENT MARKETING COMMUNICATIONS



Source: Swandog Survey 2009

# START THE CONVERSATION RIGHT

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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?

# 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

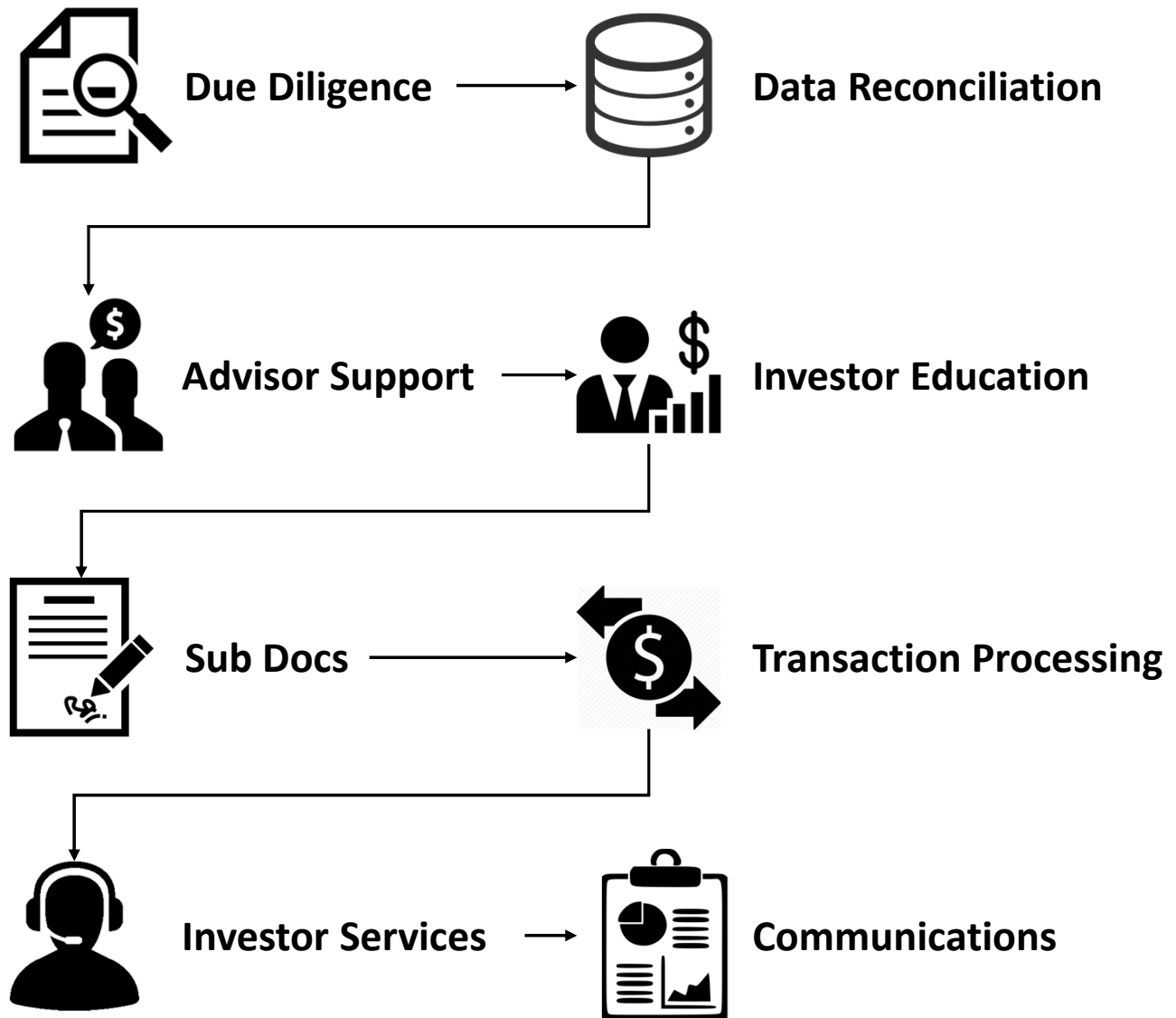
Sponsors, in particular their wholesalers, should have a solid grasp of the competitive landscape. This includes not only direct competition, but also suitable alternatives within a portfolio. Wholesalers are then in a position to advise advisors who misunderstood another product offering, and are able to position one's own product as a complement to other investment products that have already been approved by the RIA.

# HAVE “RIA-FRIENDLY” INTRODUCTORY FACT SHEET

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- ☐ Sponsor’s mission statement. Make sure it really is a mission statement...
- ☐ Briefly describe sponsor and any key management members
- ☐ Identify 3<sup>rd</sup> 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 3<sup>rd</sup> Party Due Diligence firms have completed a report
- ☐ Sponsor’s website
- ☐ Sponsor’s due diligence contact information
- ☐ Managing Broker-Dealer contact information

# ELIMINATE FRICTION POINTS



# ADD VALUE: ASSIST WITH REGULATORY PRIORITIES

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## 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



# ADD VALUE: SOLVE A PROBLEM

## Client Acquisition / Retention

Leverage general solicitation rules to create leads for RIAs with selling agreements

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...

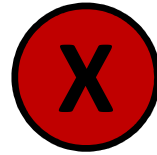


## PRODUCT POSITIONING FOR RIAs

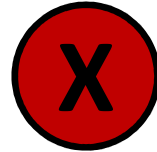
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## DO NOT LEAD WITH...

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**Features**



**Historical Returns**



**Management Team Bios**



**Case Studies Without Context**

# DO TELL A STORY

(P.S., SEQUENCE MATTERS)

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1

**Sponsor Purpose**

2

**Product Context w/n Portfolio**

3

**Memorable Uniqueness**

4

**Key Risks Mitigations**



## XALT RIA SURVEY RESULTS

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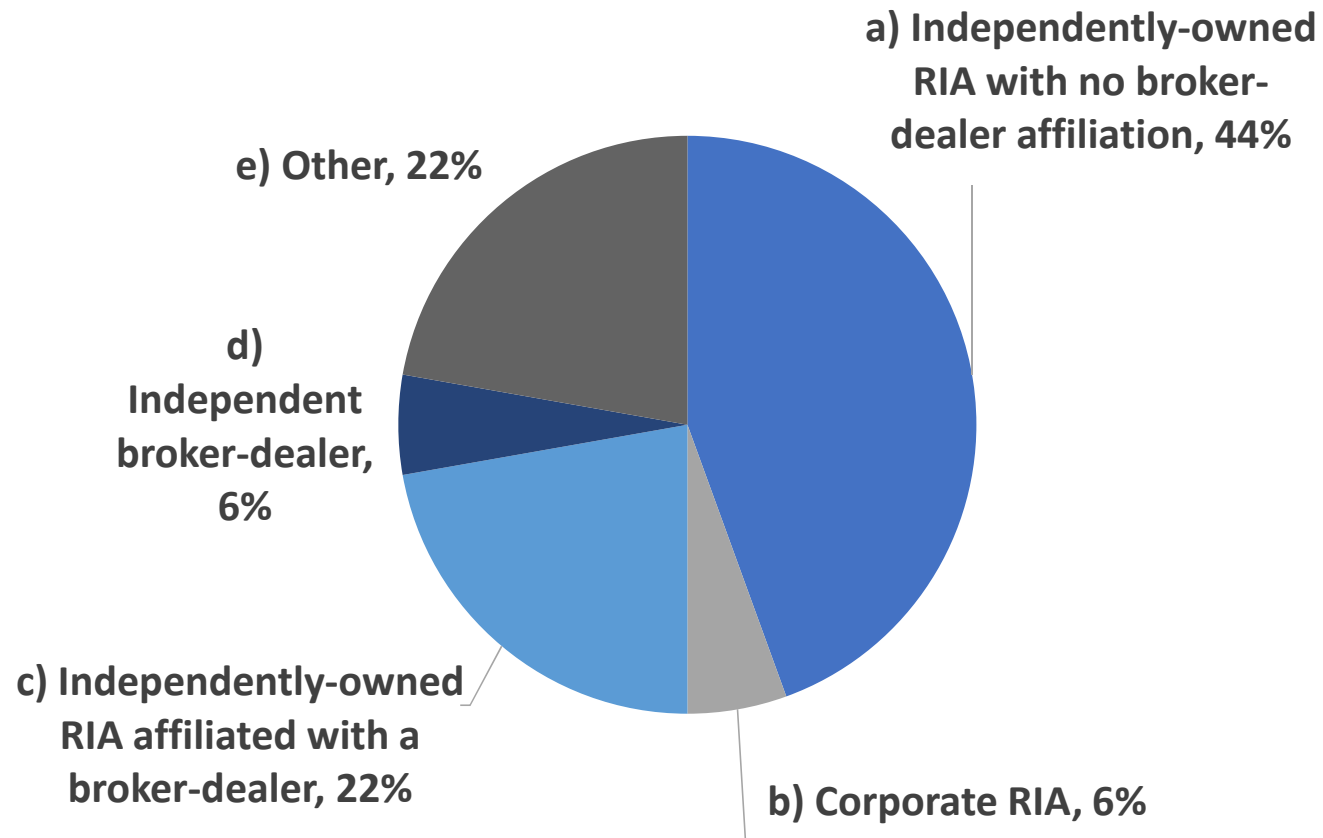
# TIER 1 SEGMENTATION ELEMENTS

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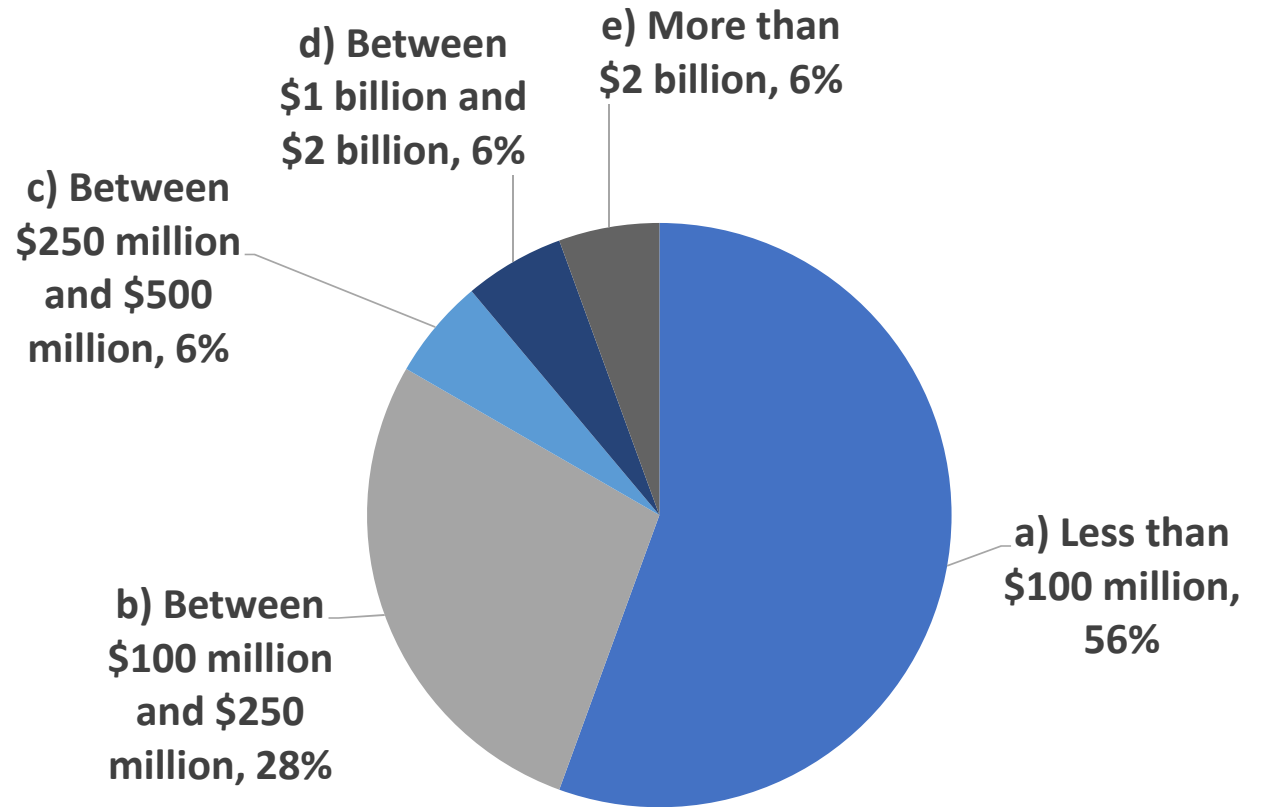
# XALT SURVEY: FIRM TYPES

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## XALT SURVEY: AUM BANDS

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## TIER 2 SEGMENTATION ELEMENTS

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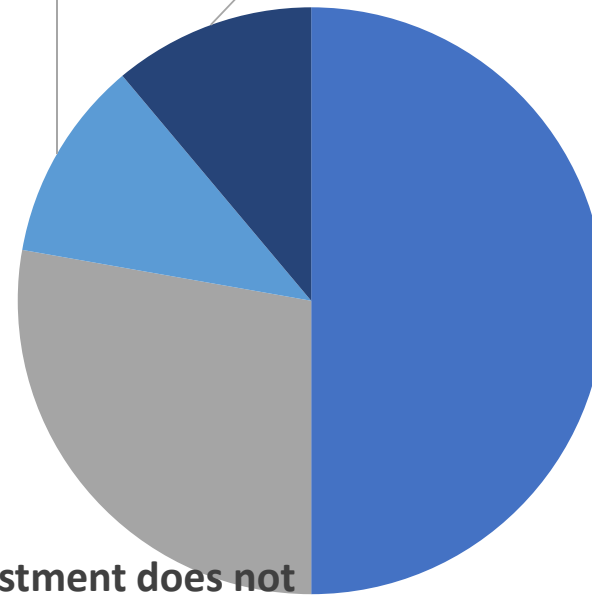


## XALT SURVEY: RECONCILIATION REQUIREMENTS

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c) I only purchase alternative investments that are available through my custodian., 11%

d) I'm not sure., 11%

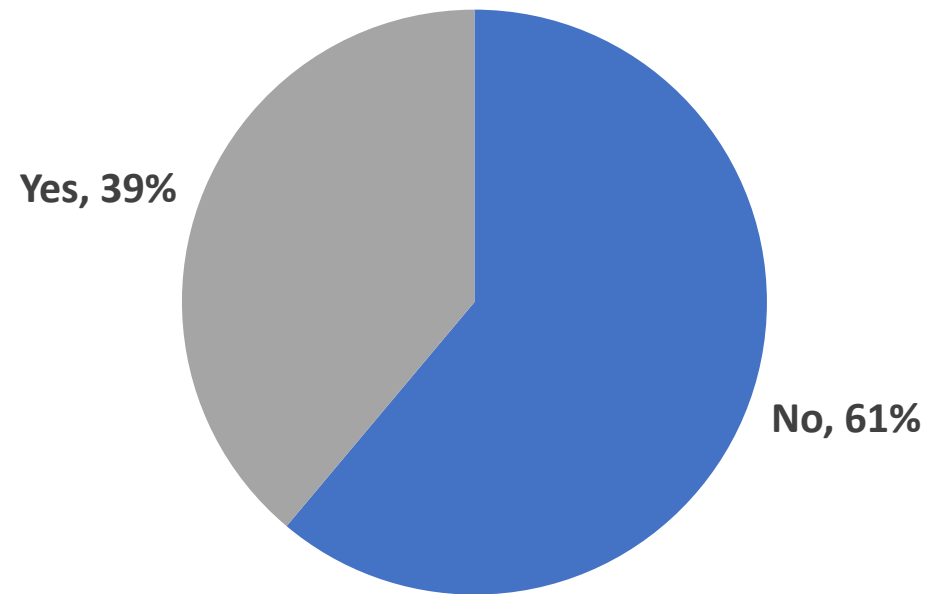


b) An alternative investment does not necessarily have to be available through my custodian, but it does have to provide fully-automated data reconciliation into my accounting software., 28%

a) I do not limit myself in any way with respect to custodian availability and will self-reconcile any investment held in "street name"., 50%

# XALT POLICY: HAS WRITTEN ALTERNATIVES POLICY

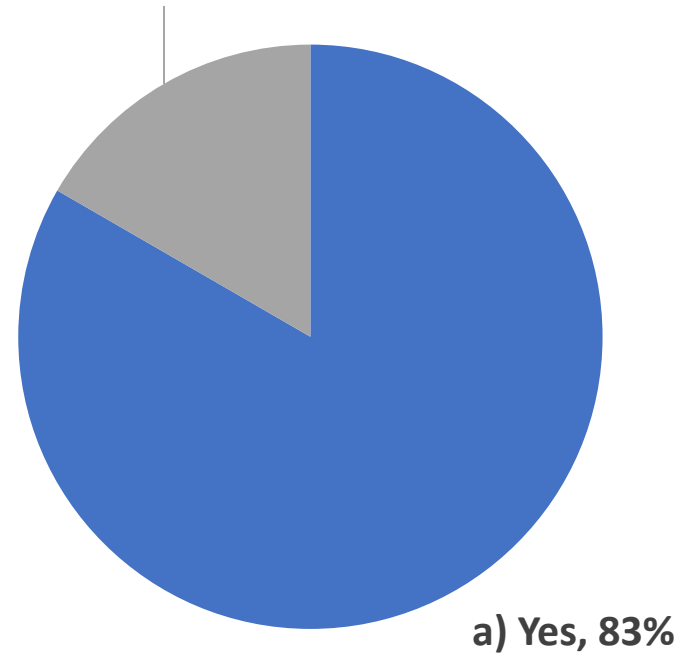
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## XALT SURVEY: USE ALTS W/ K-1s

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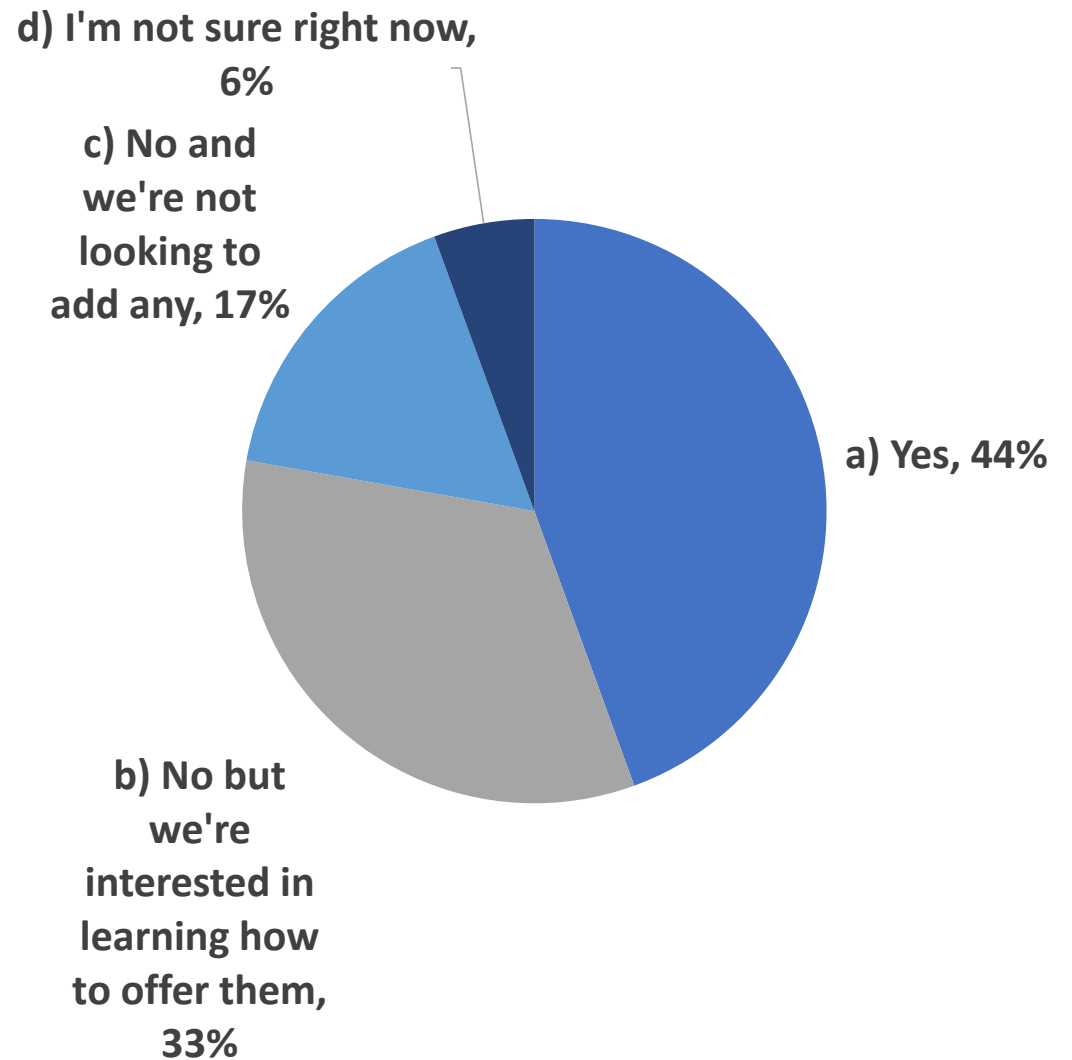
b) No but we're interested in adding some, when appropriate for our clients, 17%



a) Yes, 83%

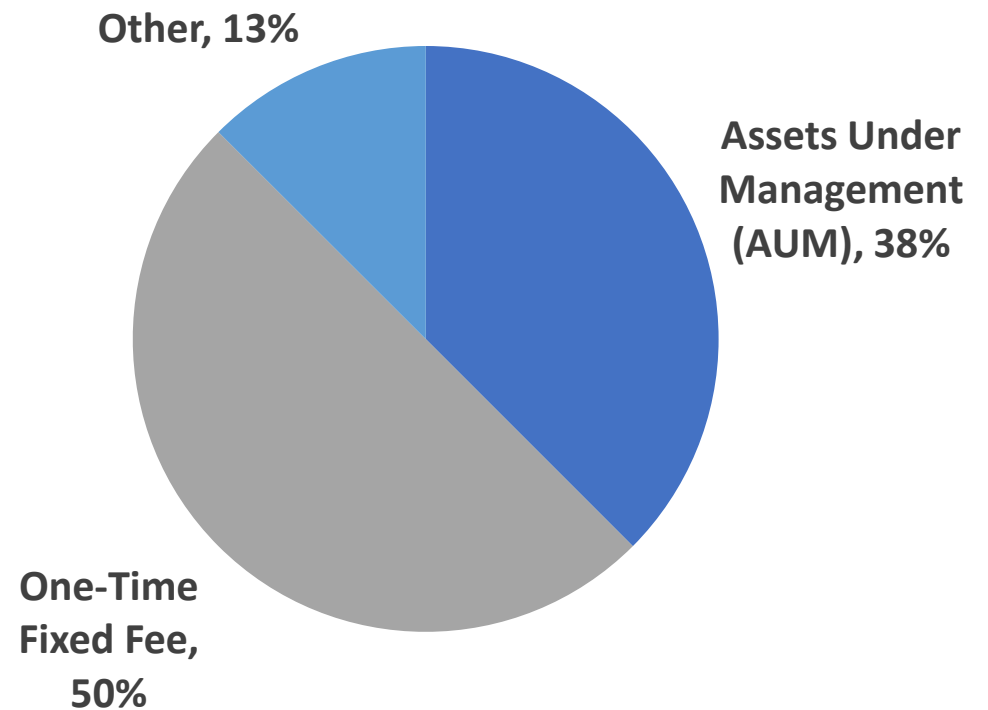
## XALT SURVEY: USE 1031'S

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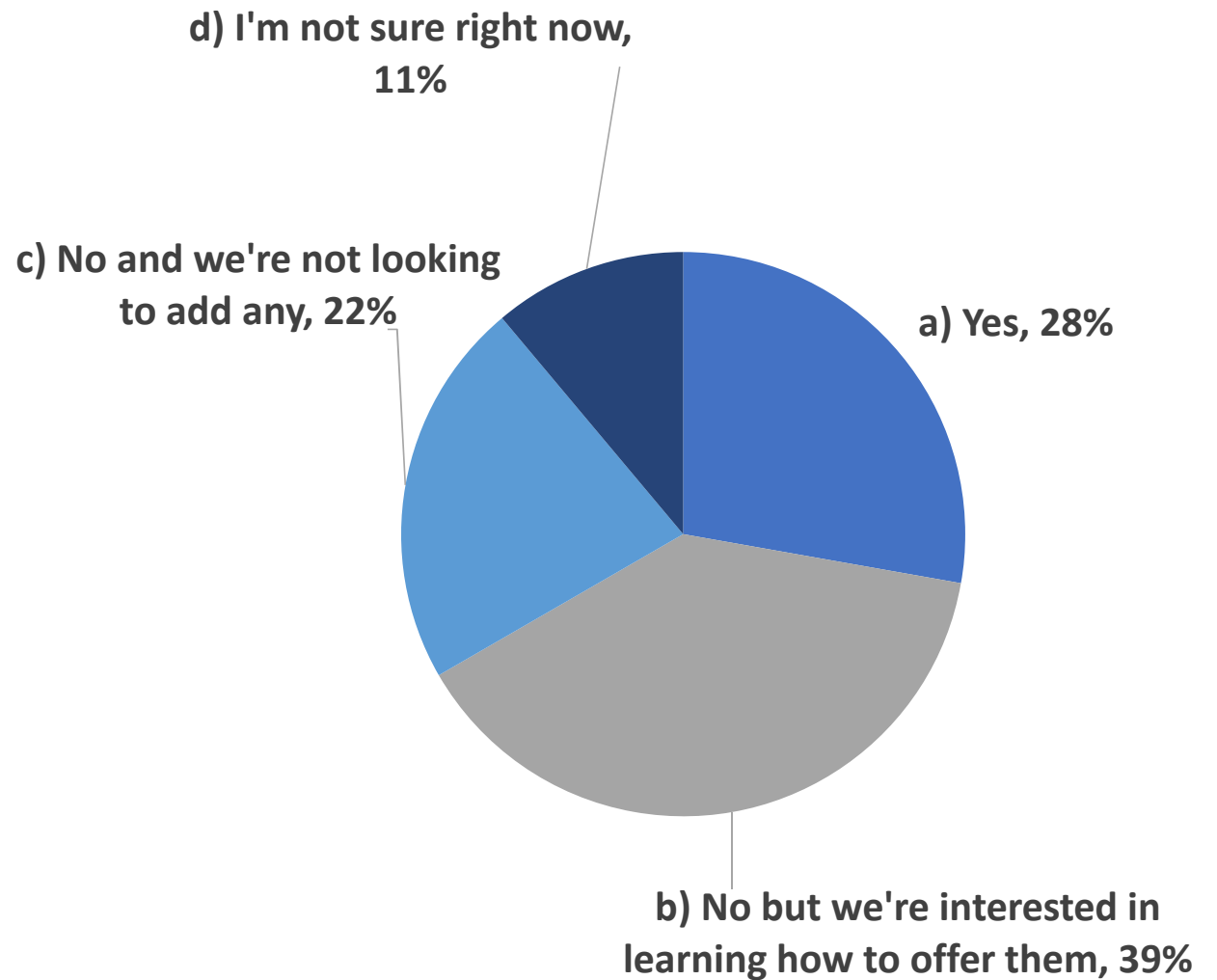
# XALT SURVEY: 1031 REVENUES

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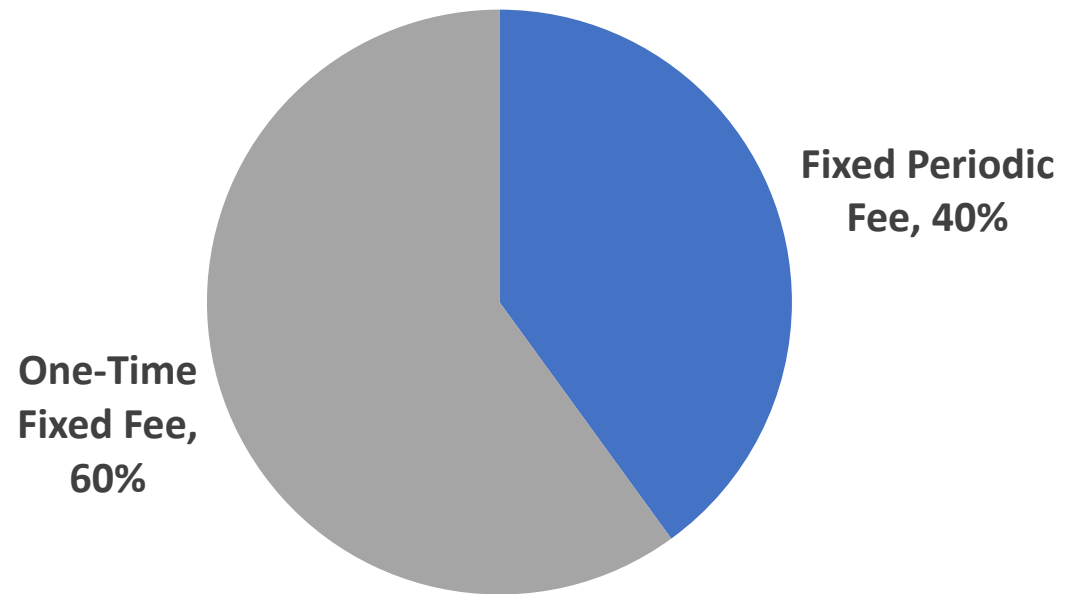
# XALT SURVEY: USE CONSERVATION EASEMENTS

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# XALT SURVEY: CONSERVATION EASEMENT REVENUES

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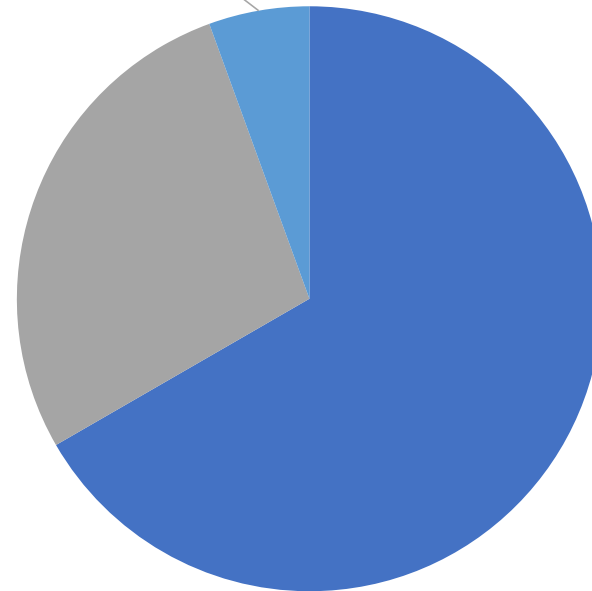


## XALT SURVEY: ADV DISCLOSURES

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c) Our ADV does not make any mention of our usage of alternative investments., 6%

a) I am confident our ADV has all of the necessary disclosures regarding alternative investments, including risk and billing procedures., 67%

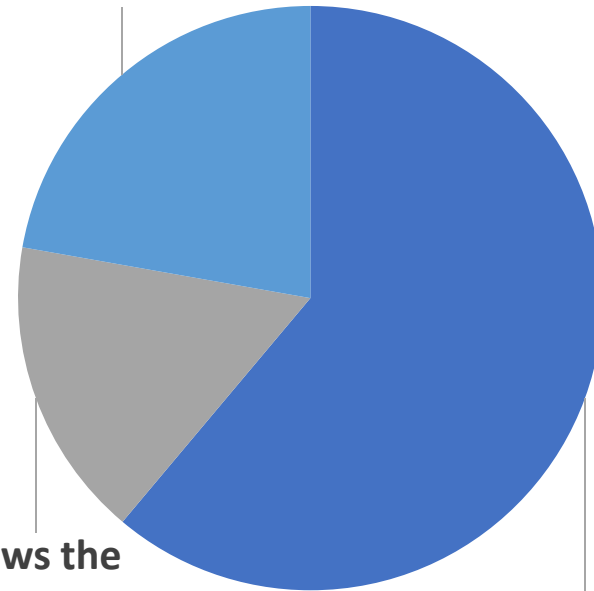


b) Our ADV mentions that we use alternative investments, but I am not confident its disclosures would meet regulatory standards., 28%

## XALT SURVEY: COMPLIANCE CONFIDENCE

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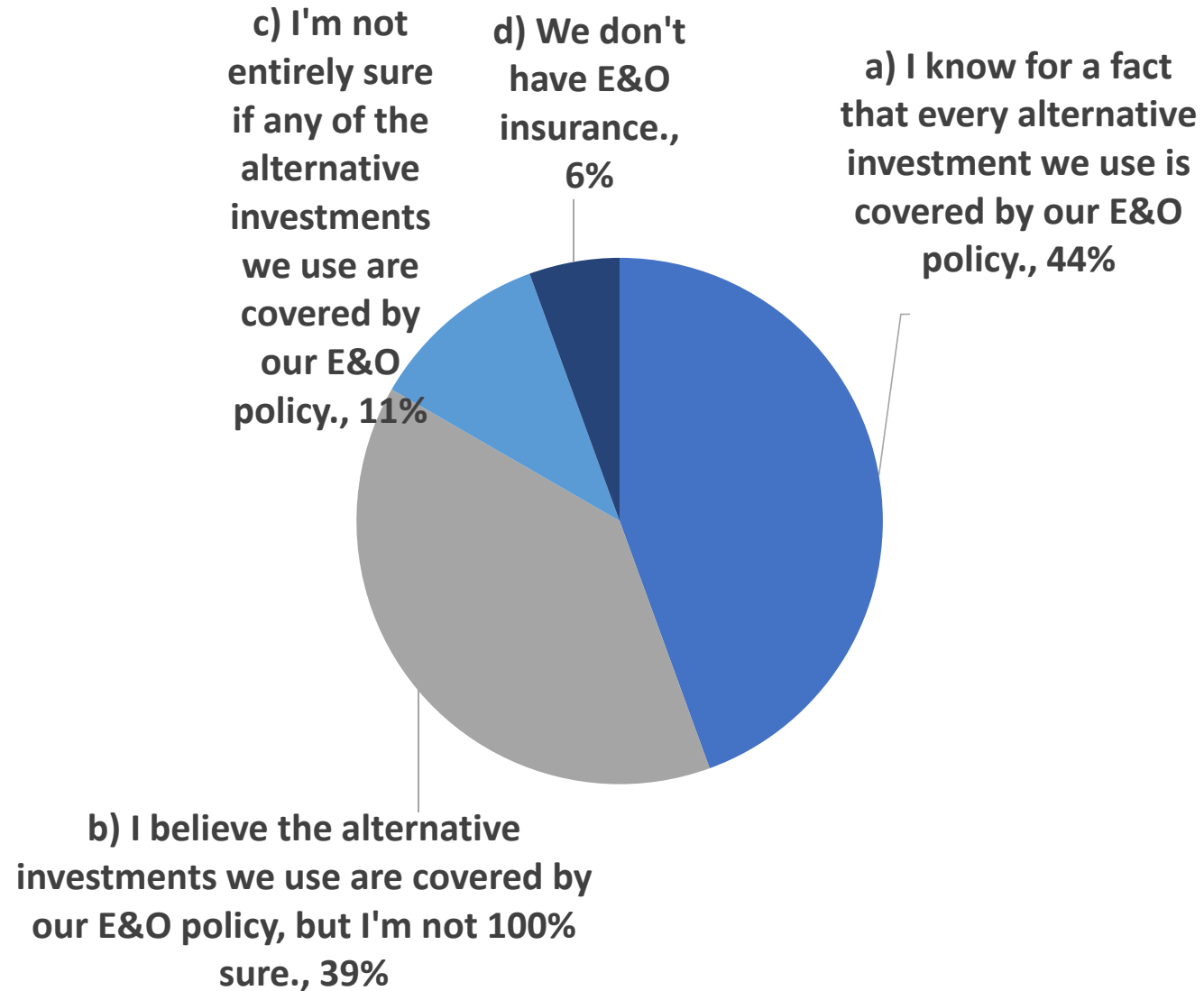
**c) I feel our firm is without a solid foundation on the compliant use of alternative investments and could benefit from some assistance., 22%**



**b) I feel our firm knows the basics but could use some help in a few areas., 17%**

**a) I feel our firm has a solid handle on the regulatory requirements around the usage of alternative investments, including disclosures, transaction processing, billing, etc., 61%**

## XALT SURVEY: E&O INSURANCE



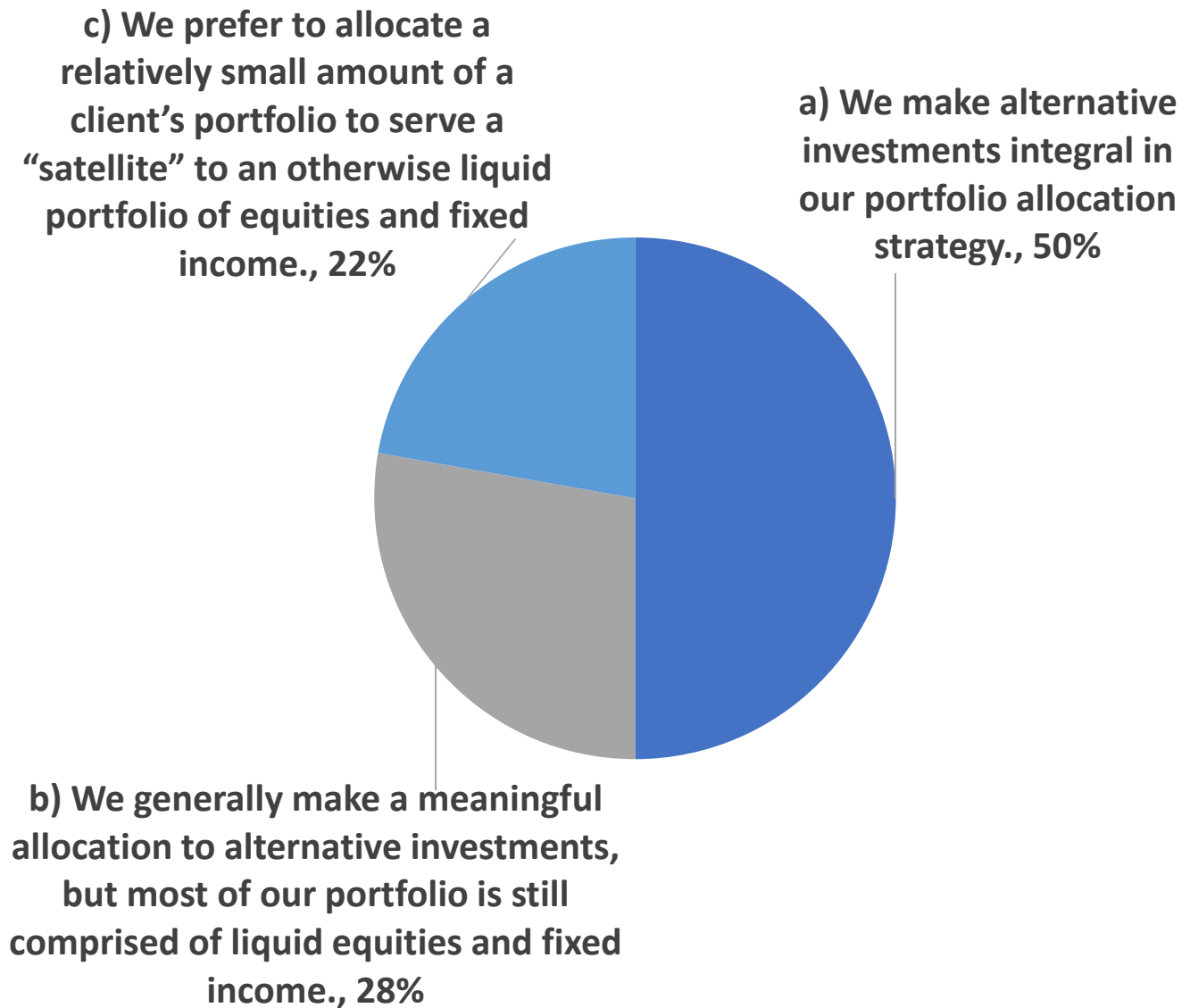
# TIER 3 SEGMENTATION ELEMENTS

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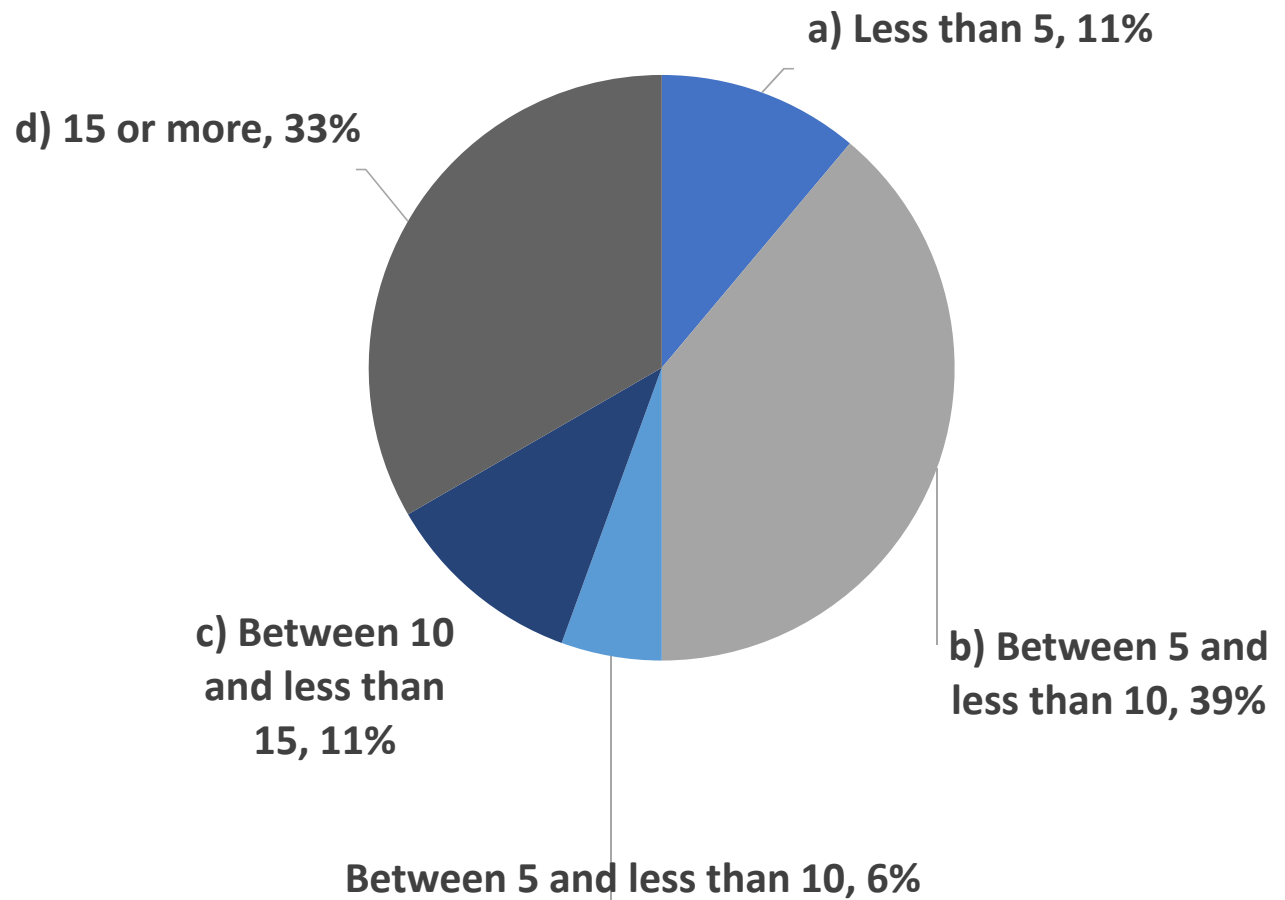
## XALT SURVEY: ROLL ALTS PLAY

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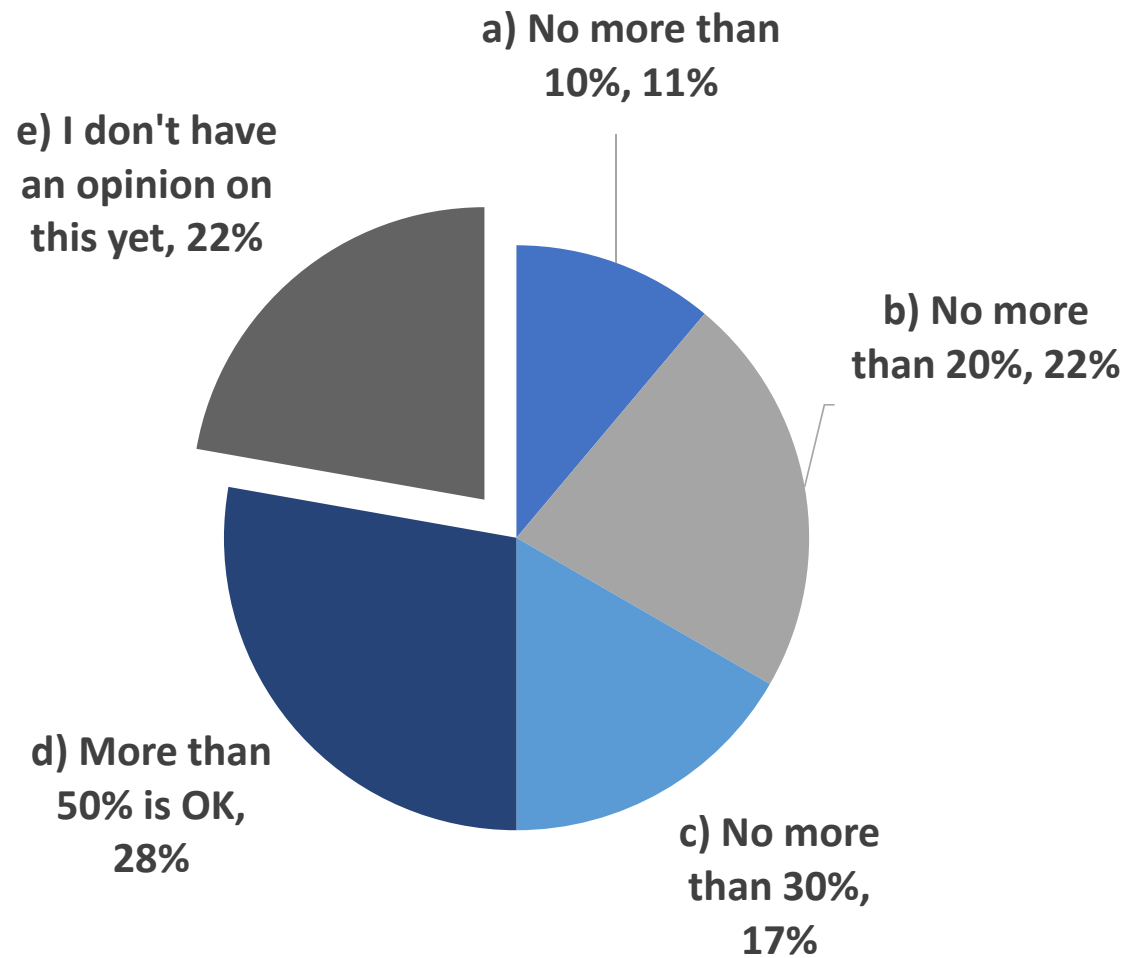
# XALT SURVEY: IDEAL ALTERNATIVE ALLOCATION

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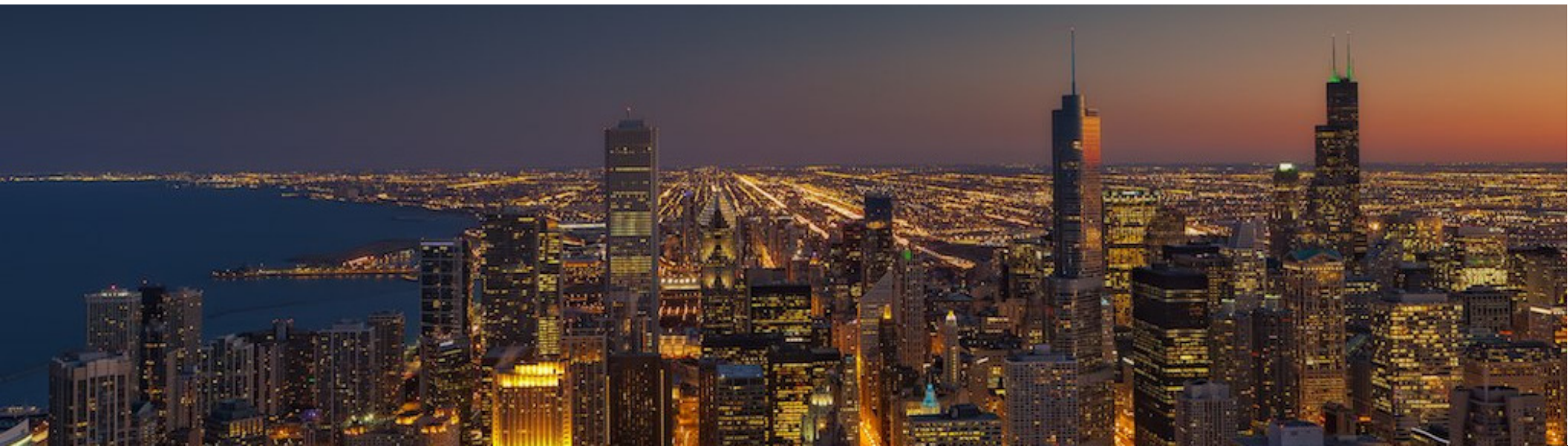


# XALT SURVEY: MAX ALTERNATIVES ALLOCATION

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THANK YOU  
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WWW.ALISOADVISORS.COM

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