



Annual Sponsor Briefing
Sofitel Hotel, New York City
February 16, 2018

Introduction to the RIA Channel

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Agenda

Part 1

A Primer on Financial Intermediaries

RIA Market Size & Demographics

Understanding Wealth Manager Dynamics

Part 2

Components of an RIA Sales Channel

How to Sell to RIAs

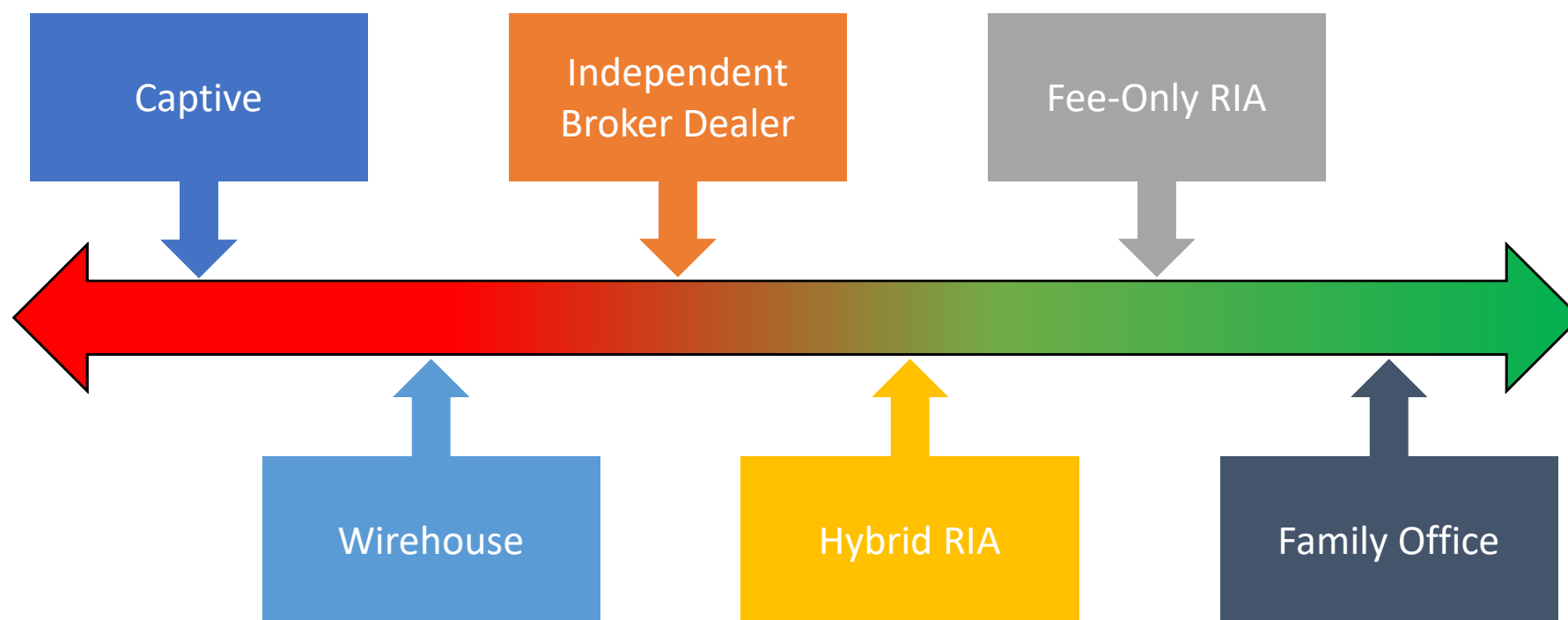
Thoughts on RIA-Focused Alternative
Product Development

A Primer on Financial Intermediaries





Retail Financial Advisor Independence Array

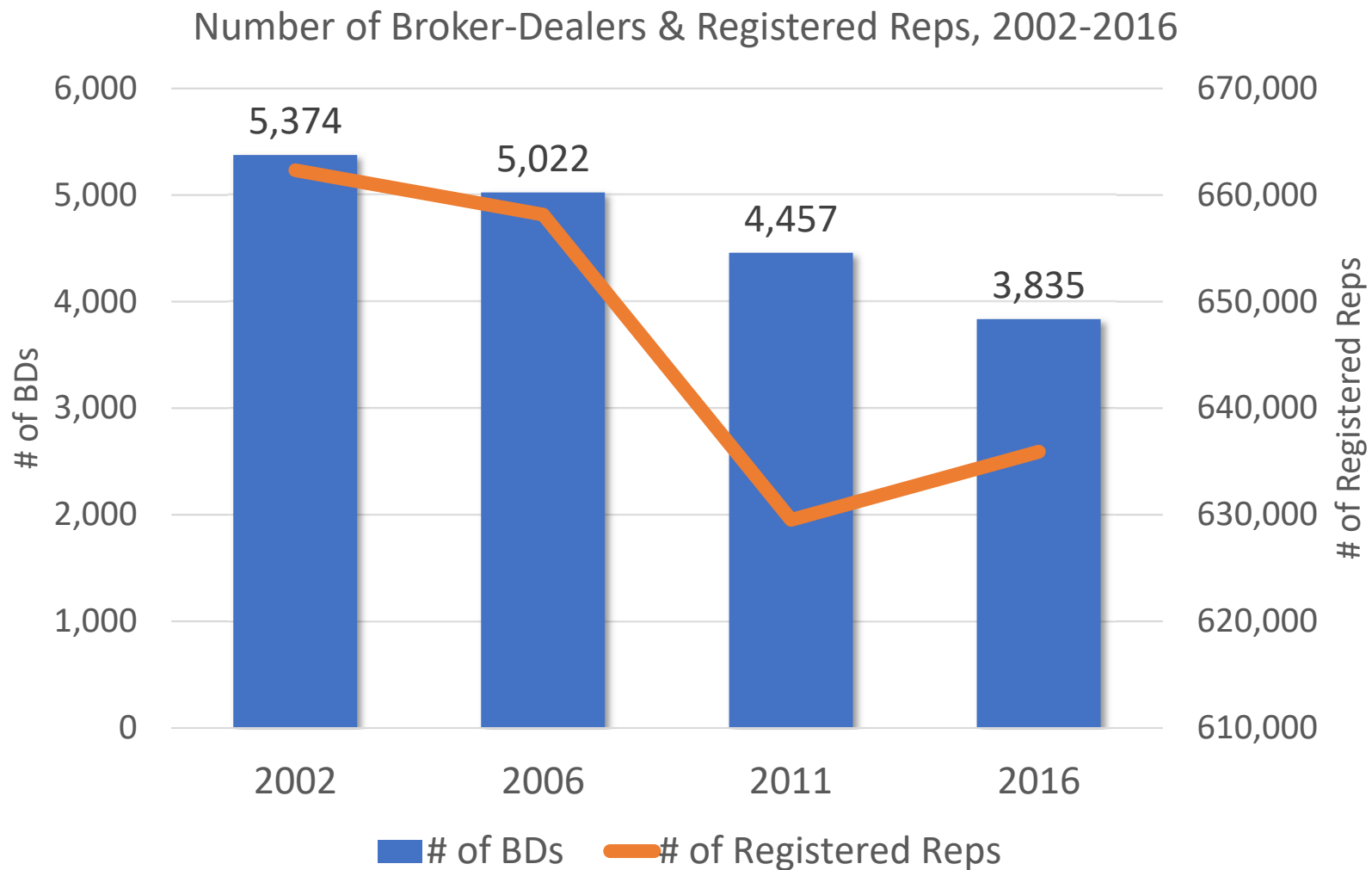


Independence Scale

- More Independent
- Less Independent



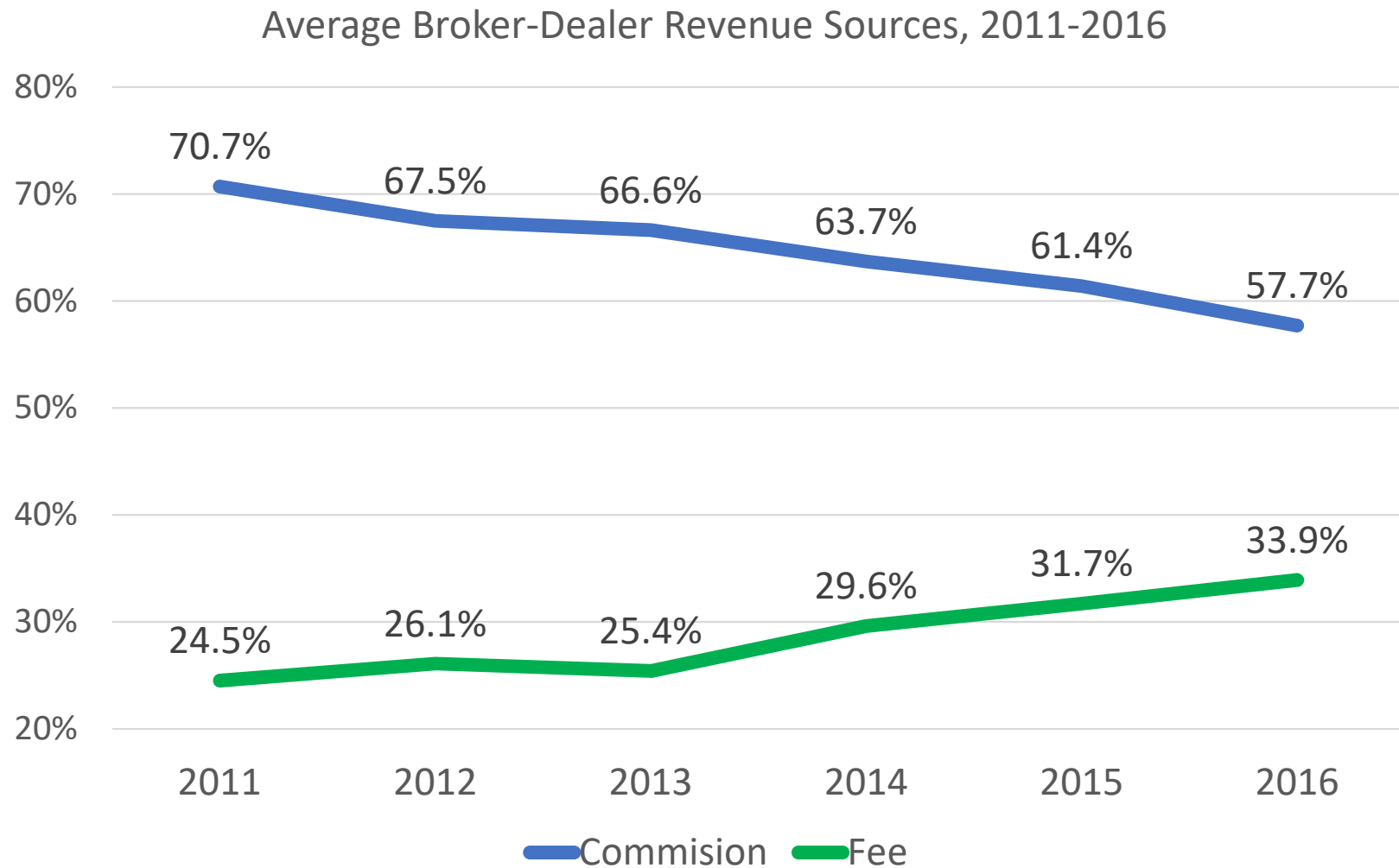
The Decline of the Broker-Dealer Model



Source: FINRA



The Changing Revenue Landscape



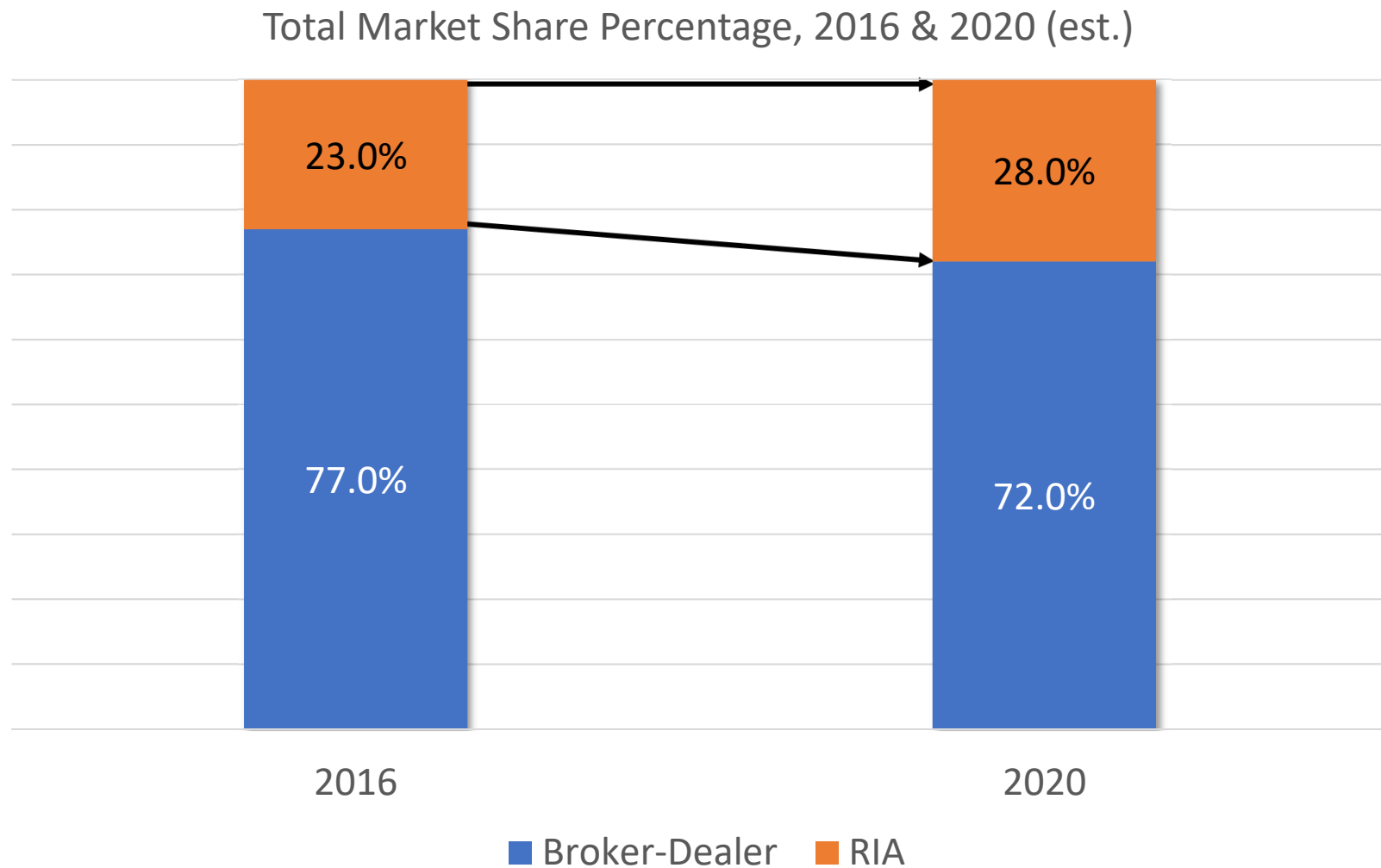
Source: InvestmentNews Research

RIA Market Size and Demographics





RIAs are Capturing Market Share

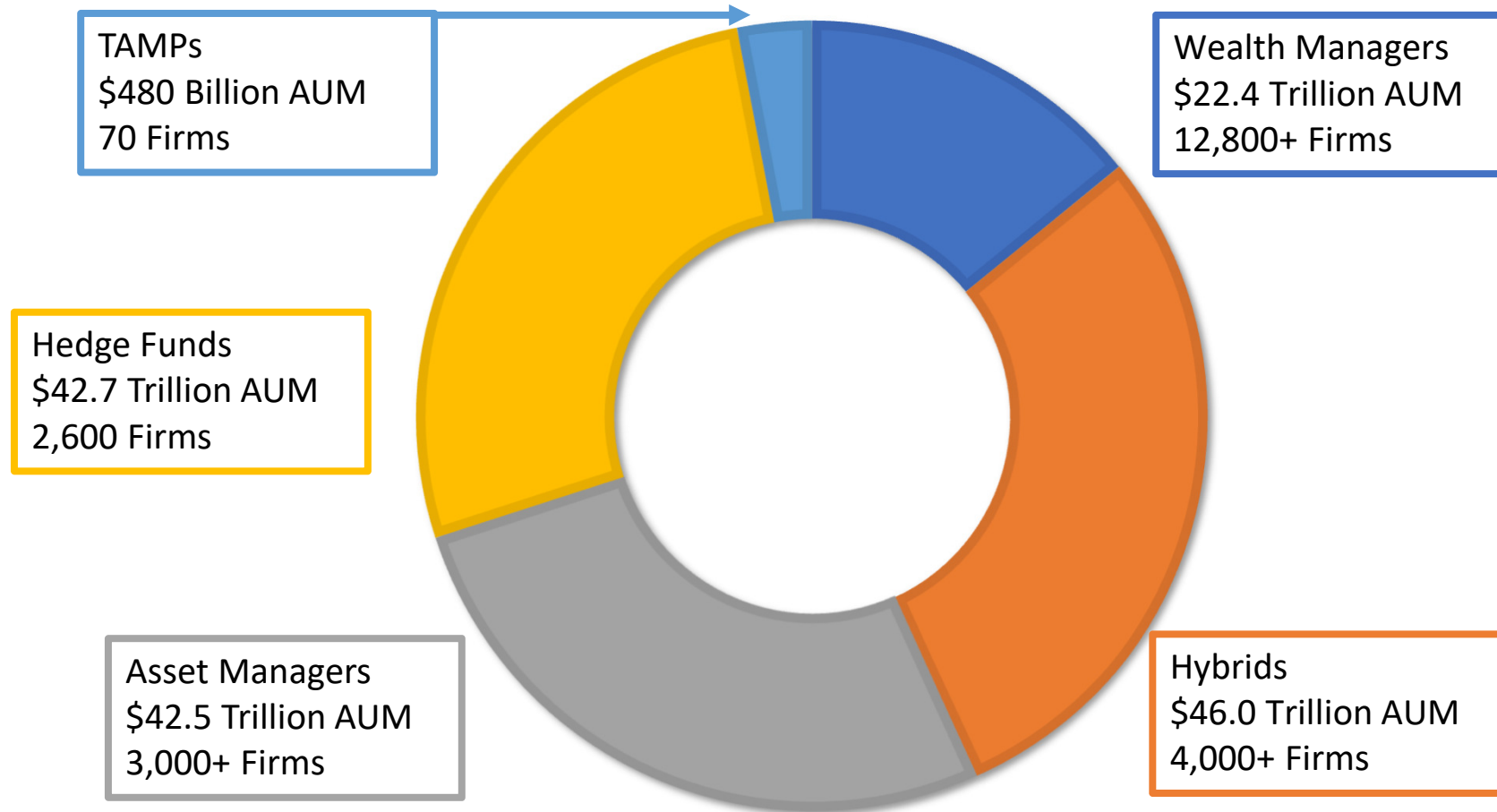


Source: Cirulli Associates



The RIA Market is Large and Diverse

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

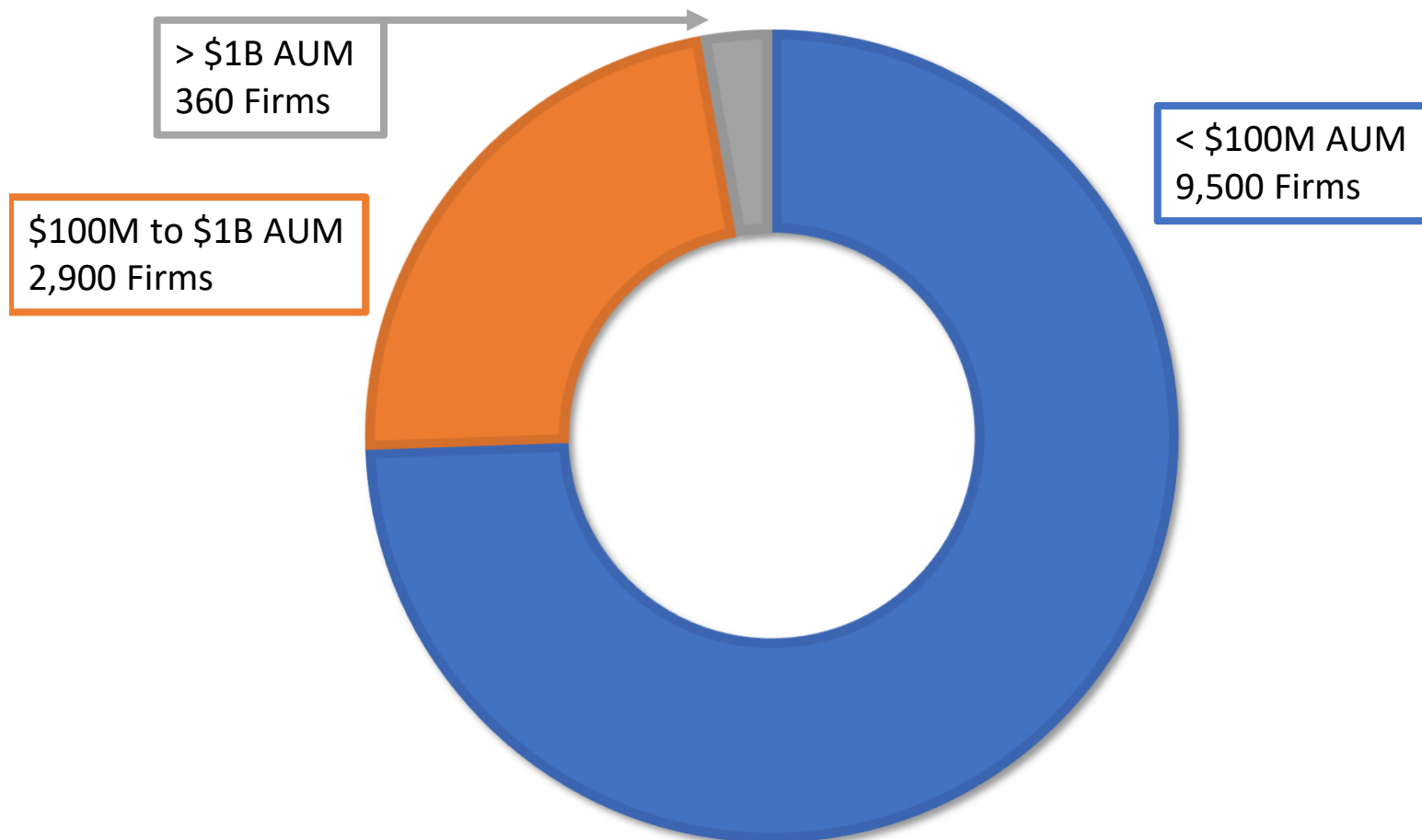


Source: RIA Database



Wealth Manager Segmentations

OF WEALTH MANAGERS BY AUM, 2016



Source: RIA Database



Wealth Manager Types

W2 Employee

1099
“Franchisee”

Independent
with Platform
Provider Support

Pure
Independent

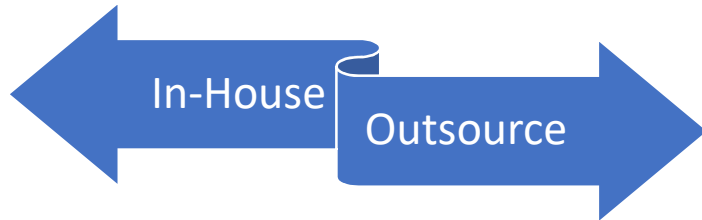
Understanding Wealth Manager Dynamics





Important Wealth Manager Dynamics

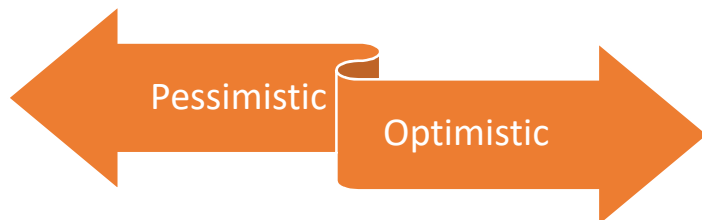
Investment Management



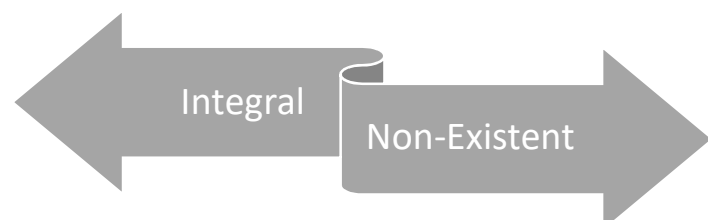
Experience with Alts



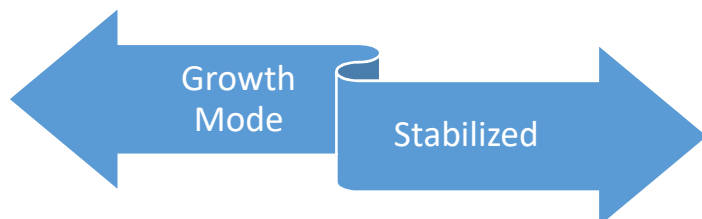
Faith in Markets



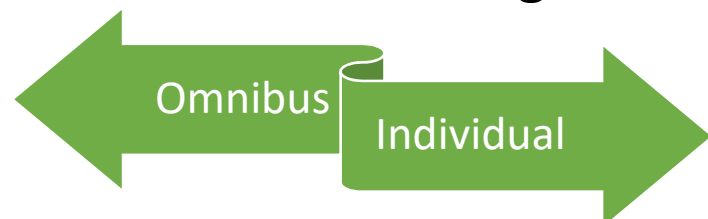
Alts Role Within Portfolio



Business Outlook



Alt Purchasing





Top 5 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 < \$1B 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 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) Competition	RIA services are becoming increasingly commoditized, making it more difficult to provide clear differentiators. In addition, the threat of disruptors, such as passive investing, robo-advisors, and online financial planning, are making acquisition of certain investor segments, such as millennials, more difficult.
5) 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.

Regulatory Priorities

DOL

Fiduciary rule (delayed)

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



Survey: How RIAs View Alternatives

Primary Reasons for Using Alts

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

Primary Reasons for NOT Using Alts

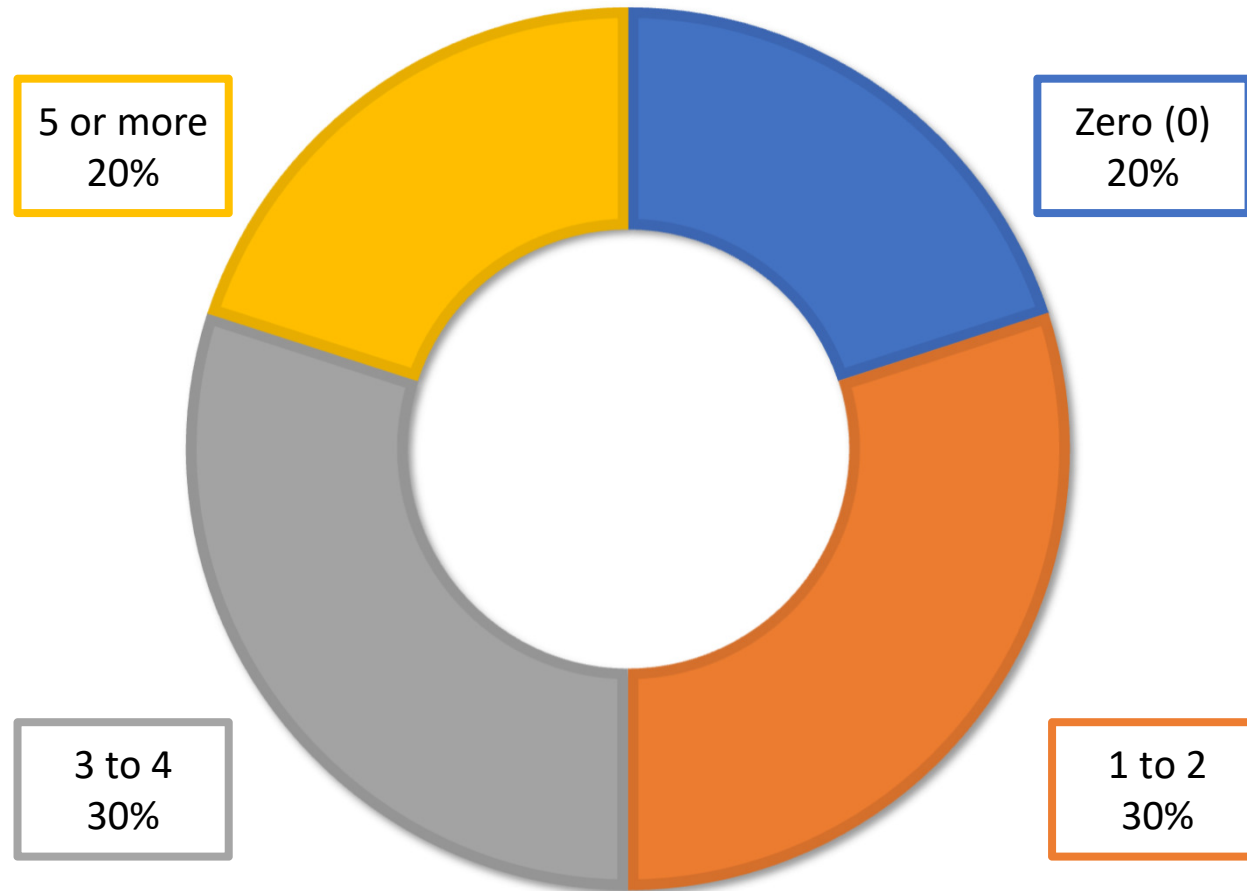
- Too Expensive
- Too Complicated
- Lack of Liquidity

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



Survey: # of Alternative Products per Client

AVERAGE NUMBER OF ALTERNATIVE PRODUCTS UTILIZED

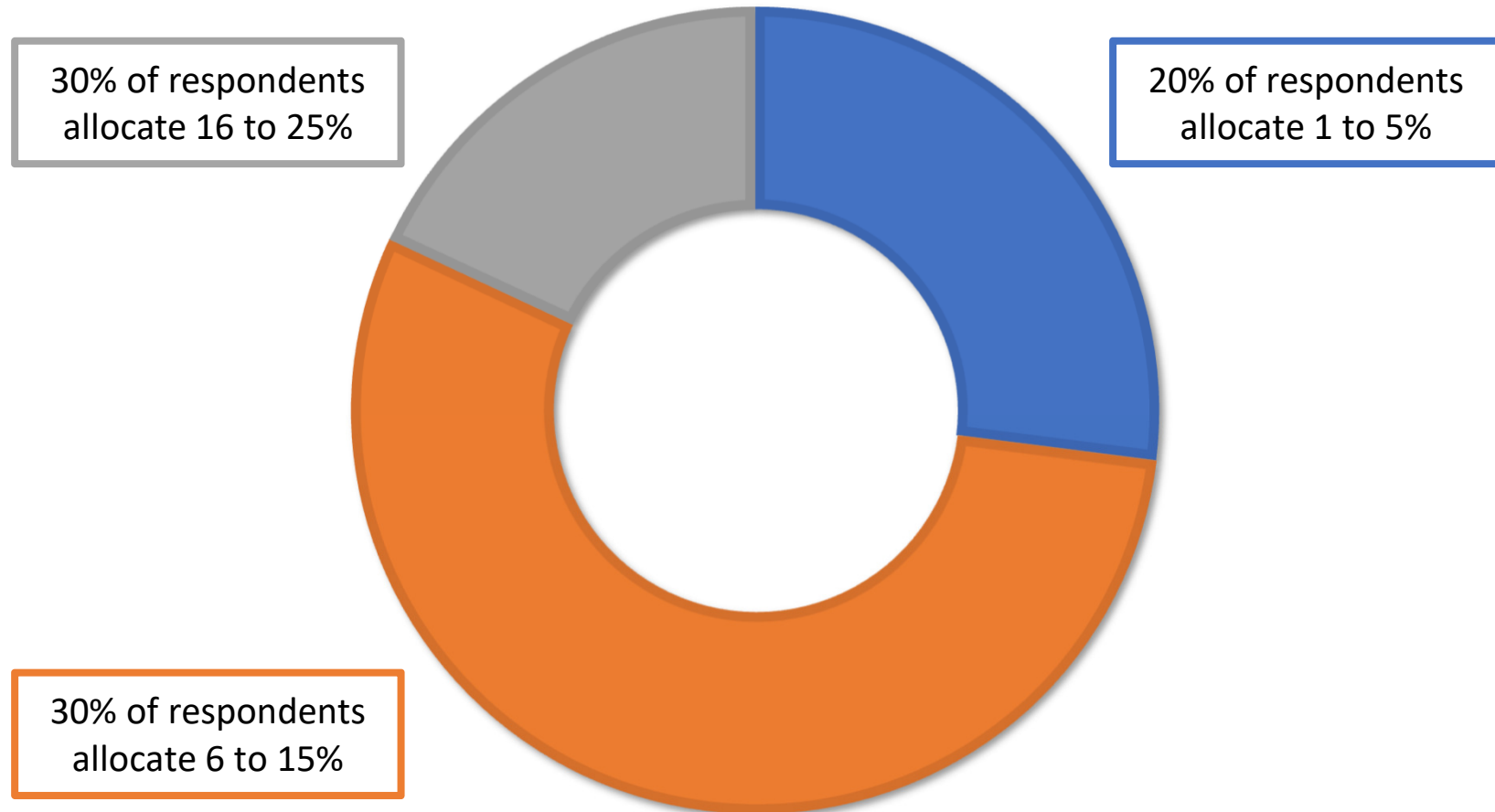


Source: 2015 Pershing survey of 1,200 RIAs about their perception and use of alternative investments.



Survey: Optimal Allocation of Alts in Portfolio

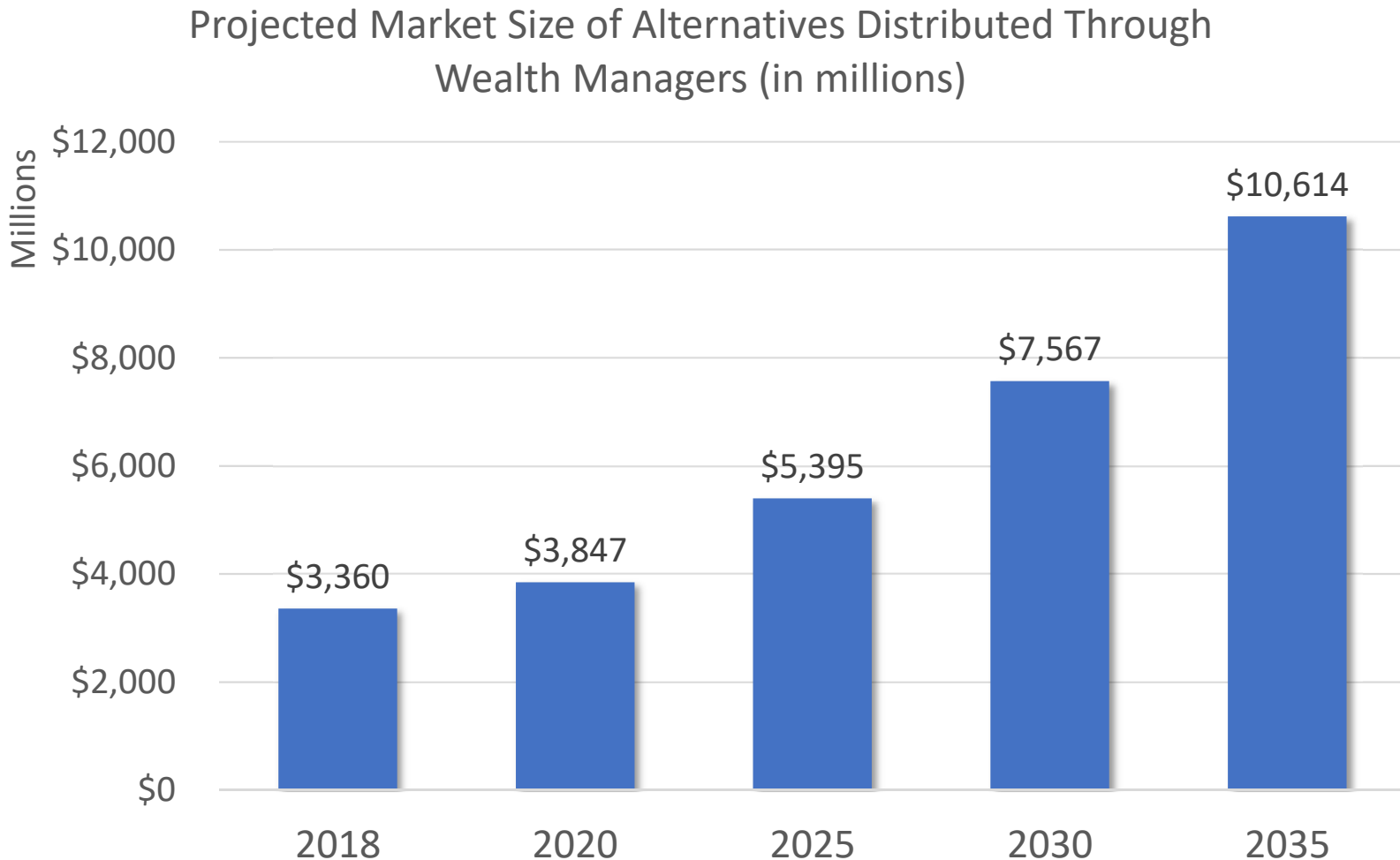
OPTIMAL ALLOCATION OF ALTERNATIVE INVESTMENTS



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



Alternatives / Wealth Manager Market Potential



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).

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

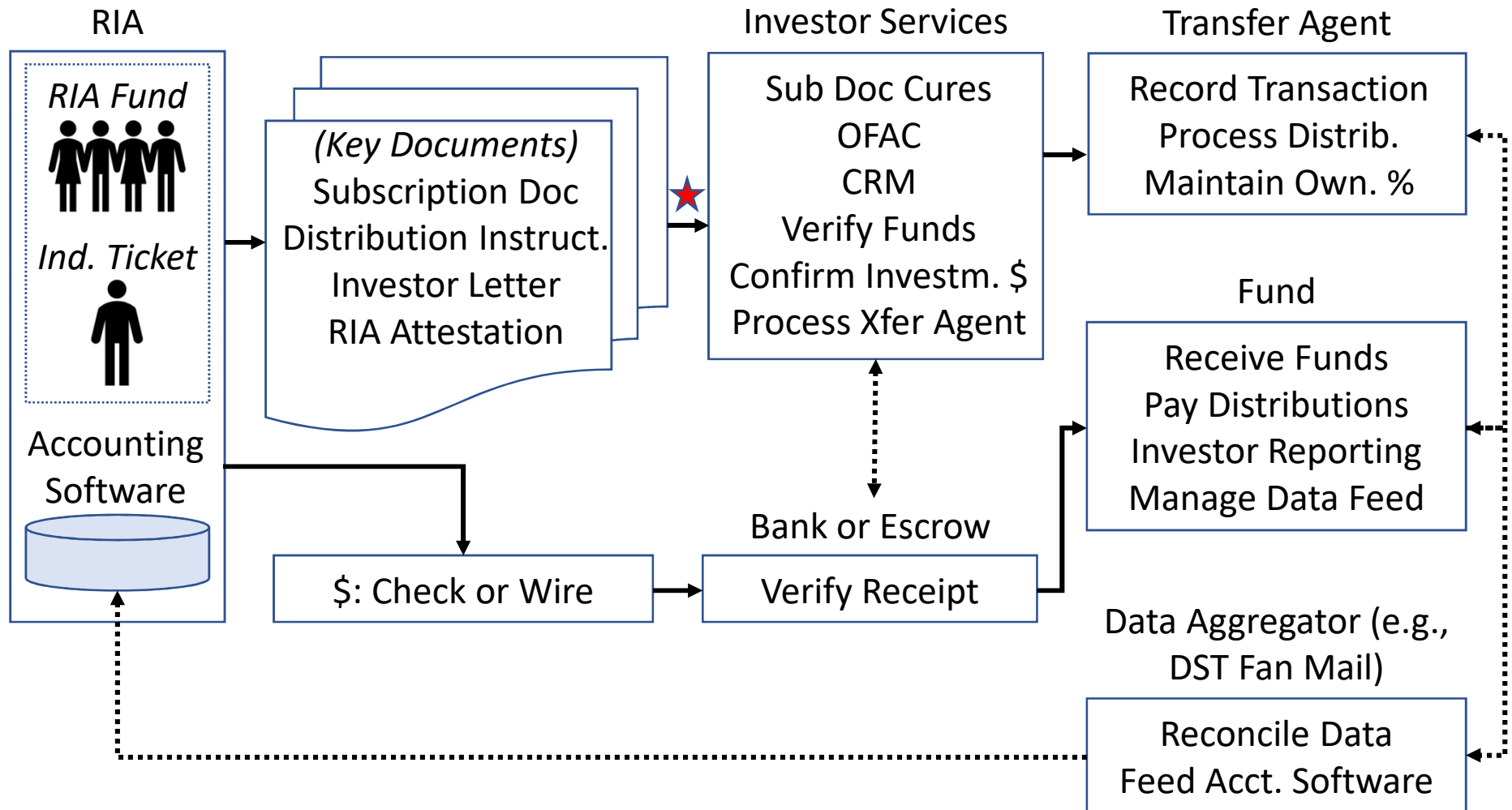


Component: Messaging

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.

How to Sell to RIAs





How to Find / Get in Front of RIAs

RIA Databases	Investment Adviser Public Disclosure Database
	RIADatabase.com, Discovery Data, Financial Media Group
Conferences	Custodial Specific: Schwab, TD, etc.
	Alternative Specific: ADISA, IPA, Real Assets Adviser Board Meeting, FA Inside Alternatives
Media Outlets	Alt Focused: Real Assets Adviser, DI Wire
	General: Financial Advisor, SourceMedia, ThinkAdvisor



Solve a Problem (Ideas & Samples)

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...



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

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!

Download this presentation: <https://www.alisoadvisors.com/irei>

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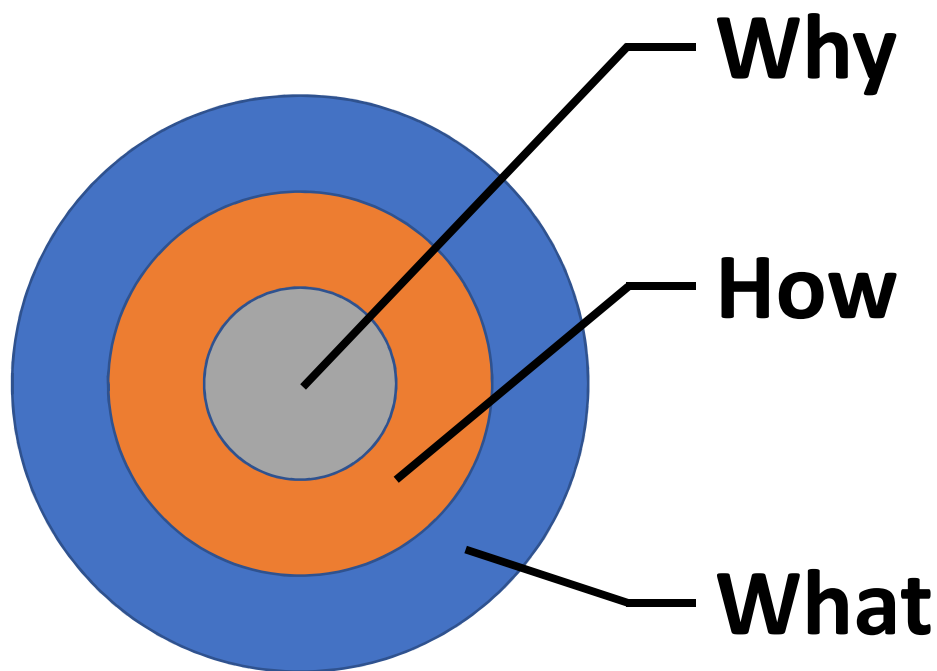
Appendix





Aliso Advisors - Our Purpose

Aliso Advisors was built on the premise that the best way for a financial intermediary to achieve sustainable growth is to make the needs of the individual investor its top priority.



We believe that in everything we do for our client, the financial intermediary, we must first serve as a fiduciary to their client, the individual investor.

We help solve complex compliance, operations, and investment management problems by providing holistic “real world” solutions that are free from conflicts of interests and compatible with a financial intermediary’s existing infrastructure.

We provide in-depth education, hands-on project-based consulting, due diligence, and advisory services to: a) financial intermediaries that wish to prudently integrate direct investments into their clients’ investment portfolios; and b) investment sponsors that wish to distribute through RIAs.



Biographies – Key Management

Deetra Tesla-Koch

Prior to founding Aliso Advisors, Deetra was the founder and managing partner of DNM Consulting, a nationally-recognized compliance consulting firm for Registered Investment Advisers and Broker-Dealers. Deetra began her career in 1995 working in compliance and operations for a trading firm. Soon after, she was fully-licensed and was charged with supervising 31 branch offices. During her career, she has focused on operations and management as well as software development in the on-line trading space, helping to design and architect multiple trading software platforms. She has also served as chief compliance officer and principal for Broker-Dealers in on-line trading, investment banking, and retail spaces. Deetra holds several securities licenses, including the Series 63, 55, 7, and 24.

Darren Whissen

In addition to co-founding Aliso Advisors, Darren is also the founder and president of Atomi Financial Group, Inc. (Atomi), a Registered Investment Adviser built from the ground up based on the principles of endowment style investing. Before founding Atomi, Darren was the executive vice president of marketing for a dealer manager focused on non-traded offerings. He also served as firm's lead portfolio manager where he designed and managed both liquid and illiquid investment portfolios. Darren has also served as the director of due diligence for a private equity investment bank, and the chief investment officer at a boutique wealth management firm. He earned his B.A. from Saint Mary's College of California and a M.B.A. from the University of California at Irvine. Darren holds several securities licenses, including the Series 7, 24, and 65.

Sandra Romero-Wright

Sandra is the chief compliance officer of Atomi Financial Group (Atomi). She is also Atomi's director of operations, responsible for managing the firm's client reporting and billing systems, as well as other back office functions. She has over 17 years' experience in the financial industry, with experiences involving administration, operations, investor relations, and portfolio administration. Prior to Atomi, Sandra served as a compliance associate at a SEC-registered Registered Investment Adviser. Sandra is a member of the Southern California Compliance Group and attends annual National Society of Compliance Professionals conference.



Biographies – Analysts and Sales Training

Rosemarie Leong

Rosemarie has been in the securities industry for over 15 years, starting at Paine Webber, then moving on to Prudential Securities, Met Life Securities, and Smith Barney, serving in various branch capacities. In recent years, Rosemarie has been performing due diligence services for a number of national independent Broker-Dealers, sponsors, and businesses in the United States, Canada, Europe, and Asia. Rosemarie has held FINRA 7, 63, 65 and 79 licenses. She holds a B.A. (Honors) from U.B.C. in Vancouver, Canada, an M.A. from Webster University-Geneva, Switzerland and attended Southwestern University School of Law in Los Angeles, CA. She is fluent in four languages.

Kory Razaghi

Kory has more than 15 years experience in investment banking and corporate financing. Prior to Aliso Advisors, he was the managing director of a boutique advisory firm that provided management, operational turnaround, and corporate finance services. His responsibilities included conducting financial and operational due diligence, valuation analyses, transaction management, post-merger integration planning, and market/service line assessment. Prior to that, Kory was a due diligence associate for an investment banking firm that provided funding for developing companies. Kory's educational background includes: University of California, Irvine – Paul Merage School of Business: Masters in Business Administration – Finance; University of New Mexico, School of Medicine: Masters of Science, Biomedical Sciences – Neurology; University of Utah: Bachelors of Science, Chemistry.

Burton Brown

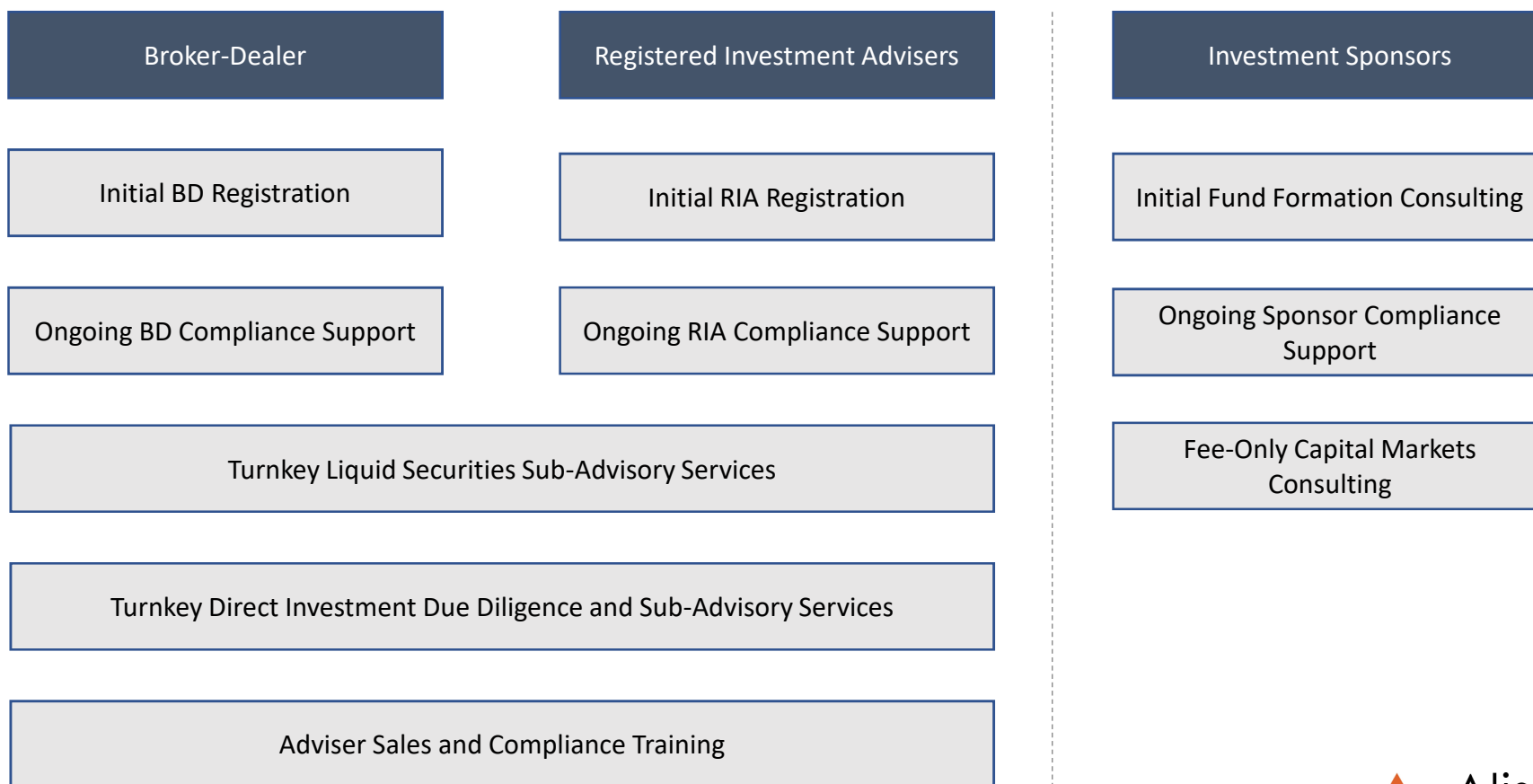
Burton, CFP®, AAMS®, has over 10 years of financial advisory experience. After nine years of military service and earning his MBA from the George Graziadio School of Business at Pepperdine University, Burton became a Registered Representative with a large wire house, where he balanced his time between personal production and managing regional adviser training programs. After six successful years, Burton became vice president at a boutique advisory firm and investment bank. Currently, Burton serves as the executive vice president at Atomi Financial Group (Atomi). In addition to his MBA, Burton earned a BSM from Pepperdine University. Burton holds FINRA 7 and 66 Securities licenses.





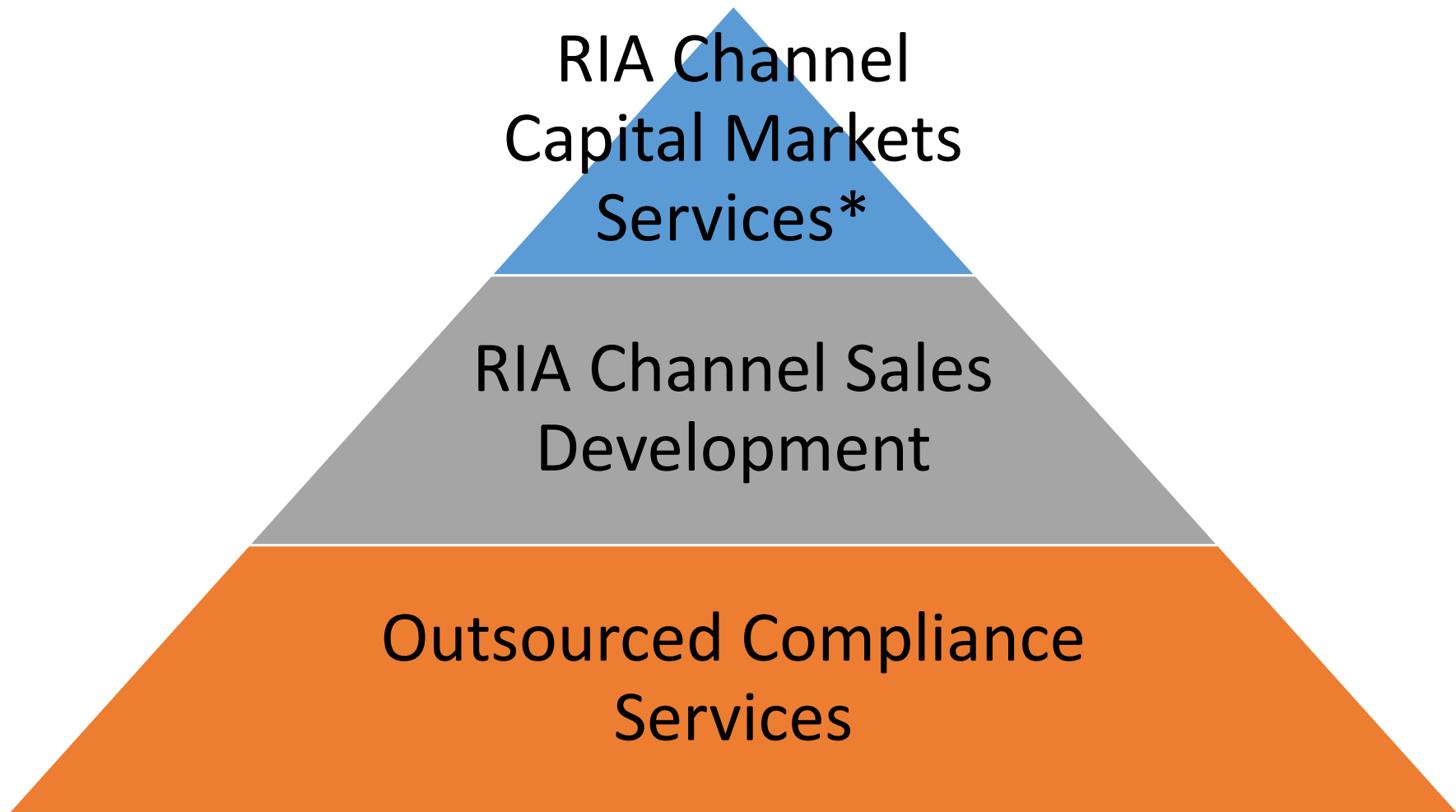
Aliso Advisors' Suite of Services

Aliso Advisors' array of services to Broker-Dealers, Registered Investment Advisers, and Investments Sponsors includes:





Investment Sponsor - Scopes of Engagement



* *Capital Markets Services involve the engagement of third-party partners.*



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