iCapital

5 QUESTIONS ABOUT PRIVATE MARKETS

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Your recent research has focused on educating investors about the importance of private markets. Why?

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Why should advisors consider private investment opportunities for their high-net-worth clients?

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What are the biggest hurdles advisors and individual investors face when considering private investments?

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How has technology increased accessibility to private investment offerings?

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How are Advisors incorporating these technology solutions into their practices and helping clients access private investments?

On September 25, 2018, Nick Veronis, Co-founder and Managing Partner at iCapital presented Understanding the Importance of Private Markets at FA Magazine's 9th annual Inside Alternatives & Asset Allocation conference. The following Q&A was published in FA Magazine shortly after the event.

1: Your recent research has focused on educating investors about the importance of private markets. Why?

Over the last 20 years, the number of publicly listed U.S. companies has nearly halved. Companies are staying private longer and, by the time they IPO, most of their growth seems to be behind them. This is important for investors to understand. There is mounting research which suggests that much of the equity value in some of the world's most successful, and often disruptive businesses is being created prior to an IPO, leaving most individual investors unable to participate in the vast majority of the upside. And, not only are young, fast-growing companies avoiding public markets, but public companies are also showing an increased tendency to delist from public exchanges to focus on long-term goals. One of the most high-profile examples of this is Dell, the technology giant that was taken private in 2013 after spending 25 years as a publicly-traded company.

2: Why should advisors consider private investment opportunities for their high-net-worth clients?

There is a growing misalignment between investors' long-term goals – typically holding most of their wealth in 401(k) plans and IRAs – and the short-term goals of the public companies in which they primarily invest. Warren Buffet, Jamie Dimon, and others have been drawing attention to "short-termism" recently – or the heightened importance that board members, executives, shareholders, and the media place on short-term profits. I believe it's becoming increasingly important for investors to find ways to gain exposure to private businesses attempting to buck this trend. For example, one of the inherent benefits of the illiquid nature of private equity is that the investor is placing the decision of when to sell in the hands of experienced private equity managers, thereby preventing individuals from selling investments at the wrong time under adverse market conditions. In other words, the private equity model forces individual investors to adopt a "buy and hold" discipline.

3: What are the biggest hurdles advisors and individual investors face when considering private investments?

Beyond the traditionally complex investment process, the main obstacles have historically been a general lack of education about the kinds of investments that are available, including understanding characteristics like liquidity or how a specific investment may fit into an investors' overall investment strategy. This is followed closely by a lack of access to high-quality investment offerings and limited resources to properly conduct due diligence and monitor investments.

4: How has technology increased accessibility to private investment offerings?

Like in most other industries these days, technology is a game-changer. It's updating old processes and legacy infrastructure from front- to back-office and improving access and transparency as well as helping to reduce costs for all market participants (including helping to reduce investment minimums for investors). It's also making it easier for investors to educate themselves about potential investments and to conduct due diligence. This is true for all kinds of traditional alternative investments – private equity, private credit, and hedge funds.

5: How are Advisors incorporating these technology solutions into their practices and helping clients access private investments?

From the advisor perspective, acting as a fiduciary is not just about selecting the cheapest products available, but actually working with clients to meet their financial goals. New platforms like iCapital are designed specifically to streamline the process of finding, researching, and investing in alternative investments as clients increasingly look for newer sources of yield and diversifications. In some cases, advisors are working with clients to find and invest in funds offered on these platforms, or they are searching for ways to create bespoke investments (for example multi-manager funds) and take a more active role in selecting the managers and providing their clients with complete transparency and comprehensive due diligence.

Today, the 'full toolkit' is available, and any advisor can implement an institutional-quality alternative investment program for clients with relative ease, regardless of size and resources.

This article was previously published in Financial Advisor Magazine.

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