distributions. While the system is workable for a small number of big-ticket institutions, it falls apart when applied to a large number of individual investors. The labor-intensive process is burdensome and inefficient for investors and managers alike. Individual investors and their advisors need a simplified process, that is automated wherever possible, to mimic the more streamlined processes associated with traditional investments like stocks, bonds, mutual funds and ETFs. They also need support to resolve issues along the way, especially as they take their first steps into the alternatives world.

> "Investor education paired with thorough and objective due diligence is a prerequisite for the democratization of alternatives."

INTEGRATED REPORTING AND ADMINISTRATION: One issue that has plagued even institutional investors until relatively recently is a fragmented view of their portfolios. While many institutions have moved towards consolidated reporting that aggregates all their public and private investments on a single dashboard, individual investors are far behind. Comprehensive reporting that presents a complete picture of the portfolio is key to effective investing in the first instance, as well as to incorporating and managing alternatives. The administrative infrastructure for private equity and hedge funds must be integrated with custodial and other platforms already used by retail investors to ensure streamlined movement of assets and robust portfolio monitoring.

ILLIQUIDITY: While adding some level of illiquidity to portfolios where appropriate has advantages in terms of introducing new drivers of value creation and limiting the amount of capital subject to public market volatility, lock-up periods can present obstacles even for investors who can afford it. Lock-up periods for hedge funds are typically 12 months or less, but private capital lock-ups can range from 4-5 years for a private credit fund to 12-13 years for a venture capital fund. To date, individual investors who need to sell their interests have not had access to a secondary market, in contrast to institutions who can more reliably liquidate private equity fund stakes. Making private equity a more accessible asset class will necessitate providing a similar solution for individual investors.

Without access to high-quality alternatives, individual investors are working with an incomplete investment toolkit. We believe that HNW investors deserve, and need, the same access to the diverse world of alternative investments that institutions have long enjoyed. While HNW investors and their advisors continue to face obstacles in integrating alternatives, these problems are solvable.

It's time to remove the roadblocks and democratize alternatives.

Lawrence Calcano is Chief Executive Officer of iCapital. Previously, Mr. Calcano was a partner at Goldman Sachs where he filled numerous leadership positions during his 17-year tenure including, most recently, as Co-Head of Technology Investment Banking. Mr. Calcano has deep domain knowledge and deal experience working with growth companies of all sizes as an advisor, investor and operating executive and has been included five times on the Forbes Midas List of the most influential people in venture capital.

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1. "Split Decisions: Institutional Investment in Alternative Assets", BNY Mellon, FT Remark, 2016
2. 2016 NACUBO-Commonfund Study of Endowments®
3. *Registered Investment Advisors and Private Equity,* iCapital, June 2016

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THE iCAPITAL VIEW:

WHY DEMOCRATIZATION MATTERS

By Lawrence Calcano, CEO

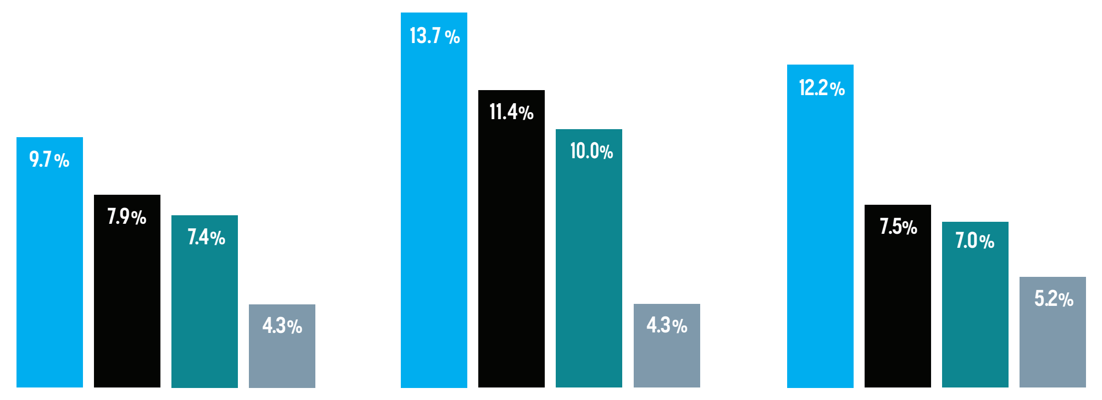
When it comes to alternative investments, high-net-worth investors may be leaving money on the table–and not by choice.

Despite being aware of the potential benefits of alternatives, high-net-worth (HNW) investors and their advisors are poorly represented in the alternative investment capital base. For a variety of reasons, institutions have had a much easier time investing in alternatives, and have ramped up allocations—and reaped the rewards—as a result.

We think that needs to change. HNW investors and their advisors deserve the same advantages that institutions enjoy when accessing alternatives. Without equal access to alternatives like private equity and hedge funds, many HNW investors are working with an incomplete toolkit as they navigate a tricky investment landscape.

It's time to democratize alternatives, and here's why.

PRIVATE EQUITY RETURNS vs PUBLIC MARKETS



Source: Cambridge Associates, LLC. US Private Equity Fund Index: Horizon Pooled Return as of September 30, 2017

Private indexes are pooled horizon IRR calculations, net of fees, expenses, and carried interest. Past performance is not indicative of future results. Historical returns are included solely for the purpose of providing information regarding private equity industry returns and returns of other asset classes over certain time periods. Private equity funds and public markets have significant differences and no representation is made that there is an appropriate measure for comparison. While investments in private equity funds provide potential for attractive returns, they also present significant risks not typically present in public equity markets, including, but not limited to, illiquidity, long term horizons, loss of capital and significant execution and operating risks.

Outperformance and Risk Mitigation

Institutions like pensions and insurance companies have made alternatives a core portfolio component, more than doubling their allocations in the last decade[1]. Educational endowments, for example, allocated a dollar-weighted average of 53% of their portfolios to alternative strategies in 2016.[2]

Why the surge in appetite for alternatives? One important reason: the potential for long-term outperformance. Private equity—one of the most popular alternative investments among institutions—has outperformed public markets and most major asset classes over 10, 15 and 20-year periods.

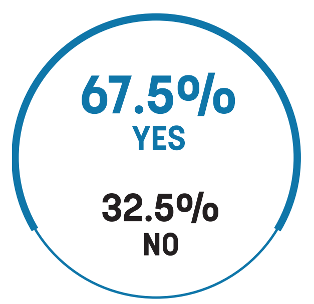
Alternatives can also play a critical role in risk mitigation and diversification. Compared to traditional publicly-traded, long-only equity and bond investments, alternative strategies can generate different performance profiles, increasing the potential for uncorrelated sources of return.

Can HNW investors catch up?

The case for alternatives is well understood by HNW investors: for instance, 67.5% of the registered investment advisors we surveyed said their HNW clients are interested in private equity. And yet, on average only 10% of their client base is investing in private equity funds[3].

The problem? HNW investors and their advisors face significant headwinds when it comes to investing in alternatives—challenges like large investment minimums, limited choices, illiquidity, and cumbersome processes. Even when investors overcome these obstacles, they still struggle to see how alts fit into their broader portfolios due to a lack of education, information and inadequate technology.

WEALTHY CLIENTS INTERESTED IN PRIVATE EQUITY



N=357 RIAs

Source: *Registered Investment Advisors and Private Equity*, iCapital, June 2016

Just as endowments must grow and pensions must manage payouts through good markets and bad, individuals need their portfolios to weather volatility, compound wealth and fund specific goals like paying for a child's education and providing retirement income. More so than ever, a lack of efficient access to alternatives means that individual investors are working with an incomplete set of tools as they try to achieve their goals.

> "HNW investors and their advisors face significant headwinds when it comes to investing in alternatives—challenges like large investment minimums, limited choices, illiquidity, and cumbersome processes."

HOW TO DEMOCRATIZE ALTERNATIVES

We believe it's time to level the playing field and give HNW investors and their advisors the same access, transparency and infrastructure enjoyed by institutional investors.

We see three key requirements to achieving this democratization:

1) Increase Access

Give HNW investors the same investment opportunities as institutions.

Today, the average HNW investor does not have access to a range of high-quality options across alternative investment strategies. In addition to limited choice, high minimums and fees still present impediments for most retail investors.

CHOICE: Historically, HNW investors have only seen a small slice of the alternative investment spectrum. Many of the most talented managers work exclusively with institutional investors, leaving the large pool of retail dollars largely untapped. Even investors with advisors at large private banks are typically only able to access a very small percentage of the private equity and hedge fund opportunities available in the market at any given time. HNW investors need a fuller picture of their alternative investment options, from venture capital, buyout and turnaround funds to real estate, distressed debt and hedge funds.

MINIMUMS: HNW investors have also been restricted due to high investment minimums. The standard industry minimum for a private equity fund is $5 million, but some managers have minimums as high as $20 million, making them off limits for even ultra-wealthy investors. Access to feeder funds and other structures that enable the construction of a diverse alternatives portfolio is critical.

FEES: Investors building out alternatives programs can find themselves paying several layers of fees, depending on how and where they are sourcing products. Until a simple, accessible fee structure across the range of alternative investments exists, retail investors will have difficulty constructing strong alternatives allocations that serve their intended role in a portfolio.

2) Improve Transparency

Show HNW investors and their advisors how alternative investments fit into their portfolios.

Manager and product selection are paramount in alternative investing. HNW investors and their advisors need the right education and information to make smart, strategic decisions.

DUE DILIGENCE: For institutional investors, managers are happy to provide customized pitch books, arrange one-on-one meetings and spend many hours handling follow-up calls. But this model is not applicable to the fragmented HNW investor market—it simply can't scale. Even if this system were workable across thousands of individual investors, most do not have the ability to perform the investment and operational due diligence that is necessary for investing successfully in alternatives. Investor education paired with thorough and objective due diligence is a prerequisite for the democratization of alternatives.

PORTFOLIO CONSTRUCTION AND ANALYSIS: To the extent individual investors have gained access to alternatives like private equity and hedge funds, they've often not understood how integrating a particular product will impact their overall investment strategy. HNW investors and their advisors need better tools to understand where alternatives fit in a portfolio, how they interact with existing investments, and how they shift overall exposures and risk. In addition to robust portfolio modeling that integrates alternatives into overall analysis, alternative investment performance statements and reporting should be simplified and streamlined for the retail investment community.

> "Without equal access to alternatives... many HNW investors are working with an incomplete toolkit as they navigate a tricky investment landscape."

3) Upgrade Infrastructure

Make the process of investing in alternatives less cumbersome for HNW investors and their advisors.

Currently, the core machinery of alternative investing is built to suit large institutional investors. HNW investors and their advisors face roadblocks in several areas, including burdensome paperwork requirements, a lack of integrated reporting, and limited liquidity options.

LABOR-INTENSIVE PAPERWORK: A high volume of manual administration is involved in reviewing and signing subscription documents, completing investor accreditation, and handling drawdowns and