CERULLI ASSOCIATES

Adapting to Growing Private Markets: A Playbook for Practice Success

Advisors can use alternative investments to differentiate practices and attract, consolidate, and retain client assets

September 2023

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Foreword

In today's economy, private companies are an outsized driver of wealth creation. Private companies in the U.S. with more than $100 million in revenues outnumbered public companies by more than 6 to 1, according to Capital IQ in January 2022. Giving clients access to this expanding investible universe presents a clear but at the same time complicated opportunity for financial professionals.

On one hand, offering alternative investments may help you optimize portfolio allocations, attract high-net-worth clients, and prevent existing clients from moving to more sophisticated practices.

On the other hand, financial professionals must get up to speed on alternative asset classes, structures, liquidity provisions, and individual products—and provide simple, easy-to-understand explanations to clients about the potential risks and rewards.

We built Invesco Total CX—the total client experience—for challenges just like this. It's a platform of tools, coaching, and content to help you connect with your clients, enhance your business, and optimize your portfolios. That includes helping you build and grow your alternatives practice.

With that mission in mind, we created this research report in partnership with Cerulli Associates and the Investments & Wealth Institute (IWI). Inside, you'll find in-depth insights from your peers, who discussed the challenges and benefits they're experiencing as they utilize alternative investments.

In our view, allocating to alternative investments is critical as clients demand diversification,[1] enhanced return potential, volatility mitigation, and income potential in a complex market. One of the key messages financial professionals told Cerulli is that they're looking to increase their allocation to alternatives—and that they believe practices that don't offer adequate access will be left behind.

Invesco is committed to helping you build and grow your alternatives practice, and to be an indispensable partner for your entire business. Please don't hesitate to contact us to learn more about what you've seen here and discover all the ways Invesco Total CX can help you achieve greater possibilities.

John McDonough
Invesco Head of Americas Distribution

Invesco

[1] *Diversification does not ensure a profit or protect against loss*

Research Methodology

- In 2Q 2023, Cerulli Associates, in partnership with the Investments & Wealth Institute (IWI), conducted a comprehensive survey of more than 200 advisors on their use of alternative investments, with a focus on the implementation of the products into their practices. Additional information on the surveyed advisors is included at the end of the white paper.
- Cerulli concurrently held 25 research calls with advisors to gather qualitative insights, including the practice benefits and key challenges associated with their uptake of alternative investment exposures.
- Because of IWI's focus on more sophisticated (greater AUM and higher core market) advisors, the survey responses are skewed toward advisors who are more likely to have allocated a higher-than-average amount of client assets to alternative investments. While this survey's respondents outpaced that of an average advisor, this playbook also shares insights more broadly to ensure we represent the advisor market at large.

Key Findings

- Advisors are planning to increase allocations to alternative investments as they seek to diversify[1] client portfolios and achieve specific objectives (*e.g.,* volatility mitigation, greater income potential).
- By offering an expanded shelf of private market investments, advisors can differentiate their practices, attract high-net-worth (HNW) clients and move upmarket, and consolidate and retain assets under management (AUM).
- From the start of a relationship, advisors should carefully evaluate which of their clients can not only financially but behaviorally tolerate illiquid exposures. A careful education and step-by-step implementation process takes place for those clients for whom alternatives are a fit.
- Advisors have more product choices than ever before with the rollout of intermittent liquidity products (*e.g.*, interval funds, non-traded REITs). Advisors indicate that they expect to increase allocations to private equity and private debt exposures.
- Given they are often complex exposures in newer structures, advisors are faced with a steep educational hurdle for implementing alternative investments. In addition to understanding the products for their own sake, advisors must also be ready to explain the products to their clients.
- Operational hurdles and due diligence challenges remain a barrier to the greater adoption of private market investments, with advisors carefully evaluating the benefits versus trade-offs of implementing them within their client portfolios.

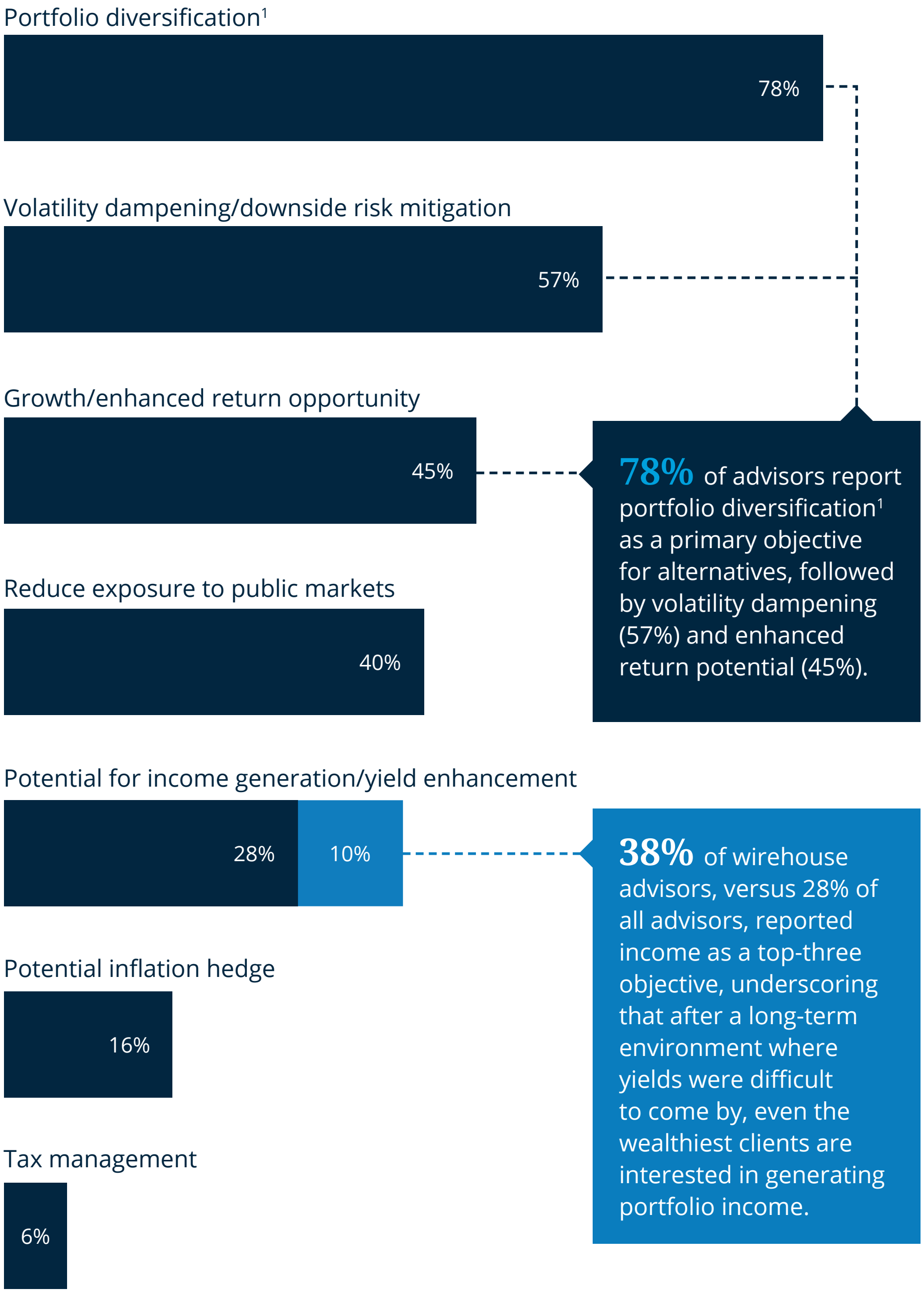
[1] *Diversification does not ensure a profit or protect against loss*

01 Introduction

With good reason, alternative investments have been top-of-mind for the wealth management and asset management industries for the last several years. On the back of innovative product development like exposures via intermittent liquidity structures and technology improvements (*e.g.*, e-signatures, alternative investments platforms such as iCapital and CAIS), advisors have easier access to higher-quality products from top-tier managers than ever before. The improvements in the product set have the benefit of exceptional timing. With both equity and fixed-income markets declining in 2022, there is industry recognition of the need for greater diversification[1] than that offered by traditional asset classes, now recognized to be more correlated. A bank advisor managing $1.1 billion in AUM tells Cerulli, **"One reason [for allocating to private markets] is the lack of correlation to public markets. The second reason is 10-year capital market assumptions; broadly speaking, the expectations and forecasts are far better for private assets than for public."**

As private markets grow in importance (*e.g.*, buildout of private credit and replacing bank lending), advisors are looking to the exposures to reduce reliance on public markets perceived as less representative of holistic market performance. Advisors who can provide their clients with access to private markets investments can source opportunities from a broader investment universe.

Exhibit 1 | Alternative Investments' Portfolio Objectives, 2023



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
Analyst Note: See page 18.

[1] *Diversification does not ensure a profit or protect against loss*

Advisors more experienced with alternatives use the exposures for more than diversification.[1] Portfolio diversification[1] is a higher priority for low users. Enhanced return potential, conversely, are a higher priority for prominent users.

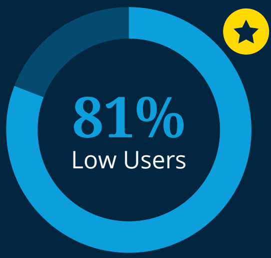
Beyond diversification[1] and client needs, financial advisors surveyed and interviewed by Cerulli list another key reason for implementing alternative investments: Improving and growing their own practice. Advisors recognize that offering private investments to their clients is becoming table stakes; **they believe that having a sophisticated product shelf will help them differentiate their practice, attract additional high-net-worth clients, retain existing assets, and potentially consolidate assets.** While the benefits are apparent, as shown below, implementing alternatives is not always simple. A chief aim of this playbook is to help advisors better understand how use of the exposures benefits their clients and businesses.

Throughout this white paper, Cerulli categorizes advisors who use alternative investments into three categories: Those with low allocation (<5% of portfolio), advisors with medium allocation (5%-10% of portfolio), and those with high or prominent allocation (>10% of portfolio).

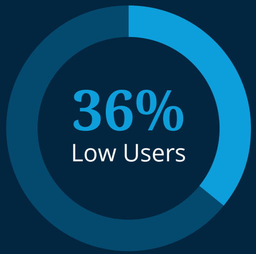
"Incorporating alternatives into our practice allows us to better service the portfolio needs of high-net-worth clients. Especially during times of market stress, this is when we can add value as a financial advisor and differentiate our practice. Adopting alternatives has not only helped our practice move upmarket by providing more sophisticated solutions, but it has also helped us retain clients during periods of volatility."

– An independent registered investment advisor (RIA)

Portfolio Objective:
Portfolio Diversification[1]



Portfolio Objective:
Enhanced Return Potential



[1] Diversification does not ensure a profit or protect against loss

02 Current State of Alternative Investments

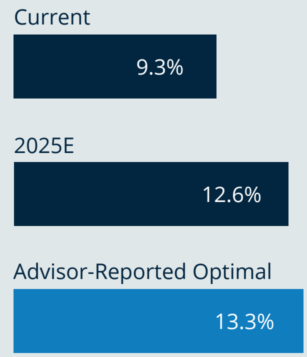
> **Advisors with 10-14 years of experience have the highest alternative investments allocations as they are simultaneously knowledgeable but also have a long-term practice management incentive to implement them.**

Despite tremendous media coverage of greater retail advisor flows to non-traded REIT, private credit, and other private capital exposures, advisor allocations to alternative investments remain low overall. Half of advisors surveyed by Cerulli report an alternatives allocation of 5% or less—underscoring that alternatives adoption remains early stage. The low allocations are not the full story. Prominent users, those reporting an alternatives allocation of more than 10%, have an average allocation of 22% of their client portfolios in alternative investments, and plan to increase allocations to 23% by 2025. Furthermore, advisors who currently use alternatives are particularly bullish on private markets products, with half of respondents (50%) indicating that they plan to increase allocations to private equity in the next two years and 39% reporting the same for private debt.

The alternative investment product set is highly evolved from just five years ago. Except for liquid alternatives (mutual funds and ETFs offering access to alternatives-like strategies with daily liquidity), all but the wealthiest investors had until recently been shut out of traditional, illiquid alternative exposures. Where some interviewed advisors used a prior generation of non-traded REITs, the exposures were not provided by the same caliber of managers who offer them today.

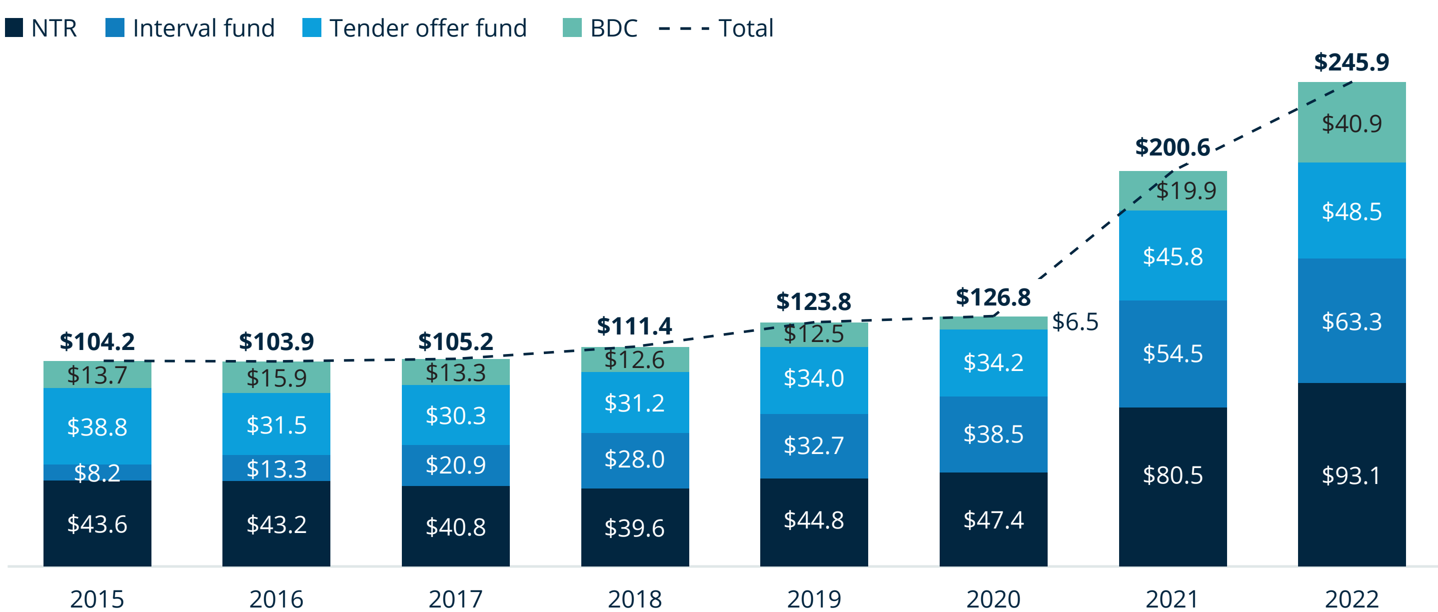
The availability of intermittent liquidity products (*e.g.*, NTRs, BDCs, interval funds) that seek to offer monthly or quarterly liquidity with lower minimums and 1099 forms (as opposed to requiring K-1s) have opened and simplified access to a wider variety of practices and end-investors. And, structure innovation continues at a breathtaking pace. The managers offering the products are the most venerable firms, ranging from the largest private equity firms and alternatives specialists, to more traditional managers whose brands resonate well with a broad swath of clients.

Exhibit 2 | Alternative Investments Allocation



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
Analyst Note: See page 19.

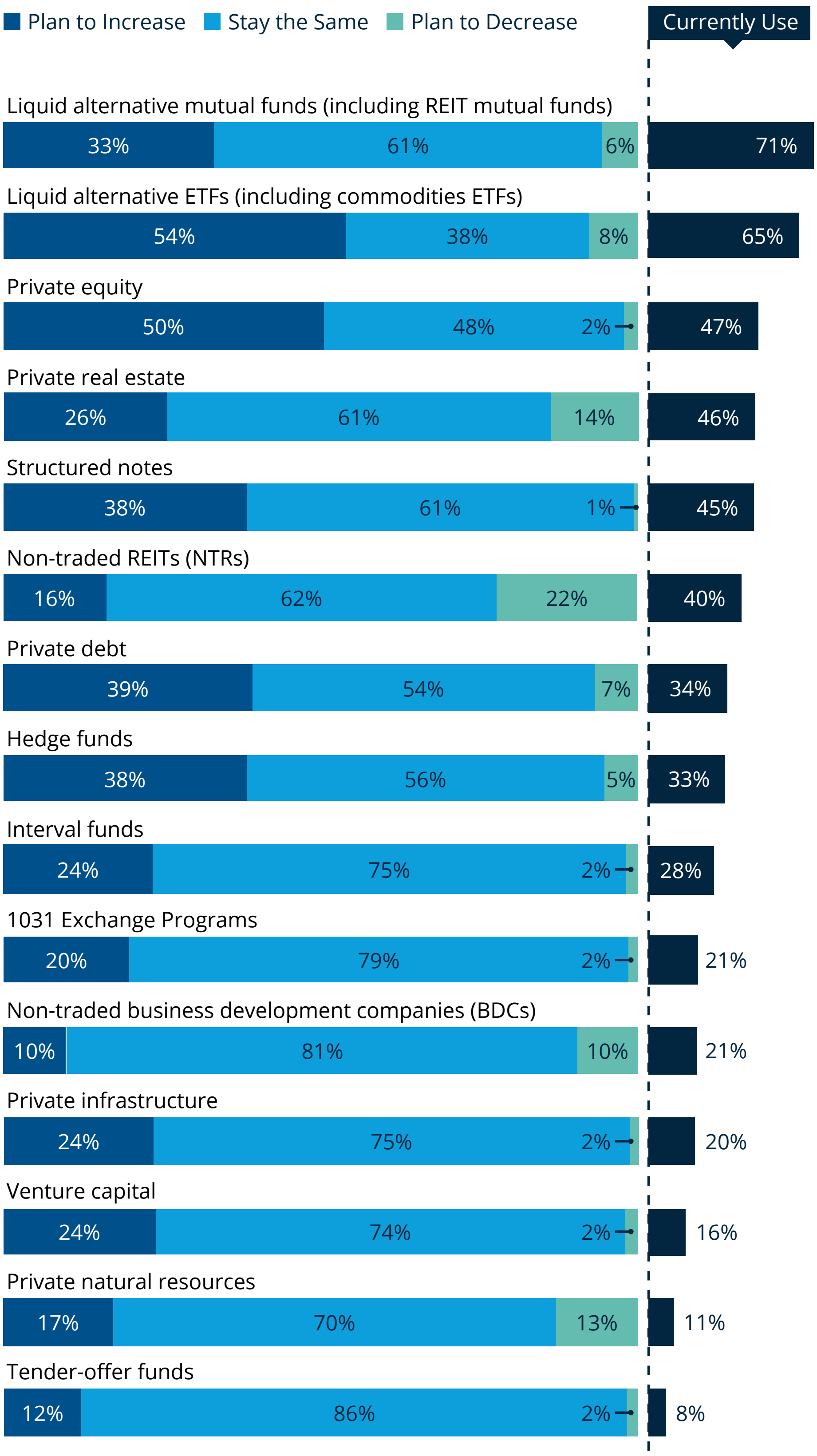
Exhibit 3 | NTR, Interval Fund, Non-Traded BDC, and Tender Offer Fund Assets, 2015–2022 ($ billions)



Sources: Blue Vault, Interval Fund Tracker, Cerulli Associates | Analyst Note: See page 18.

Exhibit 4 | **Alternative Investment Product Use, 2023**

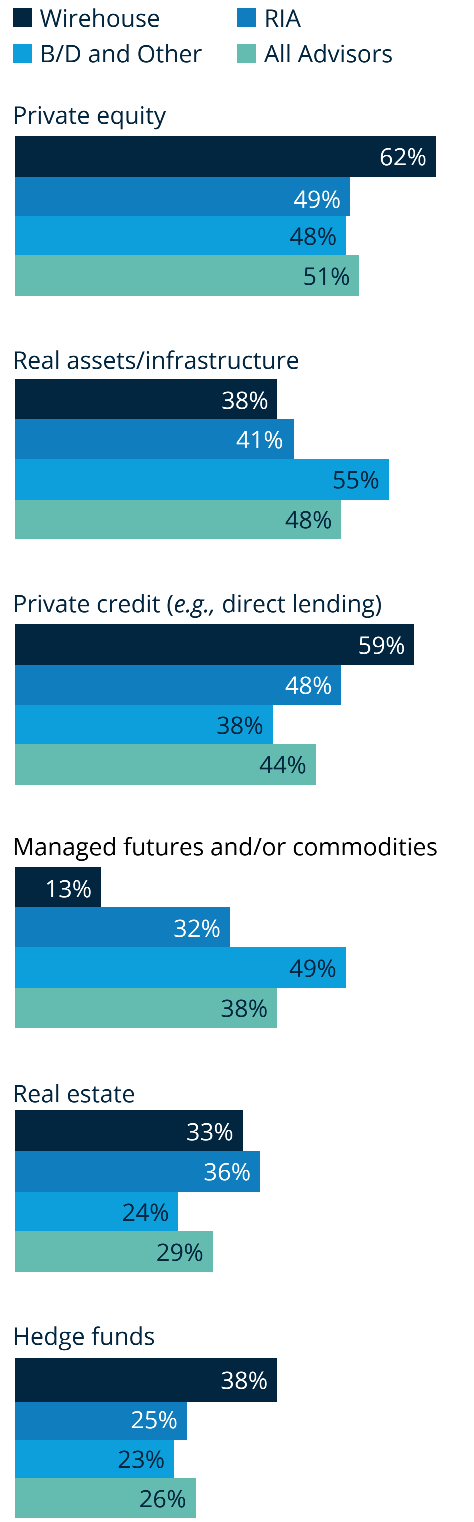
Most surveyed advisors already use liquid alternative mutual funds and ETFs. Half of advisors plan to increase their allocation to private equity, and 39% to private debt.



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
Analyst Note: See page 18.

Exhibit 5 | **Most Attractive Private Markets Exposures Over the Next 12 Months, 2023**

Advisors report private equity (51%), real assets/infrastructure (48%), and private credit (44%) are the most attractive exposures over the next 12 months.



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
Analyst Note: See page 18.

03 Potential Benefits of Building a Strong Alternative Investments Product Shelf

Advisors recognize that they can use alternative investments to achieve various outcomes—enhanced return potential, greater income potential, diversification[1]—for clients, while simultaneously enhancing their overall business profiles. As shown in Exhibit 6, implementing alternative investment allocations are a key way that advisors differentiate their practice, and in turn, attract and retain their top clients. **"My practice's allocations to alternatives are going to increase over time. The firms that adapt to that, either by having the types of relationships to support alternatives or the intellectual capital to manage them, are the ones that are going to win,"** an independent RIA with $300 million in AUM tells Cerulli.

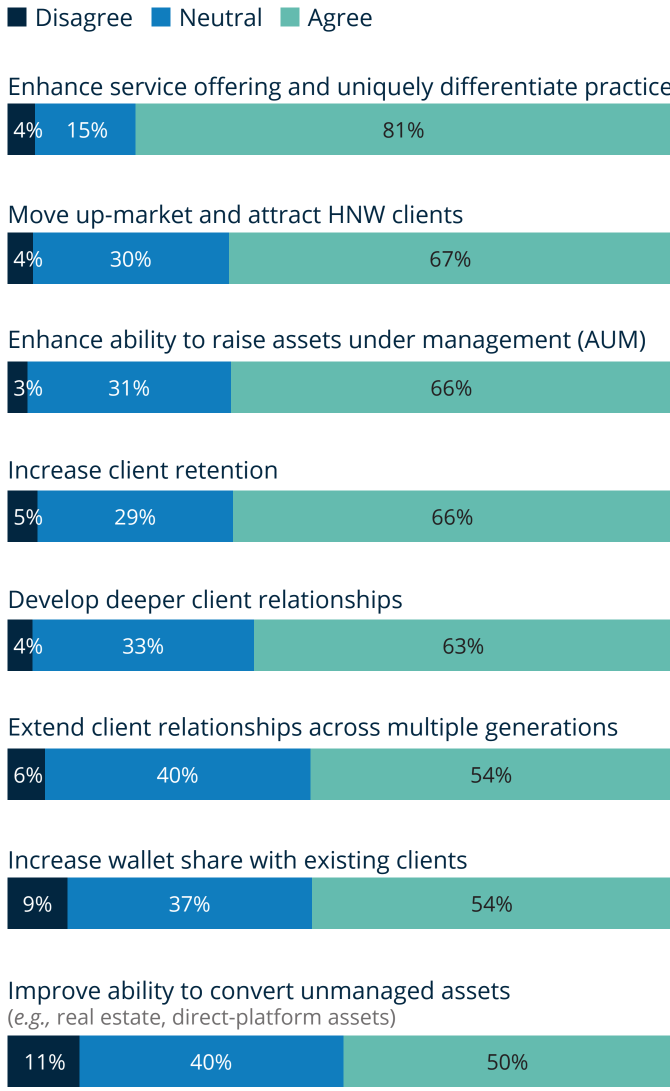
Advisors interviewed by Cerulli report four ways in which the use of alternative investments benefits their practices:

1 | Differentiate

Offering quality private market exposures can differentiate an advisor's practice from direct platforms and geographic competitors. By targeting specific client needs (*e.g.*, greater income potential, volatility mitigation), advisors demonstrate that they are sensitive to their clients and fine-tune portfolios to help meet their objectives. Advisors also recognize that their clients are savvier and have a better understanding of financial products and what is available to them versus direct platforms (*e.g.*, Schwab and Fidelity)—creating a need to offer exposures and other services that investors would not be able to access on their own. Having a strong alternative product shelf with exposures that investors can't access themselves, but are simultaneously high-quality exposures from managers they trust, will likely prove a strong differentiator.

Exhibit 6

Business Impact of Incorporating Alternative Investments, 2023



81% of advisors agree that offering alternative investments helps them differentiate their practice.

About two-thirds agree that alternatives help them attract HNW clients, raise AUM, increase client retention, and develop deeper client relationships.

Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
Analyst Note: See page 18.

> **[Clients] always want access to something that they perceive as better than what everyone else can get. In the last decade, clients come to us because they want something better than a [passive] ETF because they can get that on their own."**
>
> – Hybrid RIA managing $1.5 billion AUM

[1] Diversification does not ensure a profit or protect against loss

2 | Attract HNW Clients

Cerulli's conversations with advisors suggest that sophisticated clients value having access to institutional-type, cutting-edge products and may be drawn to a practice for its ability to access high-quality private market offerings. Many advisors interviewed by Cerulli have recognized the opportunity to leverage alternative investments in a bid to position their practices to an upmarket client base. According to an advisor at a bank broker/dealer, **"One of the main selling points of alternatives is to give HNW/UHNW clients a wider range of investment options to choose from. Many of our wealthier clients prefer to invest in non-traditional asset classes given their source of wealth and get excited when they hear about the 'new shiny thing' or new investment opportunities; this has been one of the benefits of bringing clients new alternative investment offerings that they otherwise wouldn't have access to."**

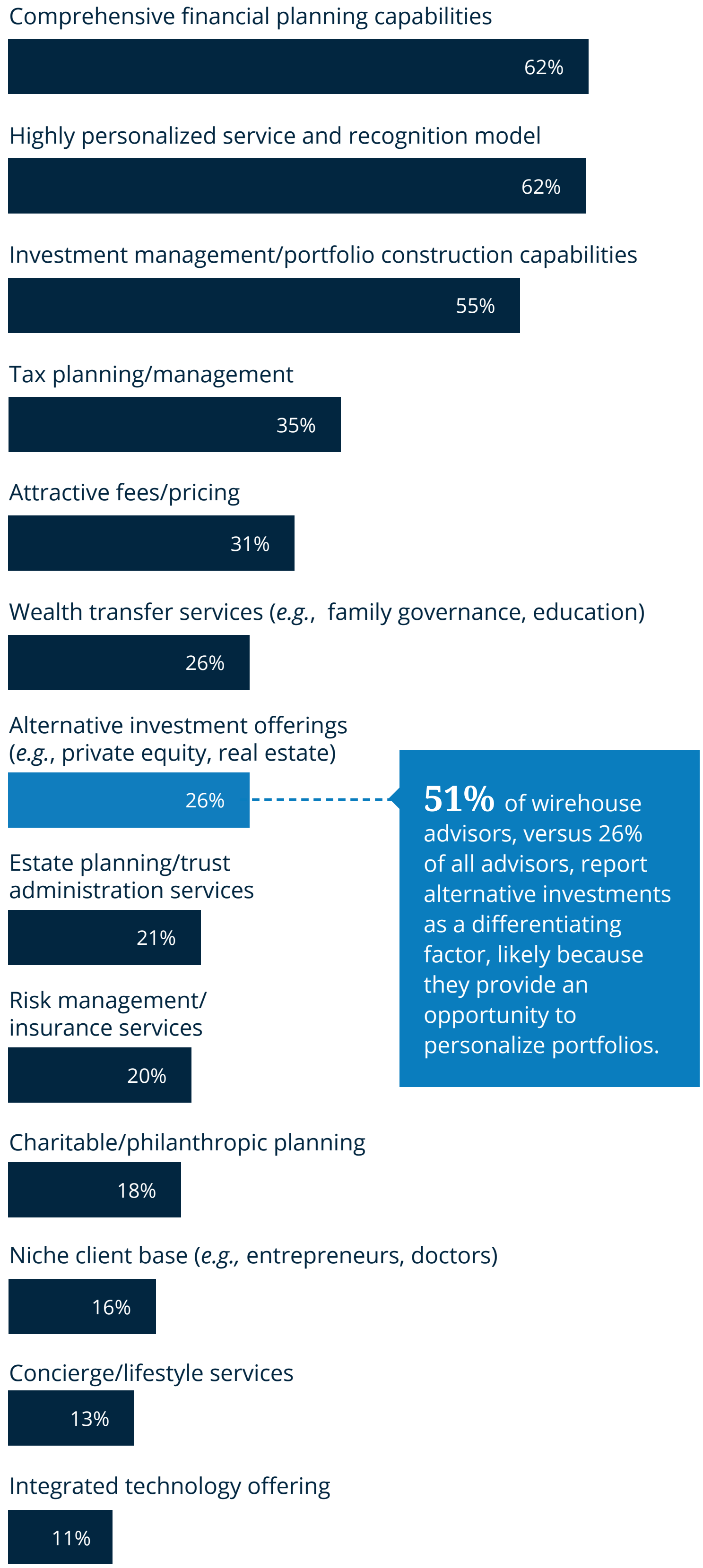
3 | Consolidate Assets

Some advisors interviewed by Cerulli perceive that clients are leveraging other advisors for segments of portfolios, particularly wealthy clients seeking support with private market exposures. It's possible that offering high-quality private market exposures can be used as a way to have those assets brought over, therein increasing the advisor's walletshare. **"It's very common for clients to have assets at different places, but we provide a very high level of service and have a good track record of not only gathering more assets, but gathering all assets,"** a bank advisor managing $6 billion in assets tells Cerulli.

4 | Retain

In addition to opening new client segments, advisors report that offering alternatives can serve as a tool for retention as their clients' wealth and portfolio complexity increase. Alternative investment allocations are most commonly advisor-driven (versus client-driven). However, in cases where it is the clients who are initiating conversations and expressing interest, it may be the wealthier-tier clients the advisor most wants to retain. Clients are more likely to stay with an advisor who has an expanded investment menu or has a tier of options best suited for similar investors. Investing in private markets allows advisors to help clients with more complex needs, making assets stickier.

Exhibit 7 | Top Factors Differentiating Advisor Practices, 2023



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute | Analyst Note: See page 18.

04 Implementing Alternative Investment Allocations

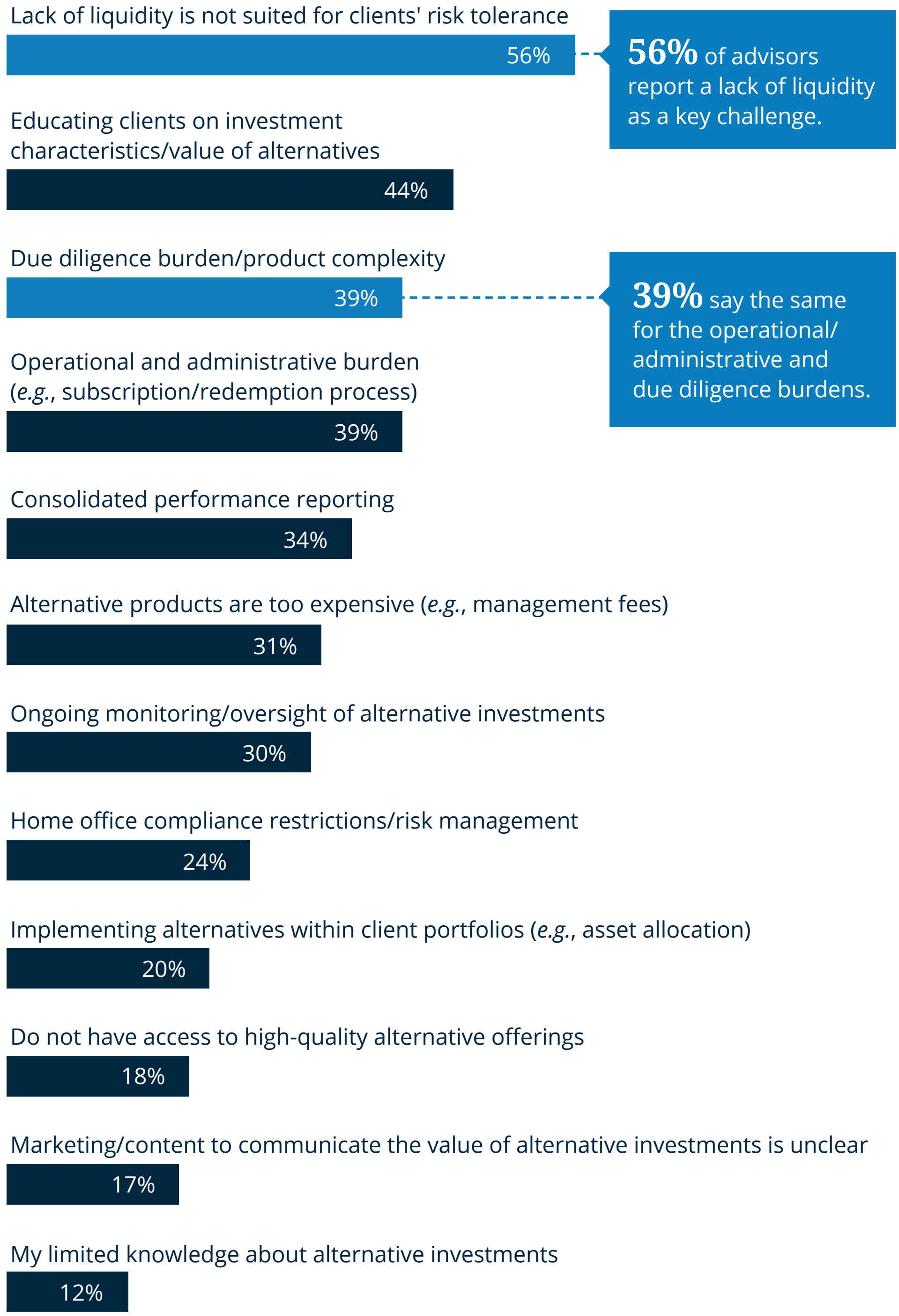
The alternative investments allocation process begins on day one of a client relationship, as the advisor evaluates their client's ability to invest in certain asset classes. In addition to assessing suitability from a financial perspective, advisors must also assess suitability from a behavioral perspective, namely whether or not a client has enough investment knowledge, time horizon, and temperament to give up liquidity. The implementation process is not easy. Advisors need to:

- Identify clients for whom alternative exposures are suitable.
- Choose alternative asset class exposures to meet specific client objectives.
- Decide on use of specific asset managers, structures, and products/vehicles.
- Identify how they will subscribe to/access the exposure.

Key challenges to the implementation process include the products' lack of liquidity, inherent complexity, and higher fees/expenses. Additionally, even very wealthy clients may be unable to invest in fully illiquid private market strategies; with high investment minimums, building an illiquid private market allocation that is diversified[1] both by strategy and vintage year requires a vast portfolio.

According to a wirehouse advisor, **"The reason I haven't ventured down the liquidity spectrum to intermittent liquidity is three-fold: One, there is an education component, both for the client and the advisor; two, there is a liquidity component that a lot of**

Exhibit 8 | Challenges to Investing in Alternative Investments, 2023



**5% of respondants gave another answer not listed above*

Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
Analyst Note: See page 18.

[1] *Diversification does not ensure a profit or protect against loss*

clients will balk at; and three, there is a bias, not just for the investor, but for the advisor as well." That illiquid offerings—including intermittent liquidity products—are not a fit for many clients remains a key barrier to their greater use, despite the understanding that certain strategies require some degree of illiquidity to help carry out their objectives.

The operational burden for implementing private market exposures—*e.g.*, filing K-1 tax forms, submitting subscription documents, onboarding clients, ongoing maintenance for capital calls and performance reporting—also remains, although advisors recognize that it has been significantly improved via technological developments such as e-signatures and platforms including iCapital, CAIS, and AIX that have streamlined the due diligence and purchase process. **"People talk about the paperwork issues all the time, but if you work with CAIS or iCapital, they're going to assist you with that. Secondly, if you participate in the alternatives space with just interval funds, then effectively there's no paperwork besides a prospectus. The more people understand the levels to the alternative investment space, the more they will see that it's not as overwhelming as you might expect,"** an independent RIA with $30 million in AUM an advisor tells Cerulli.

ADVISOR CASE STUDY

Cerulli interviewed a bank advisor with $6 billion in AUM and a core market of clients with greater than $5 million in assets. The advisor recognized they needed to implement more private market exposures into their practice, stating,

> "I think anyone who doesn't offer private capital in our space is going to get left in the dust...it provides a certain cachet to your practice. Your practice will look unsophisticated if you're not offering private [investments] and can't speak intelligently about them."

The advisor recognized the benefits and criticality of the exposures to all involved, and wanted to significantly increase uptake.

Yet, the same advisor had only implemented a handful of private market products into their practice—with use significantly below target levels. The firm faced some challenges including conducting product due diligence and managing the operational hurdles.

The greater availability of intermittent liquidity (interval funds, NTRs, BDCs) gives advisors far more options. Alternative exposures are now to some degree available in liquid alternative, intermittent liquidity, and completely illiquid formats. The illiquid structures (*e.g.*, a limited partnership, possibly via a master-feeder fund) may be the ones that offer the closest format to institutional investing, but it's not evident that the complete lack of liquidity is necessary and worth the incremental return. At the same time, many alternative strategies cannot be carried out in liquid alterative wrappers despite the tremendous draw of the capital remaining accessible. Cerulli believes intermittent liquidity exposures are an important bridge between the two more extreme liquidity profiles, but notes that it's important for advisors to be aware that intermittent liquidity product redemptions can be gated.

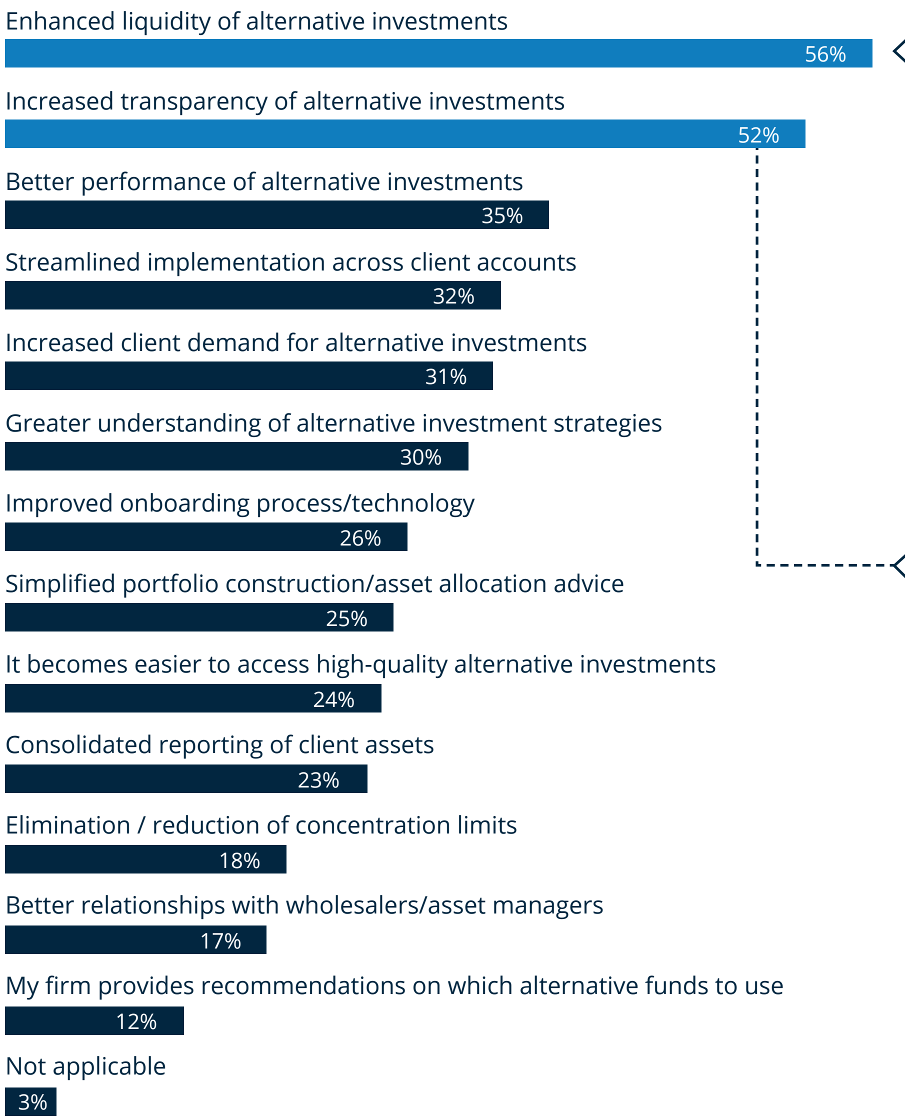
Client demand for alternatives remains another concern occasionally referenced by advisors. Some tell Cerulli that clients are absolutely asking about the exposures, while others have found it difficult to position the offerings with clients who themselves may have negative perceptions of alternatives and illiquidity. The common thread is that the alternative investments allocation process is primarily advisor-driven with clients heavily relying on their advisors.

With the buildout of more alternative investment options for retail investors—providing a choice of asset classes and risk profiles—advisors now have the benefit of replacing a greater amount of traditional exposures with alternatives. While advisors can re-balance from equity and fixed-income fund exposures, as well as from individual securities holdings, alternative investment allocations are more likely to be sourced from newly added client assets and existing cash holdings.

While advisors have well-developed processes and frameworks—as well as highly reliable third-party data sources (*e.g.*, Morningstar)—for selecting traditional products, conducting due diligence on private market investments requires more nuanced knowledge and expertise. This is a significant lift for firms without investment staff dedicated to the product set. **"We have a nine-step process for due diligence. We also had a relationship with an outside consulting firm, and we used their due diligence as well. We have five analysts—either they'll source those deals or a portfolio strategist or investment consultant in the field can source them,"** a bank advisor managing $6 billion tells Cerulli. Advisors without internal staff will have to heavily rely on the support of their home offices and research and training available via third-party platforms.

An additional barrier is that many of the exposures being brought to market are newer for retail clients, and as such don't have track records within the interval fund, BDC, and NTR structures. Many advisors leverage brand and institutional-level reputation as a proxy for the quality of the manager and exposure.

Exhibit 9 | Factors That Would Drive Increased Alternatives Allocations, 2023



56%

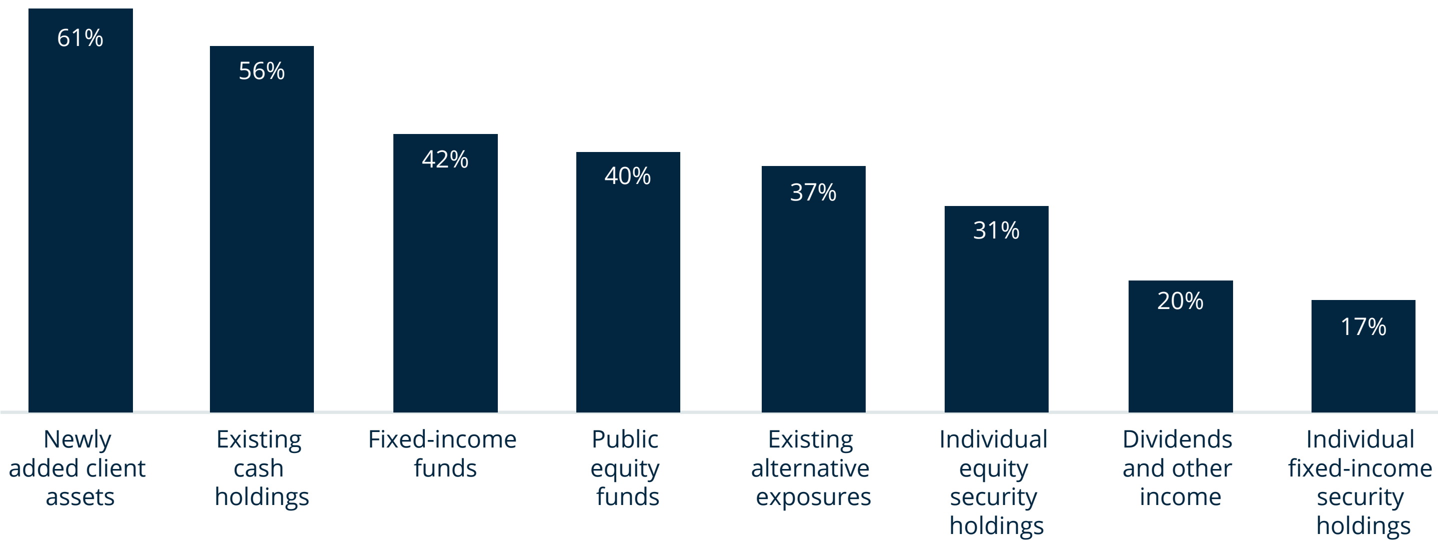
of advisors would invest more in alternatives if they had greater liquidity—underscoring the importance and potential of a new wave of intermittent liquidity product.

52%

of advisors are looking for increased transparency into offerings as they seek to better understand the products, their key features, risks, and benefits.

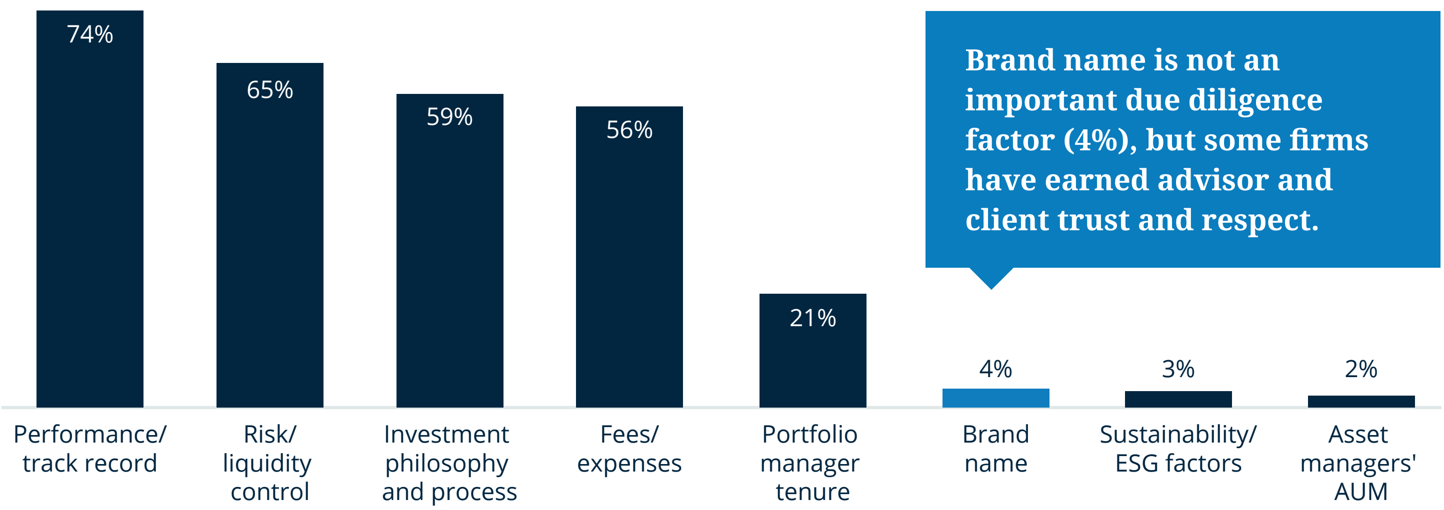
Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute | Analyst Note: See page 18.

Exhibit 10 | Sources of Alternative Investment Allocations, 2023



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute | Analyst Note: See page 18.

Exhibit 11 | Top Alternative Investment Due Diligence Factors, 2023



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute | Analyst Note: See page 18.

05 Alternative Investment Education

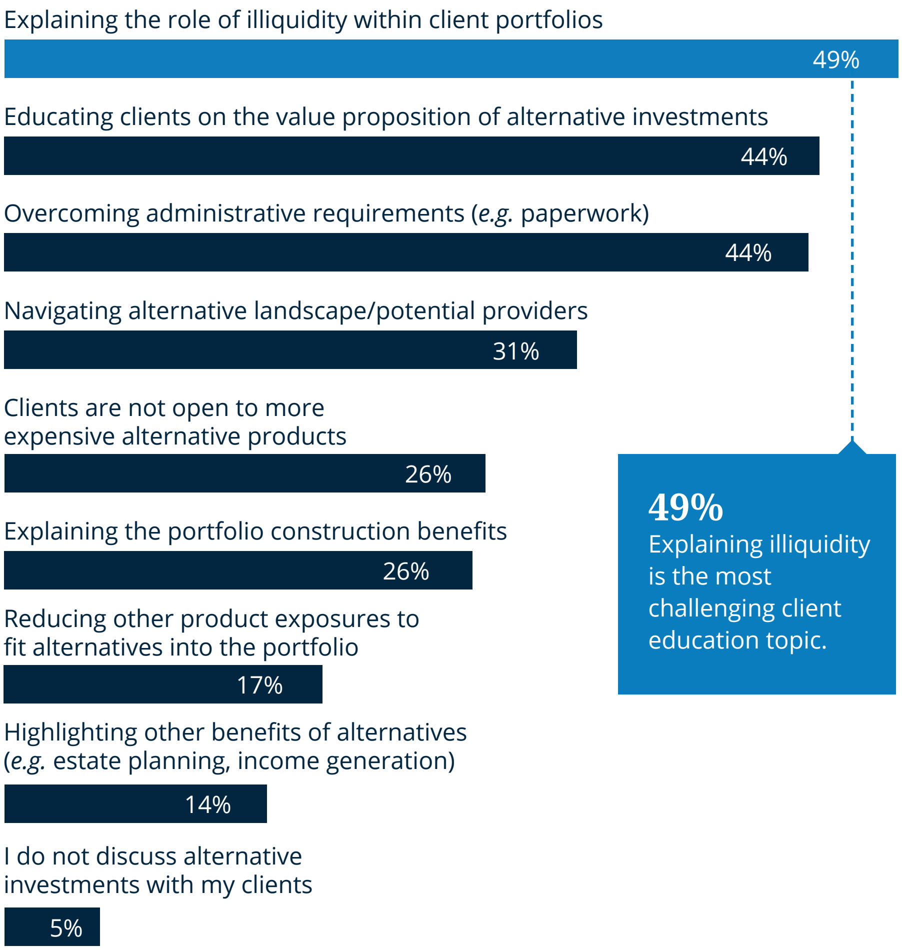
Advisor Education

Advisors recognize the need for education as well as due diligence support as they seek to increase allocations to alternative investments. The magnitude of the education burden depends on the investment savviness of the advisor and the sophistication of the alternative offerings of the firm. Advisors with well-developed alternative investment product shelves will regard education as a challenging but necessary hurdle. Advisors who lack experience in the space can often feel daunted by the task, whether it is due a lack of understanding or the fear of a bad reaction from clients when presenting the product.

An advisor working for a hybrid RIA with $1.5 billion in AUM tells Cerulli, **"I'm not comfortable with our advisors talking to clients about alternatives yet. Education is definitely a pain point. Making sure they're communicating accurately about these structures and products requires a higher level than what is required with traditional asset classes, and I don't know if we're there yet."** For practices that are considering offering alternatives but haven't yet, it's important to understand that there is a learning curve for advisors, but there are also plenty of educational resources to support them.

Despite a wealthy client base, HNW-focused advisors still struggle with education on liquidity. Illiquidity is more present in their clients' portfolios, underscoring the importance of being able to make clients comfortable with the long-term exposures.

Exhibit 12 | Most Challenging Alternative Investment Topics to Address with Clients, 2023



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute | Analyst Note: See page 18.

Resources exist to learn the ins-and-outs of alternative investments at both an asset class and structure level, while managers provide specific product insights. Indeed, advisors indicate alternative product specialists/wholesalers and home offices as their preferred sources of education (54% and 49%, respectively). In terms of useful educational materials, advisors report granular education on alternative investments' liquidity and general education on discussing alternatives with clients as the most helpful (48% and 47%, respectively). More specific asset-class-level education is a close third, with 41% of advisors indicating it as helpful education.

Client Conversations

Advisors struggle most with explaining the role of illiquidity in client portfolios, and surprisingly, heavy users (>10% allocation to alternative investments) and HNW-focused advisors struggle with this more than others. Despite these challenges, the processes and experiences of prominent users can serve as a roadmap for advisors who want to incorporate alternatives into their practice but can't quite figure out the way to present it to their clients.

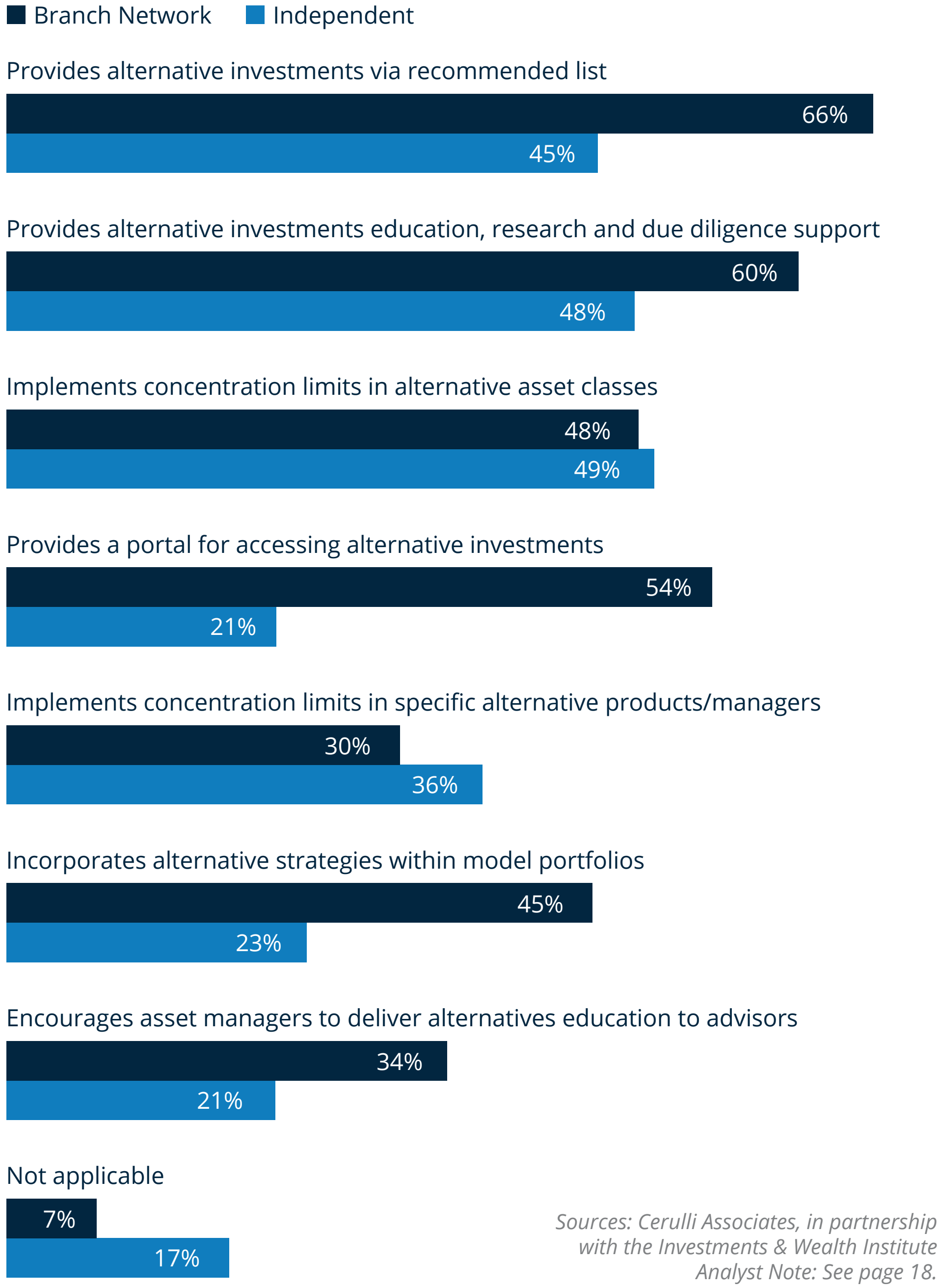
Education permeates into most alternative investment discussions advisors have with clients. An independent RIA advisor with $850 million in AUM tells Cerulli, **"The conversations we have are very tailored, and we try to weave an educational tilt into everything. [I find what works is] presenting them with a spectrum and explaining the pros and cons of each liquidity structure. Taking their temperature. Certain things resonate differently."** By continuously weaving education into client conversations, advisors can provide a customized client experience, as the advisor takes the client's pulse on which type of liquidity structure resonates most. Prominent users also discussed the importance of using terms that clients are familiar with to ease the burden of understanding, instead of defaulting to alternative investments jargon.

Wirehouse and national/regional B/Ds' home offices often provide a recommended list of products, education/marketing materials, due diligence support, and a portal for accessing alternative investments. Amongst prominent alternative investments users, 70% report receiving alternative investments education via their home-office support. A healthy combination of home office support and advisor interest is likely to result in heightened alternative investments use. While the support tools/functions are less frequently offered by their independent channel counterparts, many at-scale RIAs and RIA consolidators have also looked to make alternative investments more accessible and easier to implement within clients' portfolios.

Despite the learning curve when it comes to offering alternative investments, putting in the time and effort to develop a robust offering on the front end means that advisors will be better prepared for future conversations with clients. The same is true for clients; a first-time foray into the alternatives space requires significant client education, but by front-loading that education, subsequent alternatives offerings will be much easier for that client to digest. According to one national/regional B/D, **"When you're introducing an investment style to a client, education is most important right out of the gate. But once you've done it once, and the client is on board, the education process is more straightforward."** Getting a first-time user to a point of comfort with more illiquid products can take months, if not years, but the education effort is a critical component of helping those clients to potentially benefit from alternative investments opportunities.

Exhibit 13 | Home-Office Approach to Alternative Investments by Channel, 2023

Branch network advisors are more likely to have access to an alternative investments portal (54% of advisors report a home-office-provided portal) than independent advisors (21%).



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
Analyst Note: See page 18.

06 Conclusion

Allocating to alternative investments including private markets has never been more important as market conditions coalesce to make the diversification,[1] enhanced return potential, volatility mitigation, and income potential more important to clients. Increasingly, advisors tell Cerulli that they believe practices that do not offer adequate access will be left behind and are looking to increase their allocations.

Cerulli finds that offering a strong alternative investment product shelf can help advisors attract HNW clients and prevent existing clients from moving to more sophisticated practices. The greater implementation of alternative investments is both a defensive (retain existing assets) and offensive (attract new assets) tool at a practice level, and may prove to be a commonsense way for a practice to move upmarket toward a coveted wealthier client set.

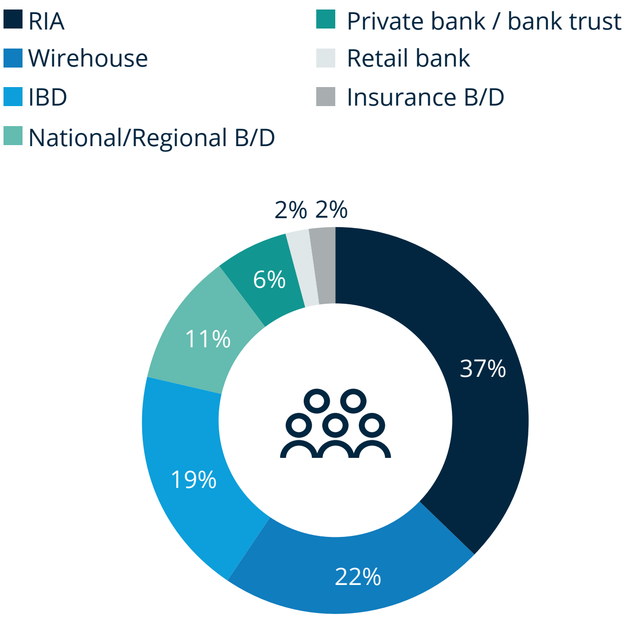
The educational challenges that exist for alternative investments are vast and recognized, including helping advisors understand complex exposures, which they must in turn explain to clients. The good news is that many resources from asset managers and technology platforms, including online learning portals, exist to help advisors learn about alternative asset classes, structures, and individual products that will get them up to speed. Advisors can then use their expertise to provide simple, easy-to-understand explanations to their clients, who must be behaviorally ready to accept illiquidity risk and understand why they are taking it on.

[1] Diversification does not ensure a profit or protect against loss

Advisor Segmentation Data

Cerulli, with IWI's support, surveyed more than 200 upmarket advisors.

Respondents by Channel



Average Years of Experience:
20 years

Average Number of Clients:
321 client relationship per practice

Average Practice AUM:
$663 million

33%

of respondents have a core market above $2 million

Alts Users:

- None: 14%
- Low: 32%
- Medium: 32%
- High: 22%

Analyst Notes

Exhibit 1
Advisors were asked to select the top-three investment objectives they are looking to realize with alternative investments.

Exhibit 2
Advisors were asked, "Across your client portfolios, please estimate their typical asset allocation, how do you expect this to change in the next two years, and what would be the optimal asset allocation? (Optimal Asset Allocation: If there were no investment restrictions and clients had a strong knowledge of alternatives, please estimate the optimal allocation for your core client segment.)" Other buckets provided were equities and fixed income.

Exhibit 3
As of Cerulli's 2023 reporting, all funds are presented on a net-assets basis, which excludes the potential inflation of assets via a fund's use of leverage. For non-traded REITs specifically, the methodology excludes leverage and performance returns, and includes depreciation. The NTR assets reported here may therefore be lower than the assets reported by fund sponsors.

Exhibit 4
Advisors were asked to select the alternative products they currently use and how they expect them to change over the next two years.

Exhibit 5
Advisors were asked to select the top-three alternative exposures they perceive as most attractive in the next 12 months, given the current macro environment.

Exhibit 6
Advisors were asked, "How does incorporating alternative investments impact the ability to manage and grow your practice?"

Exhibit 7
Advisors were asked to select the top-five factors differentiating their advisory practice.

Exhibit 8
Advisors were asked to select their top-five most significant challenges they encounter when allocating to alternative investments.

Exhibit 9
Advisors were asked to select all of the factors that would cause them to increase their clients' allocations to alternative investments.

Exhibit 10
Advisors were asked to select all of the positions from which they are likely to source future alternative investment allocations.

Exhibit 11
Advisors were asked to select their top-three factors when conducting due diligence on alternative investment strategies.

Exhibit 12
Advisors were asked, "In terms of alternative investment education, what are the top-three most challenging topics to address with clients?"

Exhibit 13
Branch network advisors work in the wirehouse or national/regional B/D channels; insurance and retail bank B/D advisors are excluded. Independent advisors operate in the independent RIA, hybrid RIA, and IBD channels. Advisors were asked to select all of the following options that described how their firm's home office approaches alternative investments.

Glossary

Alternative Investments

Alternative Investments: Any pooled fund investment other than traditional long-only stock or bond investment. Cerulli also categorizes commodities products as alternative investments, as well as sector funds that offer similar exposures to those provided by private capital strategies (*e.g.*, listed infrastructure and natural resources).

Alternative Investments Third-Party Platform: Offerings from platform providers like iCapital, CAIS, and AIX that help streamline the alternative investments process. While they are all different, they offer some combination of centralized platforms that offer access to products advisors wouldn't otherwise be able to access as well as via subscription and due diligence support.

Hedge Fund: Pooled investment fund specializing in trading strategies, often structured as a limited partnerships, and offering little liquidity.

Intermittent Liquidity Exposures: Strategies that offer monthly or quarterly liquidity, often to private capital exposures. Liquidity may be possible; however, it can also be gated amidst heavy outflows.

Interval and Tender Offer Funds: Intermittent liquidity strategies that can hold a wide variety of underlying exposures. While interval funds must provide monthly and/or quarterly liquidity, tender offer fund liquidity is left to manager discretion.

Limited Partnership: A business entity structure where limited liability partners invest alongside a general partner who manages the investment. Limited partnerships are typically illiquid.

Liquid Alternatives: Mutual funds, ETFs, and closed-end-funds with daily or even intra-day liquidity that offer access to alternative investments.

Managed Futures: Professionally managed portfolio of investment futures—often a combination of commodities, fixed income, and equities.

Master Feeder Fund: Investment structure to pool capital from investors to a master fund via feeder funds—such arrangements are often created to allow investments with lower ticket sizes.

Non-Traded BDC (BDC): Business development companies that lend funds to small and mid-sized businesses. Like NTRs, a new wave of BDCs has greater liquidity than before. Unlike NTRs, however, they are generally used to offer debt, as opposed to real estate, exposures.

Non-Traded REIT (NTR): Real estate investment trust that cannot be traded on an exchange. A new wave of NTRs offers greater liquidity where investors do not have to wait for a liquidation or IPO.

Private Credit: Direct lending and other credit strategies offered by specialists at underwriting non-publicly traded debt. Private credit has taken center stage in the wake of low interest rates and more recently the Silicon Valley Bank crisis.

Private Markets (including debt, infrastructure, etc.): Less than fully liquid strategies offered by private capital firms. Such strategies often use illiquidity as a means of generating additional returns.

Structured Note: Debt notes offering a customized return profile to retail investors. Examples of customizations can include downside protection and/or greater leverage.

Distribution Channels & Segments

High-Net-Worth Clients (HNW): Clients with at least $5 million in investable assets.

Independent Broker/Dealer (IBD): Advisors own and operate independent businesses and affiliate with a B/D as an independent contractor rather than as an employee.

Independent RIA: Fee-based independent practices with both an RIA and no affiliation with a B/D.

National and Regional Broker/Dealer (B/D): Nationally focused organization with both an investment bank and retail financial advisors.

Private Bank: Banks whose primary business is NOT retail deposit taking or lending, but have significant capabilities in wealth management, investment management and/or investment banking.

RIA Consolidators: Firms whose business model is heavily based on the acquisitions of independent advisor practices to grow assets and headcount.

Ultra-High-Net-Worth (UHNW): Clients with at least $20 million in investable assets.

Wirehouse: Four national B/Ds with a large Wall Street investment banking and institutional presence and strong penetration in urban money centers (Merrill, Morgan Stanley Wealth Management, Wells Fargo Advisors, and UBS).

Other

1031 Exchange Program: Based on section 1031 of the Internal Revenue Code, 1031 exchanges allow investors to avoid paying capital gains taxes should they reinvest the proceeds into like properties. Such strategies are occasionally offered by private capital managers.

1099 Form: IRS form used to report interest and dividend income, sales proceeds, and other income beyond salary and wage income.

K-1 Form: Forms issued by business partnerships for IRS reporting of income and losses, capital gains, etc. Issued by private capital firms to their investors, such forms often arrive late, delaying tax filings.

Wealth Transfer Services: Specialized client services related to the passing down of wealth whether between individuals and across generations or to institutions (*e.g.*, charity).

Cerulli Research and Consulting

For over 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

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