

Connected perspectives:

The state of alternative investments in wealth management

We analyze the results of the recent CAIS-Mercer survey and offer some suggestions for overcoming popular obstacles to investing in alternative assets.



Understanding the new era of access

We witnessed our economy turn in 2022. By the end of October in the United States, we had already seen inflation peak at over 9%,¹ the Fed hike rates at the fastest pace in nearly three decades,² and the S&P 500 drop close to 19% YTD.³ As we head further into what seems to be a potentially prolonged downturn, financial advisors may have to adopt new investment strategies to keep their clients' portfolios—and their client relationships—on track. The good news for these advisors? Thanks to relatively recent regulatory updates and technology innovations, many financial advisors now have access to some of the same alternative investment strategies and asset classes that were once only generally accessible to institutions.

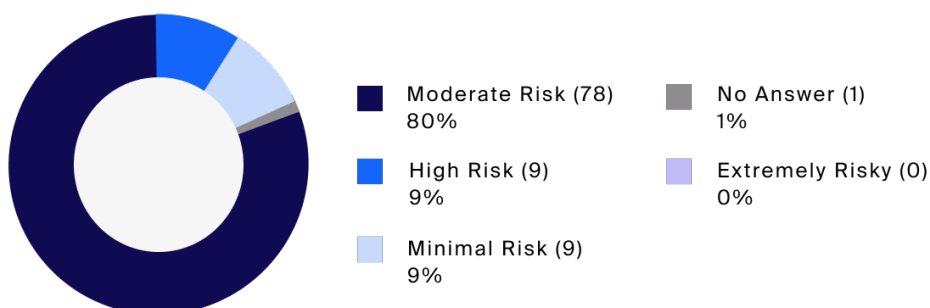
To better understand the evolving role of alternative assets in today's private wealth portfolios, CAIS, in partnership with Mercer, surveyed a select group of 198 independent financial advisors, asset managers and other industry professionals at the annual CAIS Alternative Investment Summit in mid-October 2022. We share key findings of the survey in this report, along with some ideas for financial advisors who aim to overcome common obstacles associated with alternative investments and structured solutions.

Alternative investment approaches in the current climate

Despite economic challenges, like most (66%) of the asset managers and other industry professionals we surveyed, the majority of financial advisors (80%) associated only moderate investment risk with alternatives in the current market environment. Roughly 9% of advisors said that alternatives may be associated with high investment risk, while another 9% associated these asset classes with minimal risk.

EXHIBIT 1 How financial advisors view alternative investment risk in the current market environment

*Results are based on responses
from 97 financial advisors.*

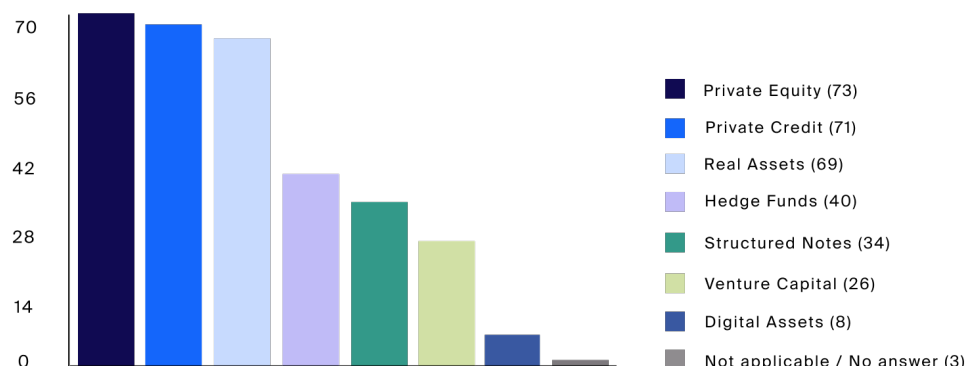


Among the alternative strategies we presented in our survey, more financial advisors said they are currently advising their clients to invest in private equity, which remains the largest alternative asset class in assets under management.⁴

However, private credit and real assets—asset classes that tend to be perceived as relatively safer than private equity⁵—followed very closely behind. Asset classes with even higher perceived risk, like venture capital and digital assets, ranked near the bottom. Similarly, asset managers we surveyed said that real assets—a recognized inflation hedge⁶—and private credit were best suited to withstand the ongoing economic downturn.

EXHIBIT 2 Most common alternative strategies, ranked by financial advisors

Results are based on responses from 97 financial advisors. Respondents could select all that apply.

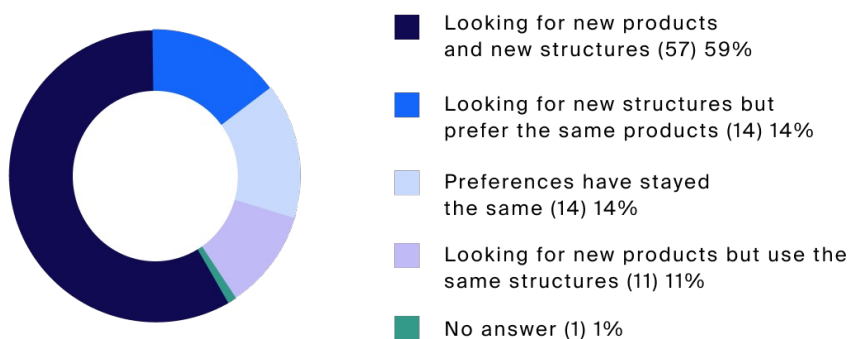


Most financial advisors indicated that, within the six months preceding the survey, their clients had become more open to using both new investment products and new structures, such as interval funds, to invest in alternatives.

Only 15% of advisors said their client preferences had not changed, while the remaining 85% said that their clients were now more interested in a mix of either new products, new structures or both, compared with six months previously.

EXHIBIT 3: Changing client preferences toward new products and structures

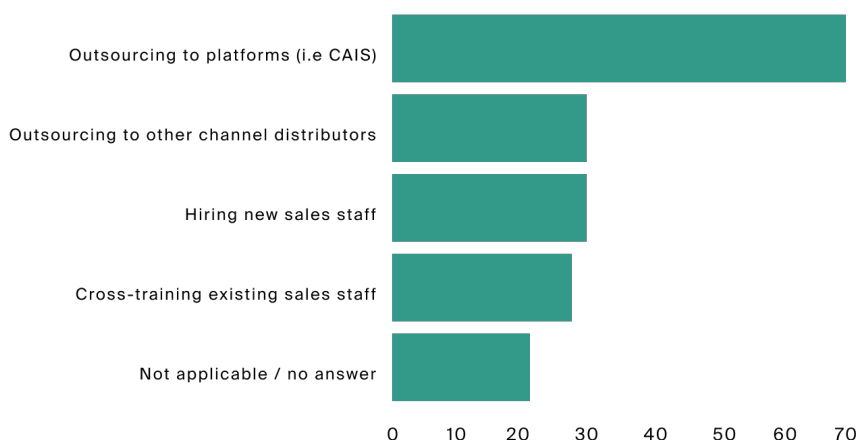
Results are based on responses from 97 financial advisors.



About 89% of alternative asset managers and other financial professionals said that the importance of the private wealth channel to their firm has increased significantly in the last two years. Of these respondents, the majority (69%) say that they are currently outsourcing to platforms, such as CAIS, to market their products to the wealth management community.

EXHIBIT 4:
How asset managers market
to the fragmented wealth
management community

Results are based on responses from 101 personnel at asset managers and other professionals. Respondents could select all that apply.



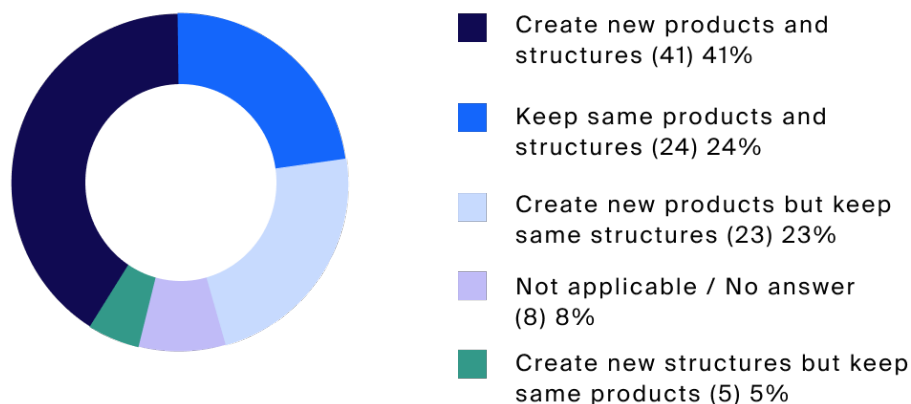
Planning for an alternative path ahead

As they face uncertain markets, nearly nine in 10 financial advisors (88%) surveyed plan to increase their allocation to alternatives over the next two years. Of those, more than half (53%) estimate that their allocation to alternatives will make up more than 15% of their overall client portfolios. Meanwhile, more than 20% said they would allocate more than a quarter of their portfolio to alternatives, and only 8% said that they do not plan to increase these allocations at all during the next couple of years.

Many alternative asset managers we surveyed seem ready to accommodate financial advisors' apparent interest by expanding their reach into the private wealth channel. About 63% of respondents in the asset manager group said they plan to roll out new products in the coming years, while 46% said that they plan to create new structures, such as interval funds or 40 Act liquid alternative funds. Only 24% said they intend to keep their current mix of products and structures the same.

EXHIBIT 5:
Asset manager plans for new
products and structures

Results are based on responses from 101 personnel at asset managers and other professionals.



Seeking to overcome obstacles to investing in alternatives

Given the potential for greater access to a larger selection of investment options from alternative asset managers who seek to prioritize the private wealth channel, financial advisors might start addressing other main obstacles that may have held them back from adding to their alternative asset allocations. Indeed, access to alternatives ranked relatively low in our survey among difficulties perceived by both financial advisors and asset managers.

Instead, lack of liquidity (66%) ranked as the main challenge for financial advisors when adopting alternative investments into their portfolios. High levels of administration and paperwork (51%) and concerns around due diligence and compliance (42%) came next, while a lack of understanding and typically high investment minimums were each significant for only 27% of financial advisors. Perhaps surprisingly, fewer advisors seemed as concerned about the relative risk (6%) and returns (4%) of alternatives.

Asset managers' views were largely similar; however, more asset managers than financial advisors seemed to believe that a lack of education or understanding (75%) was a significant obstacle.

EXHIBIT 6: Challenges for financial advisors in adopting alternative investments

*Results are based on
responses from 97 financial advisors.*

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about the relative risk (6%) and returns
(4%) of alternatives.**

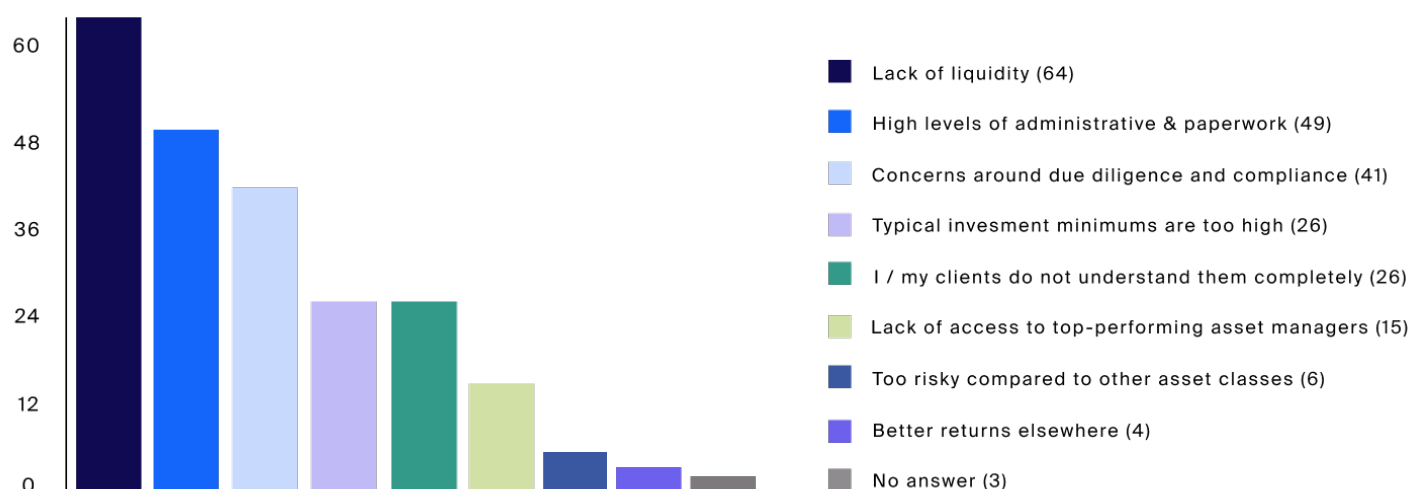
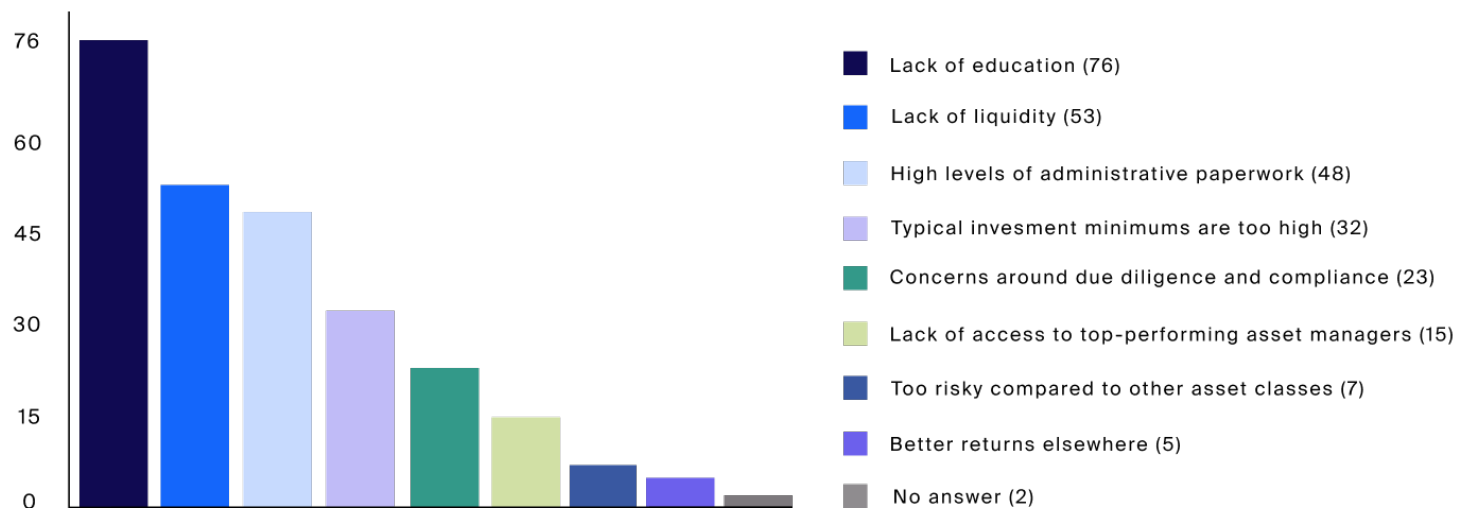


EXHIBIT 7: Challenges in adopting alternative investments, according to **asset managers**

Results are based on responses from 101 personnel at asset managers and other professionals.



Below we offer some suggestions that may help financial advisors address these top concerns as they consider alternative investments.



Seek out shorter duration or more liquid options

Though alternative asset classes, like private equity or private credit, have typically been associated with greater illiquidity relative to publicly traded investments, many well-recognized asset managers are beginning to respond to demand by creating new, more liquid vehicles. These vehicles, such as interval funds, are set up to offer more frequent redemption opportunities in sometimes limited quantities. Certain funds, such as those that invest in private equity secondaries, may also offer shorter durations and thus relatively more liquidity than other alternative investment types.⁷



Reduce administration and paperwork

Financial advisors who fear the burdens of paperwork might seek out technology solutions that aim to make subscription processes faster and more convenient. Features such as fully digitized subscription docs, pre-fillable customer forms, e-signatures, AML/KYC smart logic, centralized document libraries, custodial asset recognition, and third-party reporting integrations can significantly reduce the time financial advisors spend on administrative tasks.



Find a research partner

While financial advisors would be wise to conduct their own due diligence on any investment they recommend to clients, it is sometimes difficult to find the time, internal expertise or access to alternative asset managers required. Financial advisors might benefit from engaging a trusted independent partner who has the resources and experience to thoroughly examine the operations, philosophy and track record of the asset managers they wish to consider. CAIS partners with Mercer to ensure that all available funds on our platform undergo investment and operational due diligence.



Lead with learning

Financial advisors have a duty to understand the potential risk and return profiles of the investments they recommend for clients. Though there's an abundance of industry content available, it's sometimes hard to discern what's important to know about each asset class, investment structures and the specific funds they're considering. Online learning platforms, like CAIS IQ, aim to distill the most vital information and are designed to engage financial advisors—seeking to equip them with the insights they should have to lead client discussions more confidently.



Explore lower minimum options

Alternative investment fund terms had historically been designed for institutional investors with deeper pockets and longer time horizons. Now that more financial advisors are seeking alternatives for their client portfolios, these terms—and investment minimums, in particular—are shifting to offer broader access. Structured solutions may also offer differentiated market exposure at lower minimums, with some investment options starting as low as \$1000.

Want to explore how alternative investments and structured solutions might help you better serve your clients in today's difficult market environment?

Contact us info@caisgroup.com
or visit caisgroup.com for more insights.

Survey Methodology

The survey was conducted on October 17–19, 2022 at the CAIS Alternative Investment Summit, a three-day, invite-only thought leadership event in Los Angeles, California. Respondents included registered investment advisors (RIAs), financial advisors, alternative asset managers and other investment industry professionals. The data is based on responses from 198 respondents, 97 of whom identified as financial advisors. Note that due to the survey's setting and limited number of respondents, the sample is not necessarily representative of the broader asset management or private wealth industries.

1. Vince Golle, "US Inflation to Pose Fresh Test for Powell's Fed," Bloomberg.com, November 5, 2022
2. Andrew Snyder et al., "The Credit Cycle: Potential Depth and Duration of a Downturn," CAIS, October 7, 2022
3. Howard Silverblatt, "U.S. Equities Market Attributes October 2022," S&P Global, November 2, 2022
4. CAIS, "Private Equity is No Longer a Secret," May 27, 2022
5. Preqin, "Preqin Special Report: The Future of Alternatives in 2027," October 2022
6. Kristin Kallergis Rowland and Jasmine Green, "Worried about inflation? A new breed of real assets may be right for you," J.P. Morgan Private Bank, March 28, 2022
7. CAIS, "An Introduction to Private Equity Secondaries," September 7, 2022

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