Expert Webinar: Fundraising in the Digital Era

David Snow, Privcap:
Hello and welcome to a Privcap webinar. My name is David Snow. I'm CEO and co-founder of Privcap. Today, we've got a great topic for you. It is fundraising in the digital era. We have a couple of experts who are at the forefront of the trend to gather capital for alternative investments using online platforms. I'm really excited to listen to their conversation. Before we begin, I'd like to ask each of them to briefly introduce themselves. Why don't we start with Dan Vene from iCapital Network.

Dan Vene, iCapital Network:
Hi, good morning everyone. My name is Dan Vene. I'm one of the co-founders and managing partners of iCapital. iCapital has been around for about five years now. Our entire mission is to provide a complete end-to-end infrastructure solutions for high net worth investors and their advisors to access leading alternative investment funds. That can take a couple of different forms across traditional private equity funds, real estate, hedge funds and even more esoteric type opportunities like co-investments or SPVs, even non-traded REITs and BDCs. As people are thinking more and more about accredited offerings, we are providing the infrastructure to support those opportunities as well. I'm very happy to be here today.

Snow:
Great! Now, we're going to hear from Paul Ferraro of the Carlyle Group.

Paul Ferraro, The Carlyle Group:
Great! Thanks David. Hello everybody, so my name is Paul Ferraro. I head up the private client group here at the Carlyle Group. If you're not familiar with Carlyle, we're a 200-billion-dollar alternative asset manager. My job here is to really work with wealth
management organizations globally, and that includes everything from the largest private banks to warehouses, independent broker dealers, RIAs, literally everybody in this space, my team covers. It's been a growing business for us at the firm. When I got here about eight-and-a-half years ago, the firm didn't do much in this space. Today, it's anywhere from probably 15% to 20% of our annual fundraising.

Snow: That's pretty impressive, Paul, the percentage of annual fundraising moving through your activity. I'd like to hear more about that later. Why don't we start by learning a bit about the ways that iCapital and the Carlyle Group have worked together if you can each describe that from your perspective, because it's a case study in the future of fundraising? Dan, how has your firm worked with the Carlyle Group, and what does it look like from a technical point of view?

Vene: Sure. Maybe one point, just to start off, the question would be around a fundamental understanding of why firms like Carlyle might need to think about a digital solution when they are looking to attract a whole new channel of capital in the private wealth segment. I think, the easiest way to think about it is obviously, most institutional quality, alternative managers have built their businesses over a couple of decades predominantly based on institutional wealth, the commitments, so public pension plans, corporates, insurance, endowments and foundations. They're typically allocating and in fairly large investment sizes sometimes as much as 50, 100, even in some cases, $500 million to a single fund from a very large public pension fund.

To attract or to find that same quantum of capital when you look in the private wealth universe, you may be dealing with rather than one counter party like a Yale or Texas Teachers, you might be facing off against literally 500 or possibly as many as 1,000 high net worth investors and their advisors, so a lot of different constituents that you have to deal with to get through the process of the subscription documents, and understand the offering that your firm is providing. Then also to get all the related tax and performance documents that go along including manager commentary, K1s, et cetera. What you're really dealing with is a back office that might have had on an averaged-size firm, maybe
30 or 40 institutional fees, and now you have 1,000 or even as much as 1,500 or so.

What really makes technology a necessity, and I think, Carlyle found themselves in a similar situation is they endeavored into the private wealth channel, and they were obviously one of the most progressive, and they're thinking about the importance of this channel for their business longer term. They took the initiative to go out, and look at different players across the industry that may be able to assist their efforts. In a nutshell, what we provide is a white label of our technology infrastructure to Carlyle, and that allows them to onboard clients to process the KYC and the AML requirements to help them through all the online subscription documents, which in and of itself is a unique feature. We can touch on that later.

Then receive all of the ongoing reporting, the manager underlying performance reporting, the tax-related documents. We also manage all the third parties involved, so the tax, audit, admin, partners as well as set up the offering materials and handle the legal work at the beginning of the funding in collaboration with Carlyle. That's in a nutshell what we do today with Carlyle and others.

Snow: Great! Paul, I'd love to hear your perspective on the challenge and the opportunity of aggregating commitments from larger populations of investors.

Ferraro: Sure. Let me just expand on Dan's answer there. First of all, at Carlyle, the firm is very thoughtful about who we partner with, number one, and number two, compliance issues are at the forefront of that. There's a lot writing on the brand equity we built over the last 31 years. We take this very seriously. When we started down this path, we went on a yearlong process of selecting the right partner in this space. Maybe that's overkill, but that's how we do things here. We started with probably 20 administrators that said they could do the job here. Quickly, that became clear to us that it was really probably two or three that could meet the needs that we had in this space. After that yearlong process, it became clear to us what kind of a leader in the industry was, and why we're here today, where we are.
As far as how we work with these guys, as Dan mentioned, it was really two ways. The first is through the white label that iCapital has created for us. Now, this is a product ... There’s a particular product that we do talk to registered investment advisors about exclusively, and having that white label there for people to access and get information is key. Other ways we work with them is we essentially opened up the pipeline of products we have coming to the market to iCapital. We say, "Here is the next 12 months. Here are the plans we might have capacity in for you." What we try and do is find something that will resonate with our clients that meets our desires to offer it out to a wealth management audience.

Sometimes, we get lucky. Both of those connect, and that’s when you see our products making onto the iCapital platform.

Snow: Talk about what the experience is in learning about new Carlyle investment opportunities, vetting them, and then making those opportunities available or known to the underlying wealth management clients. What is the online experience like from, let’s say, an RIA’s point of view? Maybe starting with Paul.

Ferraro: Sure. We’re an institutional shop by nature, so when we decided to go down this road, we really thought we wanted to make this as close to an institutional type experience as we could. That starts with the data room for us. What we do as a firm institutionally is we’re a pretty high touch organization. Therefore, there’s always an investor relations person who’s talking to their institutional clients first gaining some interest in a particular offering, and then opening up a data room for them. That data room is going to be very thorough on the institutional side for sure. It’s going to include everything from your standard things like a flip book and all the legal docs that you would expect like a PPM and LPA and description documents, but also things like cash flows on the previous funds, money in, money out, things like that.

If we’ve had turnover on the team, you might see a deal attribution in a data room like that, sample reporting, all of the things that the institutional investors really want to see before they spend time with our individual deal teams. What we try and do with the white label and just through iCapital generally is to provide that same kind of opportunity. Now, that level of detail is not going to be right
for every RIA and certainly not every individual client, but we like to provide some of the things I just mentioned to those folks so they can due diligence that they think they need to do. That tends to be the process.

I have a sales team that is about eight people across the country. We do get out and meet with RIA’s individually often, and sometimes, their individual clients as well. We are calling on people, but we’re also trying to make that information available in a very efficient manner. If we don’t get to somebody, it doesn’t mean they can’t learn about the opportunity.

Snow: Dan, you earlier mentioned the Texas Teachers as an example of a major large institutional investor that has for years had the ability to write very large checks to private equity and alternative investment funds. A group like Texas Teachers, if they say, let’s say they’re going to invest in a Carlyle real estate fund, if they say, “Hey, we’ve got a question about this.” I’m imagining the head of Carlyle Real Estate might get on the plane, and fly out, and personally answer that, because relationship is so important. That is a high net-worth individual who’s thinking about investing $100,000 via your bundled offering has a question, how do you think about the level of time and attention that you’re going to give to that question given the small size of the commitment?

Vene: That’s a great point, and this is where we’ve really used technology to try, and communicate the message equally and evenly across all the interested investors, so we’ve developed a couple of different tools, I guess, starting with our white label where people can gain access either through invite. As Paul mentioned one of his product specialists or sales people may be out in the marketplace, and they need an interested investor advisor. They can invite them into the Carlyle white label platform, so when they arrive, there’s all sorts educational materials, so why invest in private equity or a CORE real estate or whatever the strategy might be, and really purely just educational resources.

Not even talking particularly about Carlyle for example, it could just be educating on the benefits or the attribution of a particular strategy. If you move through the profile, you can see more specifically the market opportunity that a particular fund is
addressing the strategy, the specific strategy, the team members. Paul mentioned track record attribution, so understanding the investment professionals and the portfolio managers and their backgrounds, and much you might see on a morning star when you're looking at a mutual fund. We have that same a way out. We have detailed track record information and a full diligence room that would have PitchBook, PPM, LPA, DDQs, or other supporting materials like white papers.

There's a wealth of information available. It's a lot more, I think, easily digestible in a way that we've developed it. It does all work on obviously through the internet medium, but also in mobile device formats, so iPads, and iPhones, and Androids. Sometimes, we have video roadshows. In the specific case of Carlyle, we do have some video content available for people to watch, and they can consume that on their iPhone or at their convenience. As you move through, there is an ability to have webinars just like the one we're doing right now to talk about the specific strategy.

If interest rates are moving around a lot, the portfolio management can come on a month or two after the fund launched, and explain their hedging strategy, or if it's the floating rate fund, maybe they don't need the hedge or whatever the case may be, but to be in that communication channel, and really level that playing field between what obviously the exposure that a Texas teacher might be able to get. We try and provide as similar an experience as possible through the use of the technology. That's obviously something Carlyle is quite interested in using as well.

Lastly, just the ease of use the platform, once you have a made a decision to move forward, everything in the system is automated or at least, we are attempting to automate the entire lifecycle of the investment. That includes things like investor transfer, subscriptions, redemption, the initial subscriptions and then the electronic delivery of K1 statements in an aggregate format for all of the funds that you may have invested in through our portal and such. We're really trying to roll out. We really saw for every single week, and we have over 100 people here at the firm today of which about 60% or over 60 people are dedicated just to our technology development. It's absolutely the core of the company, and looking to, again, level the playing field for all investors.
Snow: Why don't we dig a bit deeper into the macro trends that led to the necessity of building platforms like iCapital? Paul, talk a bit more about, from the one direction that we have, the alternative investment industry, the PED Capital asset class in search of new sources of capital. From the other direction, you have the wealth management net worth, the world of private banking and RIAs in search of new asset classes or high-performing asset classes. What was it like, let's say, 10, 15 years ago if an RIA expressed an interest in investing in a private equity fund? What were the impediments to that happening, and where are we now?

Ferraro: Sure. When you talk about 15 years ago, I was at Morgan Stanley at that time, and in their alternatives' group. It was pretty early days, but the offerings we saw were episodic and you really couldn't depend on when the next one might show up. It really wasn't until the global financial crisis that they started to see these alternative businesses really grow certainly at the wires and at the private banks. For firms like mine, it became clear to us that number one, it was a space we wanted to be in, but number two, that we really didn't have the capabilities to manager or administer hundreds or even in some cases, now, thousands of smaller commitments.

Again, you look at the traditional administrators who are out there at that time, and they're still out there, but they really don't have the capability. I know there is an arms raised now to see if they can catch up, but for us, it was really a necessity. The volume of the subscription documents for us just became too burdensome. We needed a solution. Not only were there too many sub docs, but half of them were filled out incorrectly. If you think about a small team like I have here of 12 people chasing down financial advisors to get subscription documents completed correctly, it became just too much, and so for that average RIA like you mentioned, once the investment on a product like this, it was tough on them as well.

We look for this solution to really bring Carlyle and others really into the 21st century. We've talked a lot internally here about online subscription documents, and E signatures, and things like that. It's just not on the priority list. It's not what our institutional investors care about. I knew that we would not get there on our own, and so again, finding a third party that could help us with that
was key. Today, we’re still raising probably 80% of the assets that we raised in the wealth management site through the private banks and the wirehouses, but we’ve committed ourselves to the RIA channel. That we believe is a big part of the future. It’s about 20% of our assets today, and growing. Having these solutions in place is key going forward.

**Snow:**
Paul, a quick followup question for you, it’s well known in the private equity world that a very strong team is able to raise its next fund almost immediately, and their overseas subscribe, the traditional LPUs are elbowing each other to try to get in. What kind of a commitment does Carlyle have to the wealth management world to set aside an allocation for that type of investor even if they have a certain strategy or a certain team that’s so popular that they could raise it all from traditional LPUs?

**Paul Ferraro:**
It’s not going to be a secret to anyone on this call that the fundraising environment is really good. David Rubenstein has said publicly that it’s the best fundraising environment he’s seen in his 31 years in the business. I have a much shorter frame of reference, but I can concur with that. It’s a very good time to be fundraising both institutionally and through wealth management, but to your point, I think, every fund we’ve had in the market for the last four years probably has been oversubscribed. Some of them on our first closing oversubscribed, so that makes it particularly difficult.

My job internally here is to get the capacity that my partners want and need, and to make sure we have those offerings available even though it might be a fund that we could easily raise all of it through institutional means. We are committed to this space. As I mentioned, it has become a bigger and bigger piece of the pie here at the firm. About 23% today of our total AUM is high net worth, whether that’s the wealth management organizations or family offices. It’s a big part of what we do, so we do focus on it, and we do make those tough decisions to allocate enough capital that all of our clients are getting access to the funds that are in such high demands.

**Snow:**
Dan, I have a question for you about the bitesize that is being offered through iCapital. I saw a press release recently announcing a partnership between your firm, and I believe, it was J.P. Morgan
Wealth Management. It said that you would be able to offer $100,000 basically commitment minimums to clients. Why is 100,000 the level that makes sense? Why not four, or why not go down to $10? How did you end up with that as the current minimum?

Vene:

The minimum is 100,000 for most of our products. There are a few products where a general partner has set the minimum, let’s say, 250,000. Then we also have some accredited investor product, where the minimums can be lower. It could be 50,000 or even as low as $25,000. It is product specific, but I would say that for qualified purchase of products, whereby the end asset owner or the end investor needs to have a net worth excluding their primary residence of at least $5 million, we thought $100,000 was an appropriate number. These are typically capital call vehicles, meaning that the capital is drawn down over a period of time, maybe three to five years as it’s deployed into new investment opportunities by the underlying investor manager.

If you’re dealing with much smaller subscriptions or commitment amounts, let’s say, if you set it at $10,000 or $5,000, and then you’re doing a call down structure, you start to think about you may have a couple of calls a year over the course of four or as many as five years. Now, you’re dealing with maybe just say 20 capital calls. If you only started with $5,000, you’re really dealing with de minimis amount of dollars. Sometimes, you have wire transaction fees and just a lot of administrative work to be able to get such a small amount of capital. 100,000 is a practical number. It makes sense. For someone who is worth $10 million or $20 million, it’s a very reasonable amount of money to allocate to a single investment fund.

When we look at the accredited investor marketplace, where we’re seeing a lot of innovation around BDCs, and there’s a 2.0 going on of non-traded REITs, and Carlyle and others are leading a new generation of products that are actually excellent products, the same institutional quality products, but in a much better, more efficient structure that they’re making available to tying it with investors. There, you can certainly have minimums that are lower, $5,000 or $10,000. A lot of those vehicles are drawn 100% upfront, and so you don’t have to deal with the capital calls, the multitude
of capital calls that are really very small denominations. That’s the thinking behind the 100,000 figure, and also some thoughts on the accredited side.

Snow:
I’ve got a few more questions for our experts, but I’d like to remind the audience that they absolutely can and should submit questions. We have about 15 more minutes, and I do want to set aside some time for questions from the audience, so please if you have some good ones, please send them in. A question for you, Paul, give us an overview of the kinds of questions and the level of knowledge that your typical RIA or your typical wealth advisor would have about private capital. On the institutional side, we have alternative investment officers that has been allocating to the asset class in some cases for decades, and have a deep level of understanding about how these vehicles work. What level of understanding does your typical RIA have, and what questions do you often get?

Ferraro:
Sure. The RIA community as you know is really fragmented really in a lot of ways, right? Number one, the type of clients, number two, the level of experience, and so it runs a gamut. There is certain RIAs out there that can go toe to toe with any institution. There are CIOs in many cases that have come from other institutions, where they evaluated private equity and private capital products. In some cases, it’s very way on the high end. In other cases, we’re back to explaining why private equity, what the liquidity premium is, J curves, all the things that you’re kind of on a typical first slide of a presentation if you will.

Literally, we get every question you could imagine. I think, there is still, and this is not exclusive to RIAs. This is to really everybody out there in the wealth side. There's still a healthy skepticism as to if a Carlyle or a Blackstone, or you name the firm is coming to me, and raising money from me, then, gosh, isn’t it late in the game? Isn’t it ...? I must have missed it if these guys are showing up now. I think, that's something that we try to deal with over the years. I mean, I think, if we've proven anything to people, what we bring to the table is with the same products that we show up with at our wealth management office are the same ones that our sovereign wealth funds are investing in, the same ones that are U.S. pension plans, which are our two biggest client segments are investing in.
We bring you the real thing. I think, that's a reputation we have gotten in the marketplace. Even if we built the products exclusively for any of these channels, it's going to be the same content from our institutional products. We may structure it a little bit differently, but we're not bringing products that is exclusive to the channel, meaning from a content standpoint. I think, we've gained the reputation there for that, but that is still a pretty big issue, but the questions really are about number one, the fees. People want to understand the fees, and the more people in between my firm and the client, the more people we have to pay along the way, so understanding the waterfalls of expenses. This deal is important.

That's one thing that drew us to iCapital. They figured out a pretty low cost way of doing this. Certainly, less expensive than we can do it ourselves. That was really important to us as a firm, but now, what we see is the things like the return profile, what you can expect, and the age-old question, “What can go wrong?” What keeps you up at night? That's one that we get in virtually every meeting, and one that we are happy to answer.

Snow: I guess, you need to avoid the perception of a fund being made available to RIAs, because you are unable to raise money elsewhere. We’re struggling with this, and let’s just throw it up to the RIAs. Let’s go to some questions. They’re starting to come in, and not surprisingly, the first question to come in has to do with fees. Go into as much detail as you can on an open call, but how does a fee structure for RIA bundled vehicles compared to these structures that that are regular way LP as sovereign wealth fund, and endowments might have. I’ll let either of you tackle that one.

Ferraro: Sure, I can start. If you think about it, the biggest difference is the vehicle that we’re ... To bring this to people at $100,000 minimum or $250,000 minimums is really where the extra expense lies. The fact that we have iCapital aggregating commitments and some of these funds, there's a cost for that. I'll let Dan talk about his own business and what that cost is, but there is an additional expense that institutions are not paying. The other piece of that is an institution if going to get break points. If you think about the largest sovereign wealth funds or Texas Teachers, we talked about a few times here today, if somebody like one of those large
institutions is committing $300, $400, $500 million to a fund, we're going to give them a breakpoint that they expect.

That’s going to lower their fees significantly, whereas a product that we show up with at an RIA’s office is not going to have those breakpoints, because even if you aggregate all of your clients together, you're obviously not going to hit those breakpoints, so you tend to pay the rack rate fee, which today in private equity is something like one-and-a-half in management fee, and 20% profits over some preferred return. Again, just to summarize, the additional expense is the cost of running the vehicle, number one, and number two, the inability to offer the breakpoint that large institutions enjoy.

Snow: Yeah, this so ...

Vene: To add to that, I just had a couple of points. One is, I think, everything Paul said is spot on around there is additional complexity in managing what, again, going back to that earlier point, might have been $100 million commitment from an endowment or an insurance company to now whining up with maybe 400 investors just to get to that same 100-million-dollar commitment. These are real examples, and so obviously, there is a lot more handholding. There is a lot more documentation associated. There is a whole another level of tax and administrative support that these individuals need, but I think, the good news is we’re starting to see volumes as an industry, and we're starting to see ...

We’ve been able to scale with our service providers, so we now have over a billion dollars at three separate fund administration partners, and so we’ve been able to get economics that are more in lined with what an institution would see on an administrative level, the other real benefit and it’s something that I really can’t emphasize enough is that what really matters is the net return that an investor is receiving. Yes, they might wind up paying 25 days points more than Yale or Texas Teachers if they're investing hundreds of millions of dollars with the manager over time, but the reality is they're winding up getting access to the very same assets in the very same fund.
Obviously, it's a feeder, not the master fund, and therefore, you do have maybe it's 20, 25, 30 days points of difference in the total fee, but you're gaining access to a fund that might have a target return or actually a produced track record, a historical return of 18% or 15% or sometimes over 20%. The really important question is, "Do you want to see? Do you want to talk to your advisor about gaining access to vehicles that have track records like that, or do you want to just leave your money in ETF that you might be able to get for six basis points, but it's going to go up and down with the SMB 500? Now, obviously, the last 10 years, that's been a great trade, but I think, prevailing wisdom might say that that's likely to not continue for the next 10 years, and we're likely to go into a subpar beta environment, where you can't just said it and forget it.

What in fact might makes sense is having an ETF portfolio of very low cost funds, and then a very thoughtfully selected portfolio of alternative investments that have, again, go after managers that are top quartile, managers that have a history of producing really, really excellent alpha in a diversified manner. Again, I think, fees are critically important. Everybody wants to talk about them, and we do everything to drive them down, but at the same time, I do like to bring a narrative back to what is it that ultimately you're trying to achieve with this portion of your portfolio, and finding the very best managers is what matters because at the end of the day, it's the SMP does 7% or 8%, and a PE fund does 18%.

You have 1,000 basis points of alpha there. If you paid 24 basis points to get that 1,000 points of alpha, that's a trade that everyone should be quite comfortable making.

**Snow:** Great! I've got a very good question in here with regards to regulations, and it has to do with a relaxation of the general solicitation rules under Reg D. The audience member is asking to what extent does it affect the way that you're able to make these investments available to accredited investors? Does it change the way that you're able to promote the investment? Any thoughts around the regulatory framework in which these are being offered?

**Ferraro:** Yeah. I mean, this is Paul. Sure. Anytime you have a private placement, you're going to be dealing with these issues, which for us and for really anybody in the business, it means qualifying the
clients. You have to, number one, know your client, the KYC rules, but you also have the confirm that the client meets those requirements. One way that my firm handles that is when we work with an RIA and on a particular private placement, we're going to ask that RIA to agree to certain representations in a selling agreement, which is going to say, "We're going to only end your clients who are number one, we know, number two that are qualified, and we've confirmed that."

We have to have some kind of agreement in place that says that, because we don't know the client, number one, and number two, can't do the AML work on a client that we don't know, and have really no way of knowing that they're actually a qualified purchaser in some cases, or an accredited investor. All of the general solicitation rules are real, and something that we pay a lot of attention to here.

**Snow:** We have a question about capital calls. It has to do with ... "Do you know to what extent if at all these RIAs are using subscription lines of credit to expand the capital calls, or are they turning around, and notifying their clients with each success of capital call?" I would imagine that if you're, let's say, a retired dentist, you may not be as responsive to you're up playing golf, or you fire something. You might not be able to respond as quickly to a capital call as state of Alaska. Maybe, Dan, do you know whether lines of credit are in used?

**Vene:** Yeah, this is a topic that we spend a considerable amount of time on, because as you point out, it does provide for a more seamless process of dealing with the capital calls if you do have a credit line. We were in discussions with a number of banks about setting up an efficient structure for these credit lines so that we could smooth out the capital calls. You still want to have capital calls, because you still want to get the benefit of not having money just to sit there uninvested. You want to be able to use that money for other investments or let it drip in as the capitals are actually being put to work, but you can smooth it out. For example, some funds might call capital as much as eight or 10 times a year.

We've seen funds that call every month for different reasons. We think that that's a bit much, and so you could put in place a line,
and maybe just call capital twice a year, or maybe four times a year might be about as much as we might advise. There is a fairly minimal impact to the total IRR if you can smooth it out to that degree, but definitely an ease of use factor that, I think, outweighs any sort of degradation in the IRR. The other thing I would say, and it's something that's quite interesting is looking at ... There are a lot of investors that say, "You know what, I really don't care if I wind up making 1% less. You know, I'm doing this because I believe this fund will continue to perform at the level it has historically."

I don't see any other opportunities in the market that I feel like I want to put my money in, so I don't really care about the IRR drug. I just want to give you all my money upfront. We've had that conversation, and so we're looking at ways of funding principal protected investments for individuals. It could be a basket of ETS. It could be a structured note that lathered out over the investment period, over three or four years. There are of course ... You can't do that for 100% of the capital, because if the fund deploys capital at an accelerated basis versus what you have would have expected, then you're going to need to supplement that from some other parts of your portfolio, but it does provide inability to gain return, and on the uninvested capital while not having to deal with a monthly capital call or capital calls as you said, David, that show up.

You may have as little as five days to fund them. You may be on vacation. You may be out. You may not be checking your email. Your advisor may not be able to get a hold of you. These are real issues that we're looking to solve with both capital call lines as well as a vehicle where you could deploy all your capital invested, all your capital upfront. Then it would slowly draw down over time while still providing a return on the invested capital.

**Snow:**

Dan, a quick followup question from another audience member who says, "What happens if one of these retail clients defaults? I mean, what if they just blatantly refuse or are unable to continue contributing capital to the fund? Is there a mechanism to take care of them?"
Vene: Yeah. I'd point out just an industry data point, and we today work with in addition to firms like Carlyle on the general partner side. We work with some of the largest wealth managers and wirehouses like UBS and Morgan Stanley, and Raymond James and Stifel, and others. I can tell you that we have today about 12,000 investors that are on the iCapital platform. We have never had an actual default. Now, that is not to say that we haven't had late payments. We haven't had delinquent payments, but they've always been resolved in one way or another such that we've never put a default through to the underlying master fund.

That's important for a couple of reasons, because you don't want to put an entire vehicle, a commingled vehicle and a number of high net worth investors in default, because one bad apple, one person has not funded their commitment. It's a pretty complicated topic, but we do have a number of different mechanics for dealing with it. One would be we can ... We obviously send a letter of delinquency to an investor. Most of the time, they realize the gravity of it. It may be that they just thought they could stop paying these capital calls, and they would still get to keep the portion of the money they funded once they realized that the entire capital balance is at risk if they don't fund their ongoing obligations.

90% of the time, they fund the money from somewhere. They sell a stock, or they move some money over, and they cure the default. The other thing is we can always sell to a secondary provider, so secondary, we have a lot of secondary firms that we work closely with. They're generally interested in buying that position possibly with a small discount, but that's the cost of not funding your legal obligation. Then they would take over that position, and the ongoing capital commitments to the underlying master funds. Those are the two most common resolutions.

Snow: Great! Well, we have actually quite a few very good questions. I think that Dan and Paul depending on their ability may be able to answer some of these after the webinar, but in the few minutes we have remaining, I have a crystal ball type of question for both of you. That has to do with how big this thing can get. I mean, talk about the respective sizes of the institutional versus the wealth and retail market, and if interesting alternatives, and allocations to
alternatives continues to rise on the wealth management side, and even there, we say the straight up retail unaccredited side of things. How much capital could actually be coming out of this newer market for alternative investments?

**Vene:** I'm going to give, Paul, the crystal ball question to you first.

**Ferraro:** I mean, it's hard to put a number on it, but I think, for all of us ... Blackstone has been public on this. We've been public on it that the wealth management business is really the last untapped pool of capital. People are making progress, but it's largely untapped. If you look at the big wires and others, they're typically 3% or 4% allocated to alternatives, so a lot of room to go there across their books, and so we're all focused on that. As Dan mentioned earlier, trying to figure this you going downstream, and offering accredited products, and even self-accredited to the mass affluent world is something all of us are trying to figure out.

I think, this is not going to surprise anybody either, but David Rubenstein was in the press, I think, today talking about 401Ks again. That's been the holy grail of private equity. We think that that makes a lot of sense for our investors. That's something that we continue to work on, and no one's been able to really solve that yet, but that's something that is key. If you look at firms that are focused on institutions like we are, I mean, they're not creating any new defined benefit plans. At least, I haven't seen it in a while. Everybody is trying to figure out the wealth management piece, because it's going to become a bigger part of our overall clientele.

**Vene:** I totally agree with everything Paul just said. I mean, maybe just some numbers for you. The independent RIA community, so this would be groups that they may have spun out of the wirehouse, or they've just always been independent, or they're an independent financial advisor. It could be a three or four person organization. They have a couple hundred clients. They collectively manage today about three-and-a-half trillion dollars. It’s a very large pool of capital, but Paul mentioned about 3% or 4% allocation to alternatives in the wirehouse. When you look across the independent RIA channel, its order is a magnitude less.
The data we've seen indicates it's actually less than 1% allocation to alternatives, and yet, you have this backdrop of more volatility in the SMP 500, continued low yields they're raising, but continued low yields and fixed income investments. We believe that we're going to see more education is needed, but ultimately, there will be a pretty large shift and a lot more adoption of alternatives across the independent channel. I also agree that 401K plans are clearly an area that there's going to be a lot of invasion and a huge opportunity. All of this makes sense. They're regulatory and structural issues why it's going to happen somewhat slowly, but firms like Carlyle ad iCapital are investing very heavily in making this easier and more understandable for people to make it part of their portfolio, and so we're both in this for the very long term.

We have backers. None of our backers are typical venture capital or growth equity investors that would agitate for an exit. We very much did that on purpose, and selected the investors we did that have the long view on this marketplace. We're quite excited about what we'll see as those percentages start to inch towards what their target allocations might be. If the wirehouse's target today is 15%, and there are three or four, there's a lot of growth there. We'll see the same in the independent RIA channel over time.

Snow: The final question, Dan, and not to back you into a corner, but if you are vetting, Dan, and you look out, let's say, 10 years from now the amount of capital under management from the wealth management RIA network, would it be 10X today's current level or 100x? What would be your wild guess?

Vene: What was the timeframe?

Snow: Let's say 10 years from now.

Vene: That is definitely tough.

Snow: We'll have another webinar in 10 years to see how you're doing.

Vene: Yeah, to check on the numbers. I honestly, and I clearly am bias, but because it's coming off of such a small number today, and because I think people are going to have very good experiences with alternatives in their portfolio, I'll throw out a number of, I think,
it will 10 times in 10 years. I'd say there is somewhat an educated view behind that, and a lot of anecdotal evidence of that starting to happen, but it also depends on what we see in public markets, and what sort of innovation we continue to have in accredited products. As Paul mentioned, his firm and others are doing a lot of great work here. They're taking their best portfolio managers, their best acquisition professionals, and they're making their skills available to people at $100,000 in some cases, as well as $5,000 or $25,000.

That was never the case before. Any call alternatives over the last 10 years were very different than they're going to be over the next 10 years. They're much cleaner products. They don't have these what we believe to be somewhat egregious front-end load structures. There's a lot more transparency in the marketplace today. I think, overall, investors are going to have a better experience, and they're going to allocate more money to the asset class.

Snow: Well, we are out of time. It's a great topic. It's exciting, but we need to wrap things up, so I'd like to thank both of our experts for sharing their insights with us today. I'd like to thank our audience for tuning in. This webinar will be available in playback mode, and we will also shortly make the transcript available. In addition, it will be available as a podcast on the Privcap iTunes channel. Thanks a lot everyone. Have a great rest of the day, and goodbye.