

Building a Future-Proof Wealth Management Firm — Elevating Your Firm's Services with Alternatives

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KEY TAKEAWAYS

- Alternatives are no longer a niche investment option.
- Firms moving into alternative and private investing face operational challenges.
- Education—of both advisors and clients—plays a vital role.
- Proven strategies for success in alternatives start with infrastructure.
- Adding capabilities in alternatives presents growth and differentiation opportunities for advisors and wealth management firms.
- The right technology facilitates advisors' entrance into private markets.

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OVERVIEW

Demand for alternatives is growing across all wealth segments, creating both opportunities and challenges for wealth managers. Advisors have an opportunity to broaden their services with a compelling alternatives offering, which can help attract higher-net-worth clients.

To do so effectively requires the right infrastructure, including expertise and technology. Education also plays a key role, both in increasing advisors’ comfort with these investments and in ensuring clients are fully aware of the characteristics of these opportunities, especially concerning liquidity.

For wealth management firms that successfully build a practice in alternatives, the result is a competitive differentiator that attracts clients and talented advisors.

CONTEXT

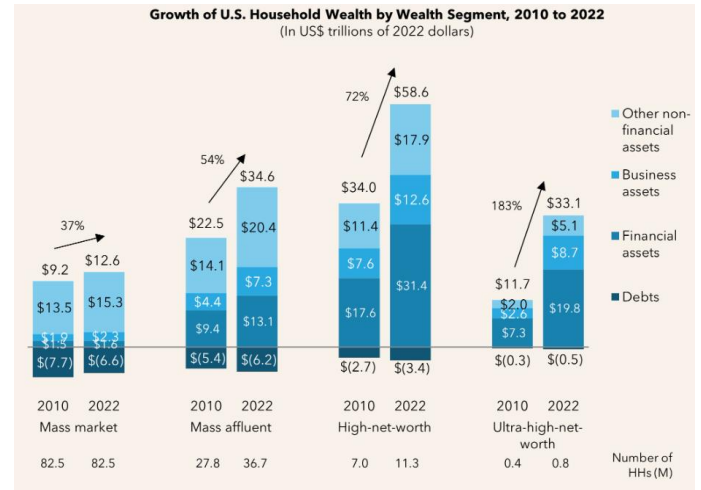
Experts in alternatives shared insights into the challenges and benefits of this growing area, along with technology solutions that aid in their success.

KEY TAKEAWAYS

Alternatives are no longer a niche investment option.

The demand for private investments, historically limited to institutional investors, has expanded significantly in recent years, driven by the growth of high-net-worth and ultra-high-net-worth households, who now make up 30% of the wealth in the United States.

Figure 1: Growth of HNW and UHNW Investors

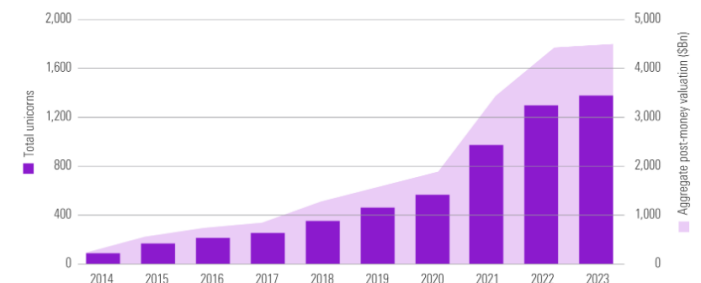


¹ Source: <https://datos-insights.com/reports/wealth-in-america-part-1-the-ultra-high-net-worth/>
² Source: <https://www.wealthmanagement.com/high-net-worth/how-attract-and-retain-high-net-worth-clients>
³ Source: <https://www.wealthmanagement.com/alternative-investments/markets-waver-alternatives-hit-their-stride>

This shift has accelerated the wealth management industry and has led advisory practices to expand their service offerings, including higher levels of portfolio customization.

The rise of private capital availability, coupled with the growth of “unicorn” companies—private venture capital-backed companies valued at over a billion dollars—has further fueled demand for alternatives. At the same time, the demand from high-net-worth and ultra-high-net-worth investors has increased capital options for these companies. These companies often experience rapid growth prior to their IPO, potentially offering greater returns to early investors.

Figure 2: The Rise of Unicorns



¹ Source: <https://indexes.morningstar.com/insights/analysis/blt81d5614b4c2ccd2b/unicorns-and-the-growth-of-private-markets>
² Source: <https://www.thinkadvisor.com/2022/02/17/what-private-for-longer-means-for-investors/>

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While private equity and private debt are gaining traction, they are less readily understood than traditional investments like real estate. However, the potential for higher returns, better inflation protection, volatility dampening, and improved portfolio diversification makes them increasingly attractive to investors. Offerings are evolving to accommodate the growing down-market demand, such as a secondary exchange for private illiquid assets.

“Demand is growing due to the reputation of returns.”

- Michelle Greive, SS&C Black Diamond Wealth Platform

Firms moving into alternative and private investing face operational challenges.

Offering alternatives to clients presents challenges for advisors, who are faced with decisions about where to add expertise and what aspects to outsource. A number of important factors to weigh include:

- **Suitability.** Ensuring that clients understand the risks associated with alternatives and have the necessary liquidity and risk tolerance for illiquid investments is crucial.

“A major aspect of deploying the strategy is heavily rooted in having a client base that actually is liquid enough and is suitable enough for the investments that you’re proposing.”

- Michelle Greive, SS&C Black Diamond Wealth Platform

- **Due diligence and selection.** Evaluating the complex private market requires sufficient expertise to select appropriate investments and manage the risks. Robust due diligence ranges from introductory meetings to multiple on-site visits.
- **Operational infrastructure.** Managing subscriptions, paperwork, capital calls, distributions, and reporting for alternative investments can strain existing infrastructure and necessitate additional staff. Technology solutions play a vital role.

Figure 3: Private Market Expectations

Median 10-year expected risk and return projections	70/30 portfolio*	Private equity share of total equity allocation			Difference between 30% private equity scenario and 70/30 portfolio*	
		10%	20%	30%	Absolute	Percentage
Return	5.9%	6.1%	6.4%	6.7%	+0.8%	+13.6%
Probability of meeting >6% annualized return	47.7%	52.4%	57.5%	63.8%	+16.1%	+33.8%
Volatility	11.4%	11.7%	12.1%	12.6%	+1.2%	+10.5%
Sharpe ratio	0.19x	0.21x	0.23x	0.25x	+0.06x	+24.0%

* 70/30 portfolio consists of a 70% allocation to equities (42% to U.S. equities, 28% to non-U.S. equities) and 30% allocation to fixed income (21% to U.S. bonds and 9% to non-U.S. bonds).

Notes: Expected returns, volatilities, and Sharpe ratios are median values from a distribution of 10,000 simulations. Portfolios have been optimized over a 10-year investment horizon.

Source: Vanguard calculations, using asset-return projections from the Vanguard Capital Markets Model.

¹ Source: https://corporate.vanguard.com/content/dam/corp/research/pdf/vanguard_2024_midyear_private_equity_review_and_outlook.pdf

² Source: <https://image.marketing.cerulli.com/lib/fe3411737164047c7d1072/m/1/81f366b6-66d8-4234-b21f-461b7f75f999.pdf>

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Alternative and private investments don’t scale in the same way and require a more customized workflow and portfolio management.

- **Reporting and transparency.** Effectively communicating performance and providing timely updates on illiquid holdings is crucial for maintaining client trust and satisfaction.

“It’s quite a bit of work, but having that in-house operations capability has really helped us make things a little easier for our clients and for our advisors.”

- Fitz Smoak, Homrich Berg Wealth Management

Education—of both advisors and clients—plays a vital role.

While alternatives as a class are changing rapidly, some experts with long track records are looking to broaden the playing field. A key element is education for both advisors and clients so they are positioned to participate.

Firms with experts spend significant time on education: producing collateral from one-pagers to white papers, joining client calls, presenting at firm-wide meetings, and conducting outreach.

Educating clients about the unique characteristics of alternatives, such as longer lock-up periods and potential tax implications, is essential. Presenting options, such as increasingly popular intervals and evergreen funds, offer democratizing tools to give retail investors access to alternative investments. Yet, it is still important to caution clients that no private options are fully liquid.

“For a lot of clients, they have to get comfortable with the idea of not touching money for a decade.”

- Jamie Morgan, Choreo Advisors

Proven strategies for success in alternatives start with infrastructure.

Infrastructure is vital to the success of an alternatives practice. Without the right infrastructure there are numerous potential bottlenecks, from documentation to transaction processing.

“You can’t emphasize enough the importance of having the infrastructure in place.”

- Jamie Morgan, Choreo Advisors

Infrastructure best practices include:

- **Building expertise.** Developing in-house expertise for investment due diligence, operational management, and client education is critical. It is important to take the time to do sufficient research, not just about investments, but also about the landscape of potential providers.
- **Leveraging technology.** Adopting specialized technology platforms, such as SS&C’s Black Diamond, can streamline operations and improve reporting. Technology also facilitates important client communications.
- **Outsourcing.** Utilizing third-party providers for functions like operational due diligence, subscription management, and reporting can alleviate operational burdens and allow firms to focus on their core competencies, like building and managing relationships. Collaborating with major asset managers, custodians, and industry experts can provide valuable resources and guidance.

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“There’s plenty of providers out there that offer investment due diligence, operational due diligence, help with subscription services.”

- Fitz Smoak, Homrich Berg Wealth Management

Adding capabilities in alternatives presents growth and differentiation opportunities for advisors and wealth management firms.

Successfully incorporating alternative investments for suitable clients can differentiate wealth management firms that are looking to attract high-net-worth clients.

The ability to cater to the growing demand for alternatives among high-net-worth individuals who are seeking a return diversifier and have a long-term approach can attract new clients and assets under management. With a sufficient client base, it can make sense to build internal operations to take on some of the burdens, so the firm can realize the promise of the democratization of access to these investments.

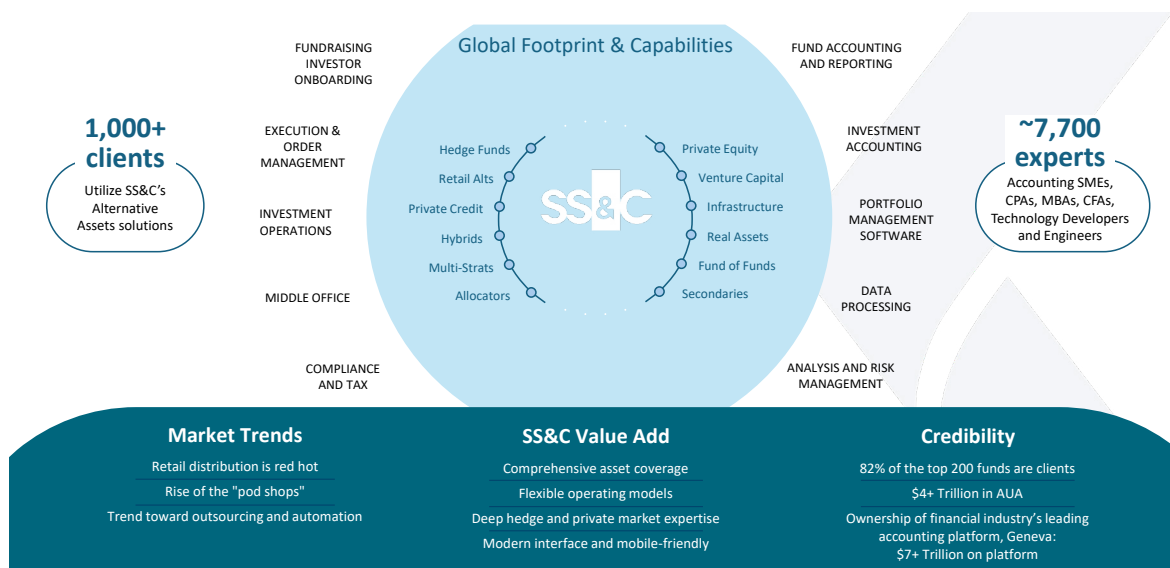
Offering access to exclusive private market opportunities, paired with robust in-house expertise and streamlined operational processes, helps firms differentiate in the marketplace. A robust alternative investment practice is also a tool to attract sophisticated advisors to a wealth management firm.

The right technology facilitates advisors’ entrance into private markets.

Technology plays a crucial role in streamlining workflows and managing the complexity of alternatives. SS&C’s platform supports an array of activities in the private markets. For different asset classes, it powers administration and reporting.

SS&C Accord is a wealth management offering that combines service expertise and technology to support data aggregation for alternatives. It takes a back-office solution and feeds information into Black Diamond through automated processes.

Figure 4: SS&C Private Market Solutions





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Figure 5: SS&C Accord – Service expertise and technology to support alternatives



MONITOR

Independently receive communications from underlying investments

-  Digital workers who watch email boxes 24x7 for correspondence
-  Daily review for completeness and accuracy

RETRIEVE


Retrieve documents from 3rd parties

-  Digital workers designed to log in and retrieve statements
-  Daily review for completeness and accuracy




REPORT

Extracts of data to downstream systems

-  System agnostic reporting 3rd party systems
-  Integration to SS&C Black Diamond Wealth Platform

PROCESS

Extraction of data

-  Intelligent automation that extracts key data points
-  Daily review for completeness and accuracy

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BIOGRAPHIES



Michelle Greive

Director, Product Management
SS&C Black Diamond Wealth Platform

At SS&C, Michelle’s chief responsibility is making sure clients understand everything the Black Diamond Wealth Platform can do for their business and helping them maximize their use. She leads a team of product experts focused on sharing knowledge with our service teams and providing technical support. Seeing clients succeed with Black Diamond as the heart of their business is what motivates her each day.

Michelle joined SS&C in 2011. Before that she was a financial solutions advisor at Bank of America Merrill Lynch. She holds a BA in corporate finance from the University of North Florida.



Fitz Smoak, CAIA®

Senior Investment Analyst
Homrich Berg Wealth Management

Fitz joined Homrich Berg in February 2022 and is currently a Senior Investment Analyst. He specializes in underwriting and monitoring the firm’s investments in private equity and private debt funds. He also works closely with the HB Family Office to underwrite direct private investments in debt and equity.

Before HB, Fitz worked in the Analytics division of Nasdaq covering hedge funds. He is a CAIA charterholder and a member of the CAIA Chapter of Atlanta. He graduated from Georgia Southern University with a degree in Finance and a minor in Economics.



Jamie Morgan, CFA®

Sr. Director, Wealth Management
Choreo Advisors

Jamie Morgan is a seasoned investment strategist with over 13 years of experience in private and public markets. Currently supporting the management of discretionary assets and OCIO assets, Jamie brings deep expertise in investment research, asset allocation, and portfolio construction. As a key member of the investment strategy group, Jamie collaborates with advisors to drive organic growth through actionable insights, a disciplined approach to market analysis. Jamie holds both the CFA designation and is a CMT Level III Candidate, underscoring a commitment to rigorous analysis and strategic investment insights.

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Timothy D. Welsh, CFP®

President, CEO and Founder
Nexus Strategy, LLC

Timothy D. Welsh, CFP® is President, CEO and founder of Nexus Strategy, LLC, a leading consulting firm to the wealth management industry.

Prior to founding Nexus Strategy, Tim was Director of Business Consulting Services for Schwab Advisor Services where he led the development and marketing of practice management resources for independent advisors. While at Schwab, Tim also held senior roles in Strategy, Marketing, Advertising, PR and Industry Content development.

Prior to joining Schwab, Tim was vice president at Merrill Lynch where he was responsible for marketing, product development and financial advisor training for the financial planning group. Tim is frequently quoted in the wealth management media on a wide range of business management and industry topics. He is the author of a number of industry white papers, a guest columnist for RIABiz, Investment News and [wealthmanagement.com](https://www.wealthmanagement.com), and is a frequent speaker at industry conferences and events. Tim earned a bachelor’s degree in Economics from the University of California, Berkeley and an MBA in Finance from the University of Colorado.

Tim holds the Certified Financial Planner, CFP® designation and is an active member of the Financial Planning Association (FPA), serving in a leadership role on a number of task forces, committees and as a past elected member of the National Board of Directors.



David Bodamer (Host)

Editor
[WealthManagement.com](https://www.WealthManagement.com)

David Bodamer is an Editor with [WealthManagement.com](https://www.WealthManagement.com). David has more than 20 years of experience in financial and B2B journalism, primarily focused on commercial real estate investment. He previously served as Editorial Director of *WMRE*. Previous experienced included senior editorial roles with *NREI*, *Waste360* and *Retail Traffic*. He also worked for *Commercial Property News*, *Shopping Centers Today* and *Civil Engineering* magazine. He has won multiple awards from the National Association of Real Estate Editors and is a past finalist for a Jesse H. Neal Award. He graduated from the University of Virginia in 1997 with a degree in architecture.