RIA market beckons as HFs look to stand out from the crowd

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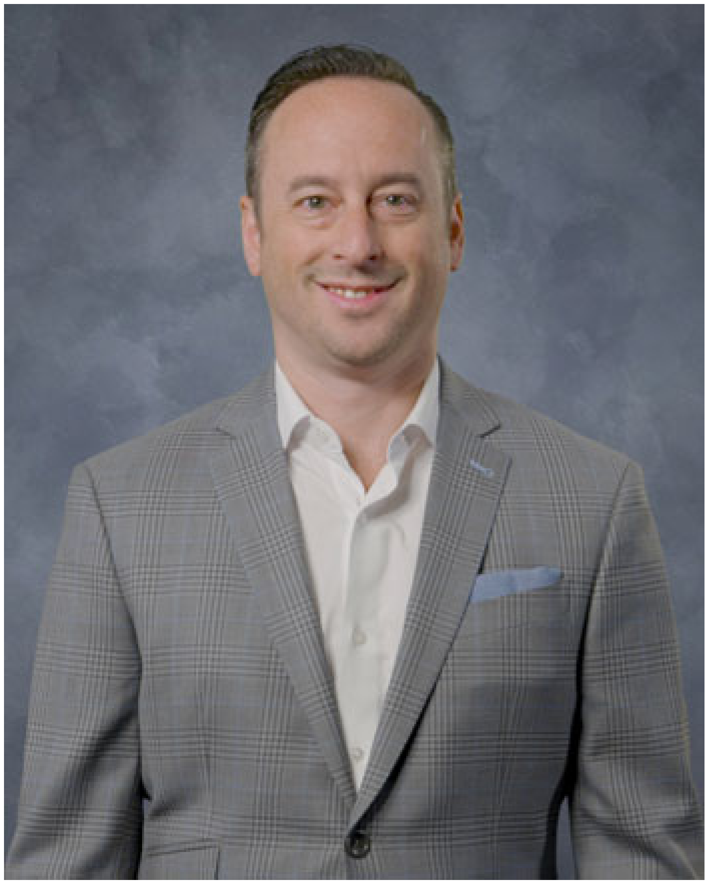
Financial advisors within the RIA community perhaps are where the institutional investor community was two decades ago. As interest in hedge funds among individual investors is picking up, the education, investment structures and platforms are just now coming to the fore.

"On some level the institutional investment into alternatives has not gained as much ground as of late," said Aaron Steinberg, head of prime service sales at BNY Mellon | Pershing. "They often change managers and allocations, but the overall amount stays pretty steady."

He adds that the good news for those who have yet to invest within the RIA community is there are a lot of emerging options from outsourced due diligence to investment platforms. Fed by technology tools, these options increase alongside the level of sophistication.

Steinberg recently attended Pershing's annual INSITE Conference in Florida, where financial advisors' views on alternative investments were discussed as the firm touted its new Pershing X platform geared toward advisors. The team recently unveiled its Wove product, which is a wealth management platform that combines technology tools advisors use into a single, data-driven platform. Wove is slated to feature the core applications advisors need, such as advanced data reporting and analytics, financial plan building, flexible billing, cross-custodian trading and rebalancing.



Aaron Steinberg, head of prime service sales at BNY Mellon | Pershing

"In general, alternatives from the investment perspective are on the minds of all investors," Steinberg added. "They want to be part of outsized returns and hedge funds' ability to deliver outsized alpha especially in higher interest rate environments. They want strategies to help protect them on the downside in any environment, really."

He spoke about the increasing amount of time being spent on education on the strategies and how they fit in the 60/40 portfolio model. The RIA world still needs to have greater knowledge on the expectations of the strategies, how to understand fees and returns net of fees as well as fully understanding the liquidity premium, experts say.

All about the structure

Besides education, the challenges for alternatives managers looking to enter the RIA market include ease of use, liquidity, access and operational due diligence. Firms are increasingly looking to devise structures and partner with industry players in order to create a process to make investing as easy and as seamless as possible.

According to Steinberg, the private markets (such as private credit and private equity) have been a little faster at adopting structures that are more easily adopted by ultra-high net worth and family offices than the hedge fund community has and so he sees that as an area to grow.

"We are seeing a lot of products being created by larger managers with alternatives strategies to be marketed to the wealth community," said Steinberg. "That continues to be one of the strongest signals in this particular marketplace."

As BNY Mellon | Pershing is one of the world's largest custodians that also happens to have a prime brokerage business, it offers another key area of growth as well as understanding of clients' needs.

For instance, there are limits to the structures that can be used by hedge fund strategies such as financing and leverage limits, custody of assets and the legal entities you can face off with in the SEC-registered 1940 Act funds. One of the models likely to continue to gain traction in Steinberg's estimation are drawdown funds or a committed capital model. These types of offerings range from interval funds to evergreen funds and for investors it gives better liquidity options.

Performance for 2023?

As for where traditional hedge fund strategies find themselves is a bit of a mixed bag. Steinberg views the current uncertain markets as a place where managers can differentiate themselves. He predicts the wide dispersion of returns that managers have had over the last few years will continue.

"There is going to be a bifurcation of success over time with returns being the ultimate differentiator as they often are," Steinberg observed. Those truly good managers are those that will stand out this year as compared to those more correlated to the markets.

The trend of capital flowing to multi-strategy, multi-manager firms he expects will continue too.

"The indicators that worked on the fundamental perspective, the ability to execute portfolio strategies is changing," he said. "Everyone is hopeful and believes there is going to be a time when they can be more invested at some point in the future."

Thanks to geopolitical tensions, monetary questions and rising rates, he sees a lot of cash on the sidelines. It also seems to be the perfect time to educate a new set of investors ready to explore new asset classes.