

Good Things Happen_Season Three
Episode 2: Enabling Alternative Investing
Guests: Anastasia Amoroso & Megan Malone
FINAL TRANSCRIPT

Jorian ([00:10](#)):

When I first started putting money away for the future, my financial advisor taught me to focus on three areas for my savings and pension: cash, stocks, and bonds. These were the only three asset classes we ever talked about. Initially, it took me a while to get my head round the nuances of each, and then I began to hear about new types of investment products. They had fancy names, which I didn't understand. I assumed they were not for me. Alternative investments was one of these terms, which included private equity, venture capital, hedge funds, art, real estate, and more.

Today on Good Things Happen, I have two guests who have joined me to explain why this was and how this is now changing. Welcome, Anastasia Amoroso, Chief Investment Strategist at iCapital, the financial technology company whose mission it is to power the world's alternative investment marketplace, and Megan Malone, Head of Private Equity and Real Estate for the Americas for Citi Global Wealth Investments. Before we start to demystify the world of alternative investments, I'd like to start by hearing your stories. How did you get into the world of investments? Was this childhood ambition, Anastasia?

Anastasia ([01:30](#)):

It wasn't exactly, Jorian. Good to be joining you. No, I certainly didn't plan for it as I was growing up. But when I went to college, I started out majoring in political science, and one of the first classes that we took during that program was actually political economics. And it sort of dawned on me that the world revolves around economics and finance, and so it really pulled me in and I decided to switch my major to finance. And from there on out, it has been a passion of mine and a career path that I pursued for the last 20 years.

And I can say that in the last 20 years, a lot has changed in the world of investing. And speaking of alternatives, it was cash, stocks and bonds. But over the last five years, I would say, that's changed a lot for private wealth clients. And prior to coming to iCapital, I was working with private clients at JPMorgan, and more and more clients would come to us and say, "Well, I want to invest, but I want to invest in private markets. How do I do that?" So that's really what sort of opened up my eyes to the opportunity set that we have in private markets and alternatives, and iCapital has been a great place to help clients access alternatives more and more.

Jorian ([02:43](#)):

Beautiful. How about you, Megan?

Megan ([02:46](#)):

Yeah, I also can say it wasn't sort of a childhood ambition. I actually went to school for hotel administration. I wanted to be in the service industry and sort of making those experiences for people. But quickly, when I joined the industry, I flipped to the real estate development investing side. So figuring out how can we make real estate as efficient as possible, and the operations of the business, how can we make that even better? So I got tons of lesson learns of actually ground up development of hotels and different experiences, learning all the questions to ask if something goes wrong and then pivoted back to the finance industry, ultimately joining sort of the private bank side. Originally, I always wanted to be closer to those clients and have those real connections and then sort of apply the investment experience that I got through the rest of my career. So I'm super excited to be here at Citi and sort of mirror both of them together.

Jorian ([03:41](#)):

Brilliant. Thank you very much. So we're talking about alternative investments. As an absolute specialist in the area, Anastasia, how do you describe it to, I don't know, your mom or your dad or someone who might not be familiar with those terms? How do you explain now?

Anastasia ([03:59](#)):

Sure. Well, as you said, a lot of people think of investing as cash, stocks and bonds, and I would say alternative investments is anything outside of that. So if you're not buying a stock, but let's say you're investing in a private company that's not publicly traded, that's an example of an alternative investment. If you are investing in, let's say, a strategy that's not only buying stocks, but maybe it's also selling stocks, in other words, a long short hedge fund strategy, that also falls under the world of alternative investments.

Or, as Megan mentioned, real estate. Typically, investors don't really buy that in their portfolios and stocks and bonds, but they allocate separately to private real estate and that also falls under the world of alternatives. So broadly speaking, anything that's not cash, that's not a stock, that's not a bond. But these are alternative strategies. That's how I would describe that. And within that, there's many different categories, some of which I alluded to, but it's private equity, it's venture capital, it's private credit, so not traditional fixed income, but private fixed income. And of course, the hedge fund universe also falls under that space as well.

Jorian ([05:11](#)):

Megan, alternative almost suggests that it's some niche, little bit on the side.

Megan ([05:17](#)):

I know you said, sort of simply, how do you put it? It's basically, privately negotiated transactions hopefully will generate better returns than those that investors would get in the public market. So you're trying to look at the different risk spectrum and seeing why would you want to tie yourself up in the private market? It is for the potential for those outsized returns..

Anastasia ([05:39](#)):

And at the same time, if we look at it relative to some of the traditional stocks and bonds, right if you look at the equity market cap, for example, it's 125 trillion. So a lot larger than the 13 trillion. And also, the global bond market cap is about 127 trillion as well.

Global bond market cap is about \$127 trillion as well. But to Megan's point is, and your point, Jorian, this is such a huge growth space, and I think Megan you would agree that 13, 14 trillion that we see in alternatives today, that's likely to double in size over the next five or so years. So that's why we're here and quite excited to be talking about this.

Jorian ([06:16](#)):

And who has been involved in this market? Who have the traditional investors been?

Anastasia ([06:22](#)):

Yeah. For my part, I would say it's been the traditional investors that are institutions. And if you think about why would a pension fund or sovereign wealth fund or an endowment foundation allocate to alternatives. Because those investors represent patient capital, meaning they have a longtime horizon, they don't need the money that they're investing for maybe 10 years plus. And because of that, they can afford to lock up that capital for a period of time without needing it back. So that's traditionally who has been investing in alternative investments.

And if you think about the pool of capital that's institutional, it's very large. It's about \$135 trillion that is controlled by institutions and they have been large allocators to alternative investments, ranging in percentages of course, but endowments in foundations, and again, because this is long-term patient perpetual capital, they've allocated in some cases close to 40 or 50% of their portfolios to a variety of alternative investment strategies. And then if you look at sovereign wealth funds or public pension

funds, the allocation is probably closer to 20%. But again, it is a much greater percentage of portfolios that we see some of the private wealth clients allocate today.

Jorian ([07:43](#)):

Anything you want to add to that, Megan? Other people who invest in this area?

Megan ([07:49](#)):

I think Anastasia covered it in terms of who is in it today, but I think again, it's sort of the opportunity that all these private equity funds, all these managers really want to get into the space and see the opportunity to move from those pension funds, from those sovereign wealth funds to more ultra-high net worth investors, family officers, and now sort of retail investors as well.

Jorian ([08:12](#)):

And is there a reason, maybe there's a really obvious reason why it's institutions or ultra-high net worths who have traditionally been in this space?

Megan ([08:23](#)):

Yeah, I mean, first it's a clearly lack of access and just that higher price point. So some of these funds have a \$25 million entry point, so that just sort of limits the base of who can actually access this. So being able over the last 10 years, really driving down those minimums to some investment opportunities is \$25,000. There's been a great evolution in terms of just the access and the price point. And then these are sort of complex investments that you really have to understand the risks associated with that and capital being tied up longer in order to make those decisions. So I would say there's quite a few points I could go into, but access and complexity are probably the two things that have inhibited this retail investor so far.

Jorian ([09:12](#)):

So these are clearly not impulse purchases, that you've got to go in with your eyes open and there's got to be a lot of thinking and a lot of advice required.

Megan ([09:22](#)):

100%. They're going to send you 100 page documents. I'm sorry.

Anastasia ([09:27](#)):

That's right. Exactly. And you can't just press a button as you would to buy a stock or to buy an ETF. This is, as Megan said, here's a stack of paperwork. Historically, that's how the subscription process worked. And because this is not a one-time investment, but this is a commitment that can be called over time as an example in private equity that also requires the capital call management. So it's access, it's the amount of investments, and it's just what historically has been a pretty clunky subscription process, which is a lot for a private client to manage and also a lot for the manager to manage as well.

Jorian ([10:05](#)):

We've said alternative investments is a catchall term for a number of different, I guess, sub asset classes. Is there one that dominates? What are the big parts of it, so to speak?

Anastasia ([10:20](#)):

Yeah, the two standouts within the close to \$14 trillion figure that Megan you mentioned is private equity, which represents about \$4.2 trillion in assets under management and that's barbelled with hedge funds. That's another \$4 trillion give or take in assets under management. So those have been sort of the historically dominant sectors within alternatives.

But we are seeing great growth, for example, in venture capital. And if you think about all the innovation that's happening out there, whether it's artificial intelligence or biotech or decarbonization, a lot of

these companies are doing this innovation. They're private and perhaps they're earlier stage, perhaps they're latest stage, but they're still private. So venture capital has been a big growing space within alternatives. And then Megan also mentioned real estate and infrastructure and natural resources, and I would say that's been attracting more and more investor attention as well. They're looking for alternative sources of yield to kind of supplement their portfolio. So private equity and hedge fund have been dominant, but again, some of those other strategies are catching up.

Jorian ([11:32](#)):

Megan, I mentioned in my introduction, I hope it was correct that they really boomed when interest rates were low. But as interest rates start creeping up, are they still as attractive? Is still an area that people want to get involved with?

Megan ([11:49](#)):

Yep, definitely. I think that people, since we talked about from the beginning, sort of want the higher returns from investing in alternative investments. So I think that this is a really attractive time to begin investing. And normally when there are periods of distress, that's really when the best vintages, when it actually is the best time to invest in these. Because managers, we're focused on doing due diligence to select managers that actually create value. They don't get lucky by buying low and selling high, but if you can take a great manager you know can execute and you can get a good entry point in terms of valuation, that really is the perfect time to be investing in alternative investments. So I think it definitely, it puts the hurdle higher if people can get with interest rates higher, if they can invest in something else, but it really is the right time for alternative investments.

Anastasia ([12:43](#)):

Yeah, it's a really interesting point, Megan and Jorian, because the hurdle rate is now 5%, right? And a lot of strategists, including myself, expectation for stock returns is really not all that great, at least for this year, kind of given what's happening with inflation and given the Fed, that's still wanting to raise rates even more. And you've got bonds that maybe give you a yield of five or 6%, but guess what? Inflation is also five or 6%. So that's not much in terms of real returns. So there is still this need to look for additional opportunities for your portfolio that can A, beat inflation. And B, potentially beat the muted returns that we expect from stocks, for example. And if I just think about it historically over the last five years, for example, the S&P returned 55% cumulatively over the last five years.

If you look at venture capital, the returns have been 157% over the same five years. If you look at private equity, 123%. And of course, we can't just invest on backward looking historical returns, but when we look at some of these assumptions, capital market assumptions for returns going forward, consensus out there that does this still expects private equity, for example, to beat the public equity benchmarks by at least two and a half percentage points. And Megan, I'm sure as you think about due diligence and selecting some of the managers, you're not just shooting for the median outperformance. You're looking to find managers that can deliver over and above that. But if we can do at least 2.5% of our performance in private equity, that's one of the reasons why investors still want to be looking to private equity.

Jorian ([14:21](#)):

But I know from our previous conversations that this is now opening up to more individual investors. And what's driving that? Megan?

Megan ([14:33](#)):

I think it is the demand opportunity. Since the price point is coming, sort of the access at that lower price point, that sort of 25K, it becomes more available, as well as providing more liquidity. So I think people normally think of private equity funds, they think it's sort of a 10-year lockup of their capital, but now, there've been a lot of innovation in terms of creating semi-liquid and liquid products that can give you access to private equity real estate and credit, that give you ability to subscribe monthly with 100% capital call, as well as to redeem monthly, and giving you potentially a current distribution as well.

So I think the innovation in the industry, which again, it's always tough because there's a lot of regulations, so we need a lot of good people at Citi to help drive to make these innovative products happen, but I think it's that innovation that really is driving the availability. I think people have been interested maybe not knowing about it, but we're trying to demystify the space and provide better access.

Jorian ([15:37](#)):

Anastasia, I'm sure iCapital has a view on what's making this accessible. I guess this is your *raison d'être* as a technology business?

Anastasia ([15:47](#)):

Yeah, that's right. Well, first of all, just again, to put some numbers around it, what's driving this is that half of the global wealth is actually held by private wealth, by individuals and family offices. We talked about the 140-odd trillion in institutional wealth, and again, that's matched by the amounts that are held by individual investors of various size.

And if I look at the allocation of those individual investors to alternatives, it's really non-existent for some of the smaller investment accounts, and maybe it's to the tune of 5% or less for some of the larger accounts, so there is a huge opportunity to diversify those portfolios. But what's driving it today versus in the past, I would say it's a few things. First of all, it's certainly the return expectations and the lower risk, sometimes, that's associated with some of these alternatives, so that's one thing that's driving the interest of private clients in alternatives.

Jorian ([16:48](#)):

Okay. So they're becoming more accessible in kind of entry point, more accessible because they're becoming more liquid, more accessible because technology is enabling people to get to them.

Who do you guys present these to? I mean, Megan, you're talking directly to your clients. Anastasia, do you have a relationship directly with clients, or are you servicing wealth managers? And what are your respective messages out for individuals to get involved with alternative investments? Lots of questions there. I'm going to ask Megan first.

Megan ([17:11](#)):

Yeah. No, I think the key focus for us is education, so we have our bankers and our investment counselors and have those relationships directly with clients, that we want to understand what are they looking for in their portfolio, and does alternative investments make sense? Sort of do they have the risk appetite, do they have those liquidity concerns?

And so we spend a lot of time on education. As you mentioned, there's a lot of jargon in these terms, a lot of fancy words, and so we really want to make sure that before a client decides to invest in alternative investments, that they really understand the risks associated with it.

Anastasia ([17:50](#)):

Yeah. And for our part, we work with Megan, we work with other financial advisors in the industry to make sure that we can also in turn provide the necessary education to financial advisors they can use with our clients as well.

But I'll echo what Megan said is this is still a relatively new space for private wealth, and there's a lot of terminology, there's the lack of liquidity, there's different ways to measure performance, so that requires a significant amount of education. I think that's great that the industry is coming together to really focus on that and deliver that to end clients.

Megan ([18:33](#)):

And I'll just add on that sort of our role of manager selection is we're really trying to find those best opportunities for our clients. For the thematic, we look at long-term trends where we see things for the next 10 years, but us sitting in the due diligence manager selection, clients can rely on us as a fiduciary.

We're writing the 100-page memos, and we're spending a lot of time and making a recommendation of where we think and see opportunities are for the best sort of for this market environment.

And another benefit we bring to our clients is that we are sort of pooling them together, crowdfunding them into these feeder structures, so that we have more negotiation power with the managers, so we can get them better terms in terms of their investment than someone else who's just going in at 25 million. We're really trying to pool to over 100 billion, and so we're able to get better rights than if they just invested themselves, is another value prop from Citi.

Anastasia ([19:30](#)):

You know, Megan, that is so key, the due diligence that your team does, because if we looked at public markets, there's relatively little dispersion between manager performance or relatively little at least relative to private equity, for example. If you look at how different the performance of a large cap manager can be versus another one, it's relatively tight, it's relatively little difference.

But then you have this huge, what we call, interquartile spread between the performance of the top, top, top private equity manager versus the median one. So I just wanted to bring that point back up again, that due diligence and manager selection is so key in making sure clients have a good experience at private markets.

Jorian ([20:10](#)):

Again, Anastasia mentioned that Citi and iCapital work together. Explain what that relationship is. How do you help each other bring alternative investments to the world of individuals?

Megan ([20:24](#)):

Yep. So, we're working together to sort of innovate here in the space to provide our clients the access to these opportunities. So, I think, again, we worked with them where they've sort of set up the feeder and they've managed the feeders for some more of the liquid opportunities. We're working with them to build out our client-facing tool for investor relations and the technology so it's easier to use. I'd say, overall, using this technology is providing us faster access for our clients in a better portal and tool, and we think the relationship's just going to continue as the space evolves.

Jorian ([21:03](#)):

Anastasia, anything you would add to that? I assume you don't just work with Citi, you are working with a bunch of different banks and finance houses, wealth managers. How else do iCapital operate?

Anastasia ([21:17](#)):

Yeah, that's right. Our mission is to really enable access for private clients to alternative investments, and there's several key pieces in that. First of all, we work with the general partners, so some of the largest asset managers, and smaller ones, that want to expand to the world of private wealth, and we provide the technology to make that whole process seamless. We talked about the subscriptions, the capital calls. That's a big focus for us. Then, we work with Megan, we work with Citi, we work with other wealth managers that have also prioritized making alternatives more accessible to their clients. And once again, we provide the end-to-end lifecycle technology for those relationships.

And then the other part of our business is working directly with independent financial advisors and registered investment advisors, RIAs, who may or may not have their own due diligence departments. And if they don't, they leverage our research in our due diligence and leverage the funds that we may have diligence and selected for our main platform. So, those are some of the ways that we work with clients and the types of clients that we work with. But I would say, broadly speaking, for us, it's about technology, it's about access, and it's about education. And I think if we deliver on all those three pillars, then this industry will be serving the private wealth community much, much better.

Jorian ([22:55](#)):

Is a logical next step in the future for all these to become digital assets? Or is that a whole can of worms?

Anastasia (23:03):

Well, I think it's definitely an initiative that's worth looking at. It seems like you can tokenize... You know what, Megan, maybe you should take this one.

Megan (23:17):

No, no. I could say that it's a different group within Citi, but that is sort of the potential. The future is these digital assets. It's tokenization, it's working with fund managers of, how are they able to build that out and offer it. So it's definitely happening now. Citi is on the forefront of working with managers to figure it out. We'll see if it gets through our due diligence and our manager selection. I can't say it's a totally different process, but that is something that could radically change the landscape and is something that people are working to drive change to right now.

Anastasia (23:49):

Yeah, there's a lot of focus on it. For us, we do have Digital Ledger Initiative, which is really designed to bring the whole ecosystem together. What is today a system of disparate processes and different stakeholders who may or may not talk to one another, our focus is really on having what we would call a single source of truth. Think of it as a single spreadsheet, a single ledger that everybody who's involved in, whether it's a subscription process or the capital call process, everybody can have access to the single source of truth, can edit it, and it can be available instantaneously to all the stakeholders. So I do think that blockchain digital ledger has, potentially, a huge role to play in alternatives and it takes all of us to focus on its applications.

Jorian (24:38):

I'm going to thank you so much for being so clear and so engaged and so lucid. I've learned so much more and I hope our listeners have, too. Thank you, Anastasia, thank you, Megan, thank you for your energy and your clarity. I've really enjoyed this conversation. Thank you very much.

Megan (24:48):

Love it. Thank you for having us. This is great.

Anastasia (24:49):

Thank you

Legal (25:03):

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