



Investnet | PMC

Alternatives Exchange Review



Firm Name: iCapital Network
Strategy Name: Various; Private Equity & Hedge Funds
Analyst Name: Cynthia Crandall
Analyst Opinion Date: October 2020

Analyst Summary

iCapital Network is a global financial technology company providing access to private equity and hedge fund products on its alternatives platform for retail clients. The firm was co-founded in New York City in 2013 by Nick Veronis, Dan Vene, Phil Pool, and John Robertshaw, with the goal of making alternative private vehicles more widely accessible to financial advisors, independent broker dealers, and family offices within the retail wealth community. The company has established itself as a leader in the space within a relatively short period, drawing the attention of and raising assets from a large number (>50) of prominent and sophisticated investors such as BlackRock, Credit Suisse, Blackstone, Goldman Sachs, JP Morgan, UBS, and Carlyle. In aggregate, the firm reported \$61.4 billion in platform AUA as of September 30, 2020—as compared with \$2.0 billion in 2016, \$8 billion in 2018, and \$46 billion at the end of 2019. Of the platform’s existing \$61 billion in assets, \$4.5 billion are in its multi-manager access funds. As the firm’s assets have grown so has employee headcount which now stands at 253 individuals. The research and diligence team consists of 11 individuals led by Nick Veronis- three of whom are dedicated to hedge funds and the remainder of whom specialize in private equity. The team conducts on average 250-300 meetings per year and leverages Castle Hall to enhance its own in-house operational due diligence. The firm’s investment committee consists of six senior individuals—each of whom have between 25 to 35 years of alternatives experience in origination, deal making, and fundraising.

iCapital’s offerings are broadly divided into hedge funds (long/short equity, hedged credit, event driven, macro/CTA, and diversified multi-strat) and private equity (private equity, private credit, & real estate), with further delineation at the sub-strategy level. Due to the targeted and time sensitive nature of private equity investing and fundraising, the firm’s open roster of private equity strategies is environment dependent and the firm will offer Envestnet users on average 30-35 private equity strategies per year. The hedge fund roster is a little more fluid due to the evergreen nature of subscriptions and redemptions and consists of 12-15 offerings with 2-3 in each of the aforementioned overarching buckets. Minimums range between \$100,000 and \$250,000 per fund, and iCapital charges 40-50 basis points to access managers in addition to traditional management and incentive fees that vary by fund of approximately 2% management fee and 20% incentive fees. iCapital does not charge an additional fee on top of the manager access fee for its private multi-manager access funds. In aggregate, the platform services more than 720 funds, 120,000 underlying accounts, and 70 white label partners. The 720 funds are a mix of new funds launched by white label partners and back book funds which are not actively fundraising but that iCapital supports in an operational and/or technology capacity. Overall, we are impressed with the caliber and institutional quality of iCapital’s research and would recommend it for qualified investors looking to diversify their portfolio with hedge funds and private equity.

Assets & Business

iCapital has grown at a breakneck pace within the past four years, expanding from just \$2.0 billion in platform assets in 2016 to \$61 billion as of September 30, 2020. The majority of that asset growth has occurred within the last two years, with the firm amassing additional inflows of \$38 billion in 2019 and \$13 billion year-to-date in 2020. The lion’s share of 2019’s AUA growth was driven by iCapital’s acquisition of the private wealth feeder platforms of BOA Merrill Lynch and Morgan Stanley, and 2020’s AUA growth was similarly propelled by iCapital’s acquisition of the Wells Fargo (\$3 billion) and Artivist (\$4 billion) alternative platforms. The environment is ripe for alternative investing and we would expect iCapital’s growth to continue to accelerate over the next several years.

The firm was founded in 2013 with the goal of providing access to private equity and hedge funds to the independent retail wealth community. The firm has since completed multiple rounds of equity financing and raised capital from more than 50 institutional investors and strategic partners such as BlackRock, Credit Suisse, Ping An, UBS, Blackstone, Goldman Sachs, BNY Mellon/Pershing, JP Morgan, Pivot Investment Partners, Morgan Stanley, Hamilton Lane, Carlyle, AMG, WestCap Eaton Partners, Monument Group, and Charter Publishing. While the number of key investors and partners is significant which can be challenging to manage, the high caliber of its strategic partners has propelled its growth and aided the firm’s strategic vision and planning overall. The firms’ co-founders and management team also continue to hold equity stakes in the company.

In aggregate, the platform services more than 720 funds, 120,000 underlying accounts, and 70 white label partners. The firm’s white labeling is a highly sought after commodity and provides advisors with sophisticated access to a wealth of customized sleek

marketing, research, and sales reporting material under their own brand and colors. The firm's access to private equity and hedge funds is fairly robust but does compete with the institutional community which is more influential particularly in areas like venture capital and as a result iCapital does not leverage the same weight in negotiating fees or terms. With that said, the level of partners and access it has established thus far is formidable, and as the retail community expands and assets continue to scale, we would expect it to favor both the quality and breadth of its offerings, as well as ability to begin to negotiate fees and terms which it has not done to date.

Investment Team

iCapital's investment team of 11 professionals is led by co-founder and managing partner Nick Veronis. Mr. Veronis is a graduate of Trinity College and 20-year industry veteran with various prior roles as a financial journalist, financial advisor, and private equity investor. Reporting to Nick are Kunal Shah, Managing Director and Head of Private Equity, and Joe Burns, Managing Director and Head of Hedge Funds. Mr. Shah and Mr. Burns each lead their respective analyst teams. Prior to joining iCapital, Mr. Shah was a principal in the private markets group at Meketa Investment Group where he spent just under 9 years. Mr. Shah holds a bachelor's degree from Drexel University. Joe Burns is a graduate of Manhattanville College with an MBA from Fordham University. Prior to joining iCapital, he held various CIO, COO, and Director of Research roles at a number of hedge funds and wealth managers. The remaining analysts generally have between ten to twenty years of industry experience at a mix of hedge fund, private equity, investment banking, and financial advisory firms. While most of them are not CFA or CAIA charterholders, a fair portion have completed advanced degrees. We find the quality of the research team's analysis and reporting to be of institutional caliber—it is well laid out and thorough allowing investors to make well informed decisions on the platform's offerings.

iCapital has a number of governance boards and Committees consisting of highly qualified and experienced investment professionals. iCapital's Board of Directors meet at least quarterly and consists of nine individuals with representation from COOs and heads of strategy from firms like BlackRock, Blackstone, the NSA; the Board is supplemented by 14 board observers from other large investors and key stakeholders. The investment committee consists of the following six individuals: Nick Veronis, Dan Vene, Eileen Duff, John Robertshaw, Phil Pool, and Brian Levine. They meet at least quarterly and are responsible for approving new products, setting restrictions, and choosing the portfolio investments held by the funds. The firm also has valuation, risk management, executive and new product committees. Although iCapital has participated in numerous financing rounds, management and employees continue to have meaningful equity stakes; as of the last funding round (3/31/20), internal stakeholders represented 27.7% of iCapital's equity, with the CEO and co-founders accounting for the largest stakes. Envestnet | PMC views the breadth and quality of individuals within iCapital's investment team and corporate governance boards as robust.

Investment Philosophy & Process

The iCapital platform is designed for the purpose of making private alternative vehicles more accessible to independent wealth managers and financial advisors, while simultaneously affording private equity and hedge fund managers a way to diversify their capital and tap into a fundraising channel that has been historically dominated by the institutional community. iCapital seeks to establish a robust and well diversified curated menu of offerings across hedge funds and private equity vehicles at low investment minimums to offer qualified investors and their advisors an additional compelling source of uncorrelated return. Asset managers and banks who utilize the platform benefit from a diversified retail fundraising channel and the ability to scale subscription document processing.

iCapital follows a well-defined investment process for hedge funds and private equity vehicles. The private equity due diligence process consists of three stages: Phase 1 involves the assembly of a forward looking calendar of funds in fundraising status over the next 12-18 months (typically ~600) via both the team's existing network, Preqin database searches, and consulting placement agents like Credit Suisse, Park Hill, Eaton Partners, Capstone, and the Monument Group, which it then whittles down to a focus group of 40 to 60 strategies based on areas of interest and demand; Phase 2 involves the analysis of the aforementioned data, including an introductory manager meeting and detailed benchmarking, track record, reference calls, and competitive landscape analysis; Phase 3 culminates in a half or full day onsite meeting with senior management and the production of a detailed analyst report. Phase 3 is the final phase prior to onboarding and typically takes 4-6 weeks overall; roughly, 3-5 weeks are spent by the research team evaluating data room materials and having conversations with the management team, and 1-2 weeks are devoted to operations, finance, and legal. Among the research team's considerations are the investment team's depth and stability, investment strategy positioning, competitive landscape, loss ratios, case studies, pipelines and lessons learned. Quantitatively, the team reviews performance track records, public market equivalent returns, dispersion relative to peer groups and benchmarks, loss ratios, partner

attribution, as well as capital deployed and multiples achieved across sectors and geographies. iCapital will also contact past and present portfolio companies, former employees, bankers, lawyers, and other service providers for reference checks. The addition of a strategy necessitates the unanimous approval by all investment committee members.

The hedge fund due diligence process consists of five phases. Phase 1 involves an assessment of both the market opportunity set and platform demand; the platform seeks to offer two to three managers across each of the following five core asset classes: long/short equity, hedged credit, event driven, macro/CTA, and diversified multi-strategy. Phase 2 entails a manager screen whereby new funds are screened against a peer universe to compare a variety of key data points such as performance, beta, volatility, and downside risk; funds with less than a 5-year track record and \$500 million in assets are generally screened out. Phase 3 consists of the initial due diligence of the select focus group of managers which the team has identified via a series of introductory calls to better understand things like the team, organization, portfolio construction, strategy return drivers, and risk management. Phase 4 involves advanced due diligence, whereby the team does a deeper dive on the strategy, conducts reference checks, and ultimately drafts an approval recommendation memorandum to submit to the Investment Committee. The team leverages Castle Hall's operational due diligence reporting in its assessment. Phase 5 is the review and approval of the strategy by the Investment Committee, and all six members (Nick Veronis, Dan Vene, Eileen Duff, John Robertshaw, Phil Pool, and finally Brian Level from Park Hill) must unanimously approve. Once approved, managers are required to submit a range of monthly and quarterly datafeeds which are subject to at least minimum quarterly check-ins or more often as needed; the data is not 'scrubbed' by an in-house data team but managers are required to sign off on its accuracy. All reporting (full due diligence reports and quarterly updates) are available to investors via the online portal.

Risk Management



iCapital's due diligence process incorporates both qualitative and quantitative elements with the goal of identifying both investment and operational risks prior to onboarding. Among the information the investment team collects and reviews is the performance of the manager's existing and prior funds, historical cash flows and portfolio company data, exposure and attribution data, marketing material, investor presentations, due diligence questionnaires, and risk templates via a secure data room. The team particularly focuses on the investment team's experience and continuity, the consistency of strategy performance and alpha generation, fund terms, and the firm's corporate governance. A strategy must be unanimously approved by the Investment Committee in order to be added to the platform.

In terms of ongoing monitoring, the investment team reviews monthly manager data feeds and conducts at minimum, quarterly check-ins. Among the topics discussed during quarterly check-ins are the fund's performance, asset flows, liquidity, derivative holdings, counterparty exposure, and use of margin where applicable; the majority of iCapital's managers have very limited participation in the most illiquid Level 3 assets as iCapital typically opts out when the investment terms allow. If an issue is identified, the fund is placed on 'Watch' and new subscriptions are shut down. When placed on 'Watch,' managers are given 1-2 quarters to address the issue or are otherwise wound down. Historically, the firm has only had to wind down one feeder fund early in its career and that was due to insufficient assets. In addition to the data it collects, the team leverages a number of outside data vendors such as eVestment, Hedge Fund Research, Whale Wisdom, and RiskMetrics in its risk management. iCapital also utilizes Castle Hall, a leading provider of operational due diligence for hedge funds and private equity, to complement its own internal operational due diligence assessment and reporting.



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