

MARCH 28, 2016

iCapital Uses Tech Platform to Help GPs and the Wealthy Connect

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When Warburg Pincus launched fundraising for its 2015 flagship private equity vehicle, the firm quickly drew more investor demand than it could take in.

But iCapital Network Inc., a three-year old financial technology company, got a slot in the \$12 billion fund.

A \$10.5 million portion of iCapital's commitment to Warburg Pincus Private Equity XII LP was then packaged into a fund that was divided between 34 investors, according to a March filing with the Securities and Exchange Commission. The minimum pledge an investor had to make to get a slice of the action: \$100,000.

iCapital, of New York, gives accredited investors and registered investment advisers access to alternatives through an online platform – without the need for multimillion-dollar commitments. iCapital enables general partners to access capital from a sector that has been largely out of reach.

"Our size and the market we're in get us the allocation and are things GPs find compelling," said Lawrence Calcano, an iCapital managing partner. "This is going to be an important source of capital and is largely untapped."

iCapital committed \$300 million to 11 private market funds in 2015 and expects to pledge even more this year, said people familiar with the matter.

The firm is in the process of building and curating a portfolio to draw a broad clientele – from family offices, to independent and regional broker-dealers, to wealth managers and individuals – some of whom are potentially wading into private equity for the first time. Its online platform has 750 registered users, including advisers that represent tens of thousands of high-net-worth investors.

iCapital writes checks of \$10 million to \$120 million per fund. It assembles either single or multiple fund allocations into vehicles that then can be accessed more broadly. "We're taking cues from our investors so we can make sure our allocation lines up with demand," said Hannah Grove, iCapital's chief marketing officer. "What a lot of fund managers want is to aggregate dollar amounts committed as they don't want to fund a fragmented group of people," Mr. Calcano said. "They're not ready to deal with check sizes of \$100,000 and capital calls to an incredibly fragmented market."

iCapital in March bought HedgeFocus, a hedge fund business of Credit Suisse Group historically focused on private banking clients. The deal brings iCapital's commitments to over \$2 billion, from more than \$300 million.

As a smaller player, iCapital might not be able to dictate terms as a larger

institutional investor would. But the fintech firm benefits from the stature of some heavy hitters behind it. The firm's backers, which include fund administrator Gen II Fund Services, Credit Suisse Group, Bank of New York Mellon Corp., Park Hill Group and Eaton Partners, provide a network through which it can get word of new funds.

In the past year, iCapital made commitments to Khosla Ventures V LP, Apollo Structured Credit Recovery Master Fund III and Coatue Private Fund II LP.

Among the areas it is zooming in on are growth strategies. "Tech companies are staying private much longer, and so, not surprisingly, we've heard more people asking if we can help them invest in Web-enabled private companies that are helping to define the new economy," said Managing Partner Nick Veronis, who is part of a five-person investment due diligence team. "More than a few have asked, 'Where can we find the next Uber and Airbnb?'"

iCapital also seeks income-yielding funds that provide downside protection in volatile markets. Its investment team is actively exploring direct lending, second-lien and unitranche debt funds, which could stand to benefit as banks retreat from lending. The firm also is looking at distressed funds that could take advantage of market dislocations.

For any commitment, iCapital requires unanimous approval of a six-person board, which is chaired by Phil Pool, co-chair of placement agent First Avenue Partners LLP.

iCapital is looking to steer away from funds that are too late in the cycle to strike. Any firm that seeks rapid growth in fund sizes would prompt iCapital to think twice.

"If a manager doubles the size of the next fund but doesn't expand the size of the senior investment team, that would be a red flag," said Mr. Veronis.

iCapital Network Inc.

Investment Pace

iCapital committed \$300 million to 11 private market funds in 2015.

Key People

Managing Partners Dan Vene, Lawrence Calcano and Nick Veronis

Select Relationships

Khosla Ventures, Apollo Global Management, Coatue Management