FUNDfire

Merrill to Add Private Equity Funds to Advisory Program Menu

By Danielle Verbrigghe March 29, 2018

Merrill Lynch is planning to add traditional private equity funds to the menu of products available to advisors on its investment advisory platform.

The wirehouse is planning to add private equity funds for eligible clients to the investment product menu of a client discretionary advisory program available on the Merrill Lynch One platform, according to a recent regulatory filing.

Merrill Lynch

NUMBER OF ADVISORS
17367

FIRM-WIDE ASSETS
$2,284,803 Million

FEE-BASED ADVISORY ASSETS
$1,084,717 Million

DISCRETIONARY ASSETS
$259,014 Million

KEY PLATFORMS
Merrill Lynch - Merrill Edge Advisory Account Program (MEAP), Merrill Lynch - Strategic Portfolio Advisor, Merrill One - Custom Managed Strategy, Merrill One - Defined Strategy, ...

Profile updated as of 05/15/2018

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“The addition of private equity funds will complete the suite of [alternative investment] solutions available through the program, extending the range of solutions for advisors seeking to deliver a professionally managed account to help clients pursue their goals, within a fiduciary framework,” said a Merrill Lynch spokesman in an email.

The new addition, planned for the latter part of this year, would add to existing alternative investment options Merrill Lynch has previously made available in its investment advisory program, including hedge funds, physical precious metals and liquid alternatives. The platform also historically included so-called ‘evergreen’ private equity funds, which were structured like hedge funds, with periodic liquidity.

In contrast, the new additions would be traditional private equity funds, with a drawdown structure featuring capital calls and no client-driven liquidity. Such traditional private equity funds were previously only available in brokerage accounts at Merrill.

Going forward, the firm will look to make new private equity offerings available through both brokerage and investment advisory channels.

In the advisory program, the funds would feature a special share class, without front-end loads or advisor trails, designed to fit with investment advisory requirements.

The private equity offerings could include various types of funds, including buyouts, special situations, private credit, venture capital, mezzanine and opportunistic and value-added real-estate.

Merrill Lynch, like other wirehouses, historically focused on giving advisors access to periodic private equity offerings through brokerage accounts, rather than in fee-based advisory accounts subject to the fiduciary standard.

Adding private equity to an advisory account would generally dial up the risk profile of the portfolio, says Tim Welsh, president of Nexus Strategy. For this reason, some firms have stayed away from making such products available in investment advisory accounts.

“It definitely raises the risk profile for those accounts,” Welsh says. “This is why a lot of firms are defaulting to vanilla. If it’s not a typical investment product, they’re just saying no to it.”

But adding private equity funds to advisory programs could increase advisors’ use of the asset class by making it easier to access, Welsh says.

There is growing demand for private equity funds amongst advisors working with high-net-worth and ultra-high-net-worth clients, says **Lawrence Calcano**, CEO at **iCapital Network**, a platform that delivers alternative investments to advisors.

“What you’re seeing on the product side is a growing demand for private equity investments and alternatives generally as part of these high-net-worth portfolios,” Calcano says. “That trend is being seen and felt across all the bank platforms as well as the independent wealth platforms. We believe that trend is ongoing and growing.”

But at both banks and independent advisory firms, “there are multiple hurdles that have prevented people from significantly investing in private equity,” Calcano says.

Those include minimums, access to funds, information around the funds, the complex nature of filling out subscription documents, and the reporting, Calcano says.

“It’s definitely an asset class that’s more complicated than buying common stocks or treasury bonds,” Calcano says. “I think you’ll see more and more of the big banks, as well as [independent firms] looking to employ technology to make that whole process a lot easier for their advisors and their clients.”