KEYNOTE INTERVIEW

Democratising access to private credit

As demand from non-institutional investors for private credit exposure increases, iCapital Network's Lawrence Calcano considers how technology and education can help bridge the gap

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iCapital Network is an online investment platform connecting advisors and high-net-worth investors with private credit funds and other alternative investments through a proprietary technology platform that automates the investing experience for both parties. Established in 2013, it services approximately 450 funds across its flagship platform and multiple white label partnerships – including firms such as Blackstone, Carlyle, and JPMorgan Asset Management – with about one in eight offering private credit exposure. While the majority of the $41 billion invested through the platform is in US alternatives funds, additional international expansion is on the horizon.

Lawrence Calcano, chief executive at iCapital's New York headquarters, talks about the firm's mission to democratise alternative investing. Calcano considers the demand for private credit, how to handle the challenge of illiquidity and the never-ending quest to make online private credit investing comprehensible and user-friendly.

Q Do high-net-worth investors see a strong case for private credit?

There is currently a lot of demand for private credit. Some people still think about it as part of the alternatives allocation within a portfolio, but many are now starting to consider it as a component of the fixed income bucket. That shift in mindset will continue to drive demand for private credit. Fixed income yields are so low elsewhere that private credit looks attractive, and people are also seeking diversification. In line with the desire for diversification, interest is growing in private credit that's less correlated to mainstream financial markets, such as financing against aeroplanes and other hard assets.

Q But it has historically been hard for non-institutional investors to access private credit, hasn't it?

The historical characteristics of the asset class, such as high minimums and limited transparency, have prevented non-institutional investors from accessing private credit. Even a very wealthy person, with $10 million in investable assets, might not be able to invest in a private credit fund – few of them have minimum investment thresholds below $5 million. But what if you could put $100,000 apiece into five investments, giving you a 5 percent allocation? All of a sudden you have the ability to invest in the asset class, and in a diversified way. This is the goal of our platform. High-net-worth households invest through wealth advisors and other intermediaries, who register on our platform or access white-label versions of the platform customized by banks and asset managers. We can facilitate these low thresholds for our clients by pooling their investments to meet the minimum threshold required by the fund. Our technology streamlines the entire process.

From the general partner perspective, the competition for investors is intense, and fund managers want access to high-net-worth capital to expand their investor base. However, it is difficult for them to build a whole new back-office infrastructure to accommodate these non-intuitional-investors, so our platform helps service and manage this investor community for managers.

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Q How well-equipped are these non-institutional investors, and their advisors, to understand private credit?

The advisors on our platform, and by extension their investors, are well equipped. An important part of our work is providing the support to expand their appreciation for the nuances of the asset class and characteristics of specific products. Most managers are used to dealing with institutional investors with large teams who understand the asset class in detail, while most of the advisors using our platform do not have the staff for that, so we try to augment their practices by providing specialized services.

For example, we build their understanding of the value of investments that are not priced every day like bonds, and the detail of issues such as the different kinds and cadence of distributions. We provide summaries of performance, and in some cases we get on the phone with advisors to talk about their investments.

Q How can high-net-worth investors and advisors inexperienced in private credit tell the good from the bad?

We make it easier for them by carefully selecting the managers available on our flagship platform. We are decidedly not a supermarket – we have an expert in-house research and due diligence team with a comprehensive process for tracking and evaluating funds. Giving access to every kind of fund out there without curation does not help advisors – frankly, it spreads confusion.

We select managers for our flagship platform that we think are well-positioned to be top in their strategies. We look at the track record of funds over credit cycles, at their approach to risk management, and also at whether the managers who delivered outperformance are still involved. In some cases, we also review references for fund managers. We want to judge whether previous outperformance is repeatable.

Q To get all of this to work, what skills does a platform provider team need?

Our team has experience in all parts of the value chain, including origination, due diligence, managing the investments, operational matters such as capital calls and distributions, and reporting.

Crucially, a large chunk of our team – almost half – are in technology. They make sure the platform runs flawlessly and automate and digitise as many of the operations as they can to make it easier for advisors to invest on behalf of their clients. We are also continually adding functionality. For example, we recently announced a partnership with Nasdaq Private Market to create a secondary marketplace for private holdings through iCapital. This will offer liquidity solutions to advisors and their clients, alleviating one of the impediments to widespread investor adoption of alternatives.

Q Many large institutional investors are happy with some illiquidity, but how about high-net-worth investors?

Generally speaking, liquidity is very important to the high-net-worth segment, although they do earn a premium for accepting illiquidity. Tolerance for illiquidity varies widely depending on the circumstances of each person, but many high-net-worth investors can afford to have some money locked up for long periods. Although private credit funds tend to have a duration shorter than private equity funds – an average of perhaps six years, compared with 10 years for private equity – if an individual's circumstances change and liquidity is required, that's where our partnership with Nasdaq adds a critically important aspect to the process.

Q Looking to the future, do you think that eventually private credit will be accessible even to the average retail investor?

From a technical point of view, our platform could serve a broader set of investors right now, and the industry seems willing to discuss the idea of opening up access.

Over time the number of people who can invest in private assets is likely to expand, but these investors and their advisors will have to be educated about the ins and outs of private assets.

Taking the broad view, we want to make investing in this asset class as simple for folks as buying a mutual fund. We continue to invest in the technology and operational support to make that a reality.

Q Do you think the idea of technology connecting funds and high-net-worth households might catch on outside the US?

Already up to 15 percent of our investors, by value, are outside the US, and that proportion is growing. We opened an office in Zurich in 2018 to serve foreign investors and establish contacts with fund managers in Europe and Asia, and expect in the short term to make further investments offshore. ■