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FUNDS

Why your next LP could come via iCapital's platform

The fintech platform wants to break the barriers for HNWIs to access alternatives, says chief executive Lawrence Calcano

Financial technology platform iCapital Network this month partnered with PGIM Investments, the retail distribution arm of the $1.4 trillion asset manager, to augment its distribution and servicing capabilities.

In June, it acquired the alternative investments feeder fund platform from Wells Fargo's Global Alternative Investments division. This is the latest in a string of acquisitions the firm, which connects high-net-worth individuals and their advisors to alternative investment managers, has made since 2016.

Starting with managing $300 million of client assets in 2015, iCapital as of end-June services more than $52 billion in client assets. That figure is set to reach $60 billion once recent acquisitions are completed. Its backers, private equity heavyweights Blackstone, BlackRock, Hamilton Lane alongside Ping An Voyager Fund recently put an additional $146 million into the business.

Private Equity International caught up with iCapital chief executive Lawrence Calcano to find out more about what its recent acquisitions mean and how high-net-worth investors could change the dynamics of the private equity industry.

Calcano: we'll continue to push the envelope

Q iCapital has been on an acquisition spree in recent years – what is your grand plan?
The foundation of our continued relevance [to the alternatives industry] is that we have created its common infrastructure – our technology is essentially a common language that everyone can now use. GPs, distributors and financial advisors are all able to use iCapital to tap into high-net-worth investor capital. We've created a well-needed marketplace for alternative investments.

Our partnerships with the large banks and fund managers help them to grow their business and achieve their objectives. We continue to focus on trying to add more value to these players, doing things like adding incremental functionality to the platform, adding more products and features.

To that end, we launched a partnership with NASDAQ to offer liquidity opportunities to investors, we have on-going efforts to drive end-to-end automation by establishing digital, paperless connectivity with transfer agents, custodians and administrators. We also expanded our fund due diligence services to white label GPs. We are going to continue to push the envelope on automation, functionality, security and the like. Not only do we think there is a big opportunity for us to remain relevant but grow that relevance.

On the international front, we have a significant opportunity. We already have quite a large number of non-US funds and non-US investors in the billions of dollars. We're managing today around more than $12 billion from non-US investors. And we have a number of investors in iCapital that are based outside the US who can also help us scale. And, so, we're looking to really continue to drive into the global market and help create solutions for advisors throughout Europe and Asia as well, and we see that as a very big opportunity.

Q Has the pandemic changed iCapital's growth plans?

iCapital's recent acquisitions have all been about aggregation and providing an industry solution and a best-of-breed infrastructure for all the constituents to benefit from.

The pandemic hasn't changed what we are doing vis-à-vis what we set out to do in the beginning of the year. Our focus is on being the operating system for the industry, the platform that enables GPs that connect with advisors. They both clearly benefit from that connection and we're focused on building the platform that automates that relationship as well as automate all the other constituents that are important to this whole ecosystem – custodians, transfer agents, administrators.

What's happened in this pandemic is that with people working remotely, a lot of decision-makers are realising that automation is essential from a business continuity perspective. You don't have people in the office, it's a lot harder to operate remotely and so an automated infrastructure really facilitates.

We are seeing an uptick in client interest – GPs and distribution platforms – as a result. No one really knows [what the working environment will be like] post-covid between in office and out-of-office, and that just puts a premium on an automated infrastructure.

Q Will the entrance of more retail investors in private equity change the dynamics of the industry?

The high-net-worth advisor marketplace is massive. Historically there just hasn't been the availability in products, in part because most private equity funds just market to institutions. The HNW channel is also challenging for GPs in terms of the infrastructure that was built to take really large tickets from a small number of investors as opposed to smaller tickets from thousands of investors. So, their infrastructure was not targeted to HNW investors and a lot of the HNW advisors were not positioned to, or get access to, evaluate the fund, not to mention the fact that operationally it was really hard for a lot of advisors. There were a lot of impediments that existed.

What we have been doing systematically is to break down those impediments and make these assets available to HNWI in an institutional way and also make it easy for GPs to offer their products in a way that they can manage and scale by outsourcing the technology to iCapital. Our focus is on enabling this industry to grow and to facilitate the connection points between the different stakeholders. So today, we've made it far easier for both parties – the HNWI and the GP – to engage.

As I mentioned, it's more than those two players – it's the full ecosystem, so what you're seeing is the connectivity of all the components of the industry onto a common platform. End-to-end is what we're really driving at. Ultimately the investment success and financial success of the underlying client is a huge driver in terms of why people want to establish alternatives in these portfolios.

Q Most of your investors also offer their products on iCapital's platform – how do you ensure alignment of interest?

We've actually created great alignment by being thoughtful and intentional about the firms who invested in iCapital. Rather than say, just one GP, we have a consortium of the largest banks and asset managers in the world and it gives us invaluable perspective. They are all high-quality investors who are leaders in their various fields and they have all come together to back our offering. That helps us understand the needs of distribution platforms, the needs of GPs and allows us to build best-in-class functionality, which benefits all of the stakeholders.

Our platform is open, so every GP and every distribution platform leverages what we are building, which is important. We think having the backing of the industry creates terrific alignment with what we are doing and we have been able to manage this very successfully.

Diligence continues to be a very independent function within the organisation and we write substantial research reports on all of the funds we put on the platform. Rather than complexity, having all these big backers creates alignment.

Q Is iCapital planning to tap the defined contribution market in the US?

The letter essentially opens the door to target date funds making prudent allocations to alternatives like private equity. However, we favour a thoughtful and slower approach to maximise the probability of successful outcomes for investors. Speed isn't anyone's friend here. There are significant complexities to overcome based on how these funds are structured. Additionally, education for all parties will be essential. We are watching it closely. ■

Lawrence Calcano is chairman and chief executive of iCapital Network. He was previously partner at Goldman Sachs where he spent 17 years, most recently as the co-head of the global technology banking group of its investment banking division.