

# Investment

THE VOICE OF INDEPENDENTS

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A photograph of three men in dark suits and ties walking towards the camera on a city street. In the background, there are yellow taxis, a white truck, and tall city buildings under a bright sky. The overall scene is a busy urban environment.

# Alternatives *on the* March

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The founders of CAIS saw the opportunity in the move to independence. They're capitalizing on it with the first global alternative investment platform for advisors

**G**et three smart guys together in a bar, give them a few drinks to get the "creative" going, and they're bound to hit on an idea.

It's cliché to talk about the proverbial "cocktail napkin" moment, but the founders of CAIS proudly note they still have a picture of theirs.

"Yeah, there is actually a cocktail napkin; you want it?" Matt Brown, the firm's co-founder and CEO, helpfully offered.

Throw in the phrase "alternative investments," something that's received quite a bit of attention since 2008, and you quickly realize why their idea has taken off.

CAIS has launched what it calls the first global alternatives exchange, known as CAIS-X, which provides advisors with a platform for conducting due diligence, analysis and trading of alternative investments. The idea is that it will bring private vehicles into the public (advisor) space. With greater interest among advisors of alternatives in recent years, the value is readily apparent; something to which their 10% monthly growth can attest.

BY JOHN SULLIVAN

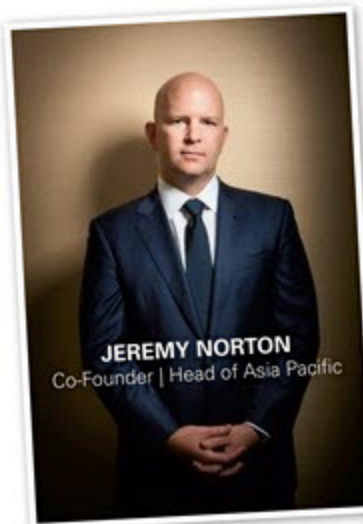
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DAVID JOHNSON

But don't let the name fool you. The firm's CAIS-X platform may be described as an online exchange, but Brown was quick to note they refer to it that way only to emphasize its product-neutral structure.

"Sometimes when we use the word 'exchange,' people jump to the conclusion that maybe it's a trading of existing interests in [alternative] funds or products," Brown explained. "Like a secondary market. But we always like to make it very clear that even though we use the term 'exchange,' our platform is for primary investment transactions. And we are custodian- and product-neutral."

Brown and cofounders Rafay Farooqui and Jeremy Norton have wirehouse backgrounds, and it was something they all noticed at their respective firms that got them thinking.

"My background is capital markets," Farooqui, the firm's president, said. "I started my career at Goldman Sachs and spent a lot of time there [with] alternative investment firms. The common thread we all saw was the departure of talent from the large infrastructure of the wirehouse to the independent space."



**JEREMY NORTON**  
Co-Founder | Head of Asia Pacific



**MATTHEW BROWN**  
Co-Founder | CEO



**RAFAY FAROOQUI**  
Co-Founder | President

"The thought process was, 'Let's build an independent firm around that theme,'" Brown, a Shearson Lehman Brothers and Smith Barney alum, interjected. "The clear starting point was with the investment advisors, because of their interest in alternatives and the fact that so many are leaving large institutions."

They began in January 2009, and the platform went live with institutional clients in January 2011. It's strictly a B2B play: Their clients are advisors, and they target relationships with RIAs, broker-dealers, private banks and other professional wealth management institutions.

"That's a big distinction in our business, as well," Brown added. "We're highly focused on the solutions that advisors need to win and compete in the marketplace."

The core of the CAIS-X platform relies on bringing together members of what they refer to as the CAIS ecosystem, which includes custodians, product providers, administrators, due diligence providers and, of course, the advisors themselves.

"What you end up with is a single venue that has access, independent due diligence [and] execution, which is streamlined and integrated with the custodian's infrastructure," Farooqui added.

The firm's intuitive, easy-to-use interface includes a dashboard with multiple features that he proudly trumpeted without seeming to take a breath.

"It's a monitor of tasks outstanding," Farooqui ticked off. "It's an alert-setting system so advisors can get a quick idea of the exposure their clients have in the alternative space. The product menu is set up to filter in much the same way as if you're buying an airline ticket. By that I mean if you want to go from New York to Miami, you'll have certain options. If you'd like a CTA manager in the same way, you'll also have certain options. You can set the criteria to get to the product that's right for you. We have a robust analytic system as well to analyze in depth each product. We are really in that business of making the advisor's experience seamless and with the fewest obstacles to enable

them and empower them to go out and grow their businesses."

"[Relief] of friction and pain points by providing the solution is seen in every aspect of our exchange," Brown added more succinctly.

It's no secret the traditional hurdle to alternative investments is a lack of access, but it's one that's quickly crumbling as more products and services continue to move down market to the masses. It's also no secret that platforms like CAIS-X are largely the reason.

So when they speak of the alternative investment universe how, exactly, is that defined?

"The first stop for CAIS was to solve what we believed to be the most complicated piece of the puzzle, which is the traditional hedge fund investment," Brown said. "The larger hedge funds are in demand by advisors, but have very high minimums. They might be getting access to those funds at bigger wirehouses, but outside of that architecture, no one has connected the dots with all the critical players. So getting hedge funds operationally accessible was step No.1."

The platform currently claims over 40 hedge fund product offerings and is growing. The second step, he continued, was to enter the private equity world.

"Like our hedge fund offering, we started with some of the top names in the space with seamless execution and integrated reporting and an independent due diligence framework."

Reflecting the "three easy steps" (or screens) adopted by many smartphone and tablet makers, the order execution system is one that Farooqui believes "is the first execution order entry system to make seamless the purchase of alternative investments."

The three steps are selecting the product, indicating which clients the advisor would like to buy for and entering the trade details and execution.

"Our minimums for all of our products are \$100,000, so they can very efficiently be put in one portfolio in a diversi-

fied manner," Farooqui said. "The system then interconnects the ecosystem with administrators, custodians, and documentation and back-office functions. A top-line view of a team's performance is prominently displayed."

A hierarchy can be imposed for information viewing purposes, meaning a wealth management firm's CEO can see the alternative exposure across all his advisor teams, or a team can see their exposure and can then choose what to share with clients, as well.

While the platform is fully scalable (Brown noted it can fully service one advisor or several thousand), Farooqui claimed it's really built for "very large firms with multiple advisors, or an RIA to manage their overall exposure and performance."

Due diligence then becomes an obvious question, given that so many broker-dealers and advisors were tripped up by Medical Capital and Provident Royalty, and clients still negatively associate terms like "feeder funds" with Madoff and Stanford. It's a question CAIS takes seriously, and they've partnered with research and consulting behemoth Mercer to ensure it's done properly.

"They have many aspects of their due diligence on the investment side," Farooqui explained. "They have their operational due diligence, as well as monthly commentary that provides their views on a particular product or manager. We've separated the idea of access to product from the independent due diligence of that product. It's a very unique way to approach it for the wealth management industry. With most of the offerings out there, those two things are coupled."

He added that risk assessment firm RiskMetrics is their transparency provider, which gives advisors the ability to go deeper in examining what it is they're buying. Mercer and RiskMetrics are two respected names that should go a long way in reassuring skittish compliance departments. Still, with the aforementioned MedCap/Provident Royalty problems, what kind of resistance are they experiencing?



## CAIS-X QUICK FACTS

### GROWTH

CAIS-X volume is increasing at a rate of approximately 10% month-over-month.

### LOCATIONS

Headquarters in New York with satellites in Australia, Zurich and San Mateo

### EMPLOYEES

Approximately 25 employees

### MEMBER FIRMS

#### Over 50 wealth management firms globally

- Top U.S.-Based Member Firms
  - HighTower Advisors, Focus Financial Partners, Jeffries & Co., U.S. Capital Advisors, CONCERT Wealth Management
- Top International Member Firms
  - Macquarie Bank, Banque Julius Baer, Falcon Bank

### KEY PRODUCT FACTS

- Consolidated menu of top investment funds and products
- Currently offers three product lines: hedge funds, private equity and precious metals
- Over 40 funds offered on CAIS-X (Including U.S. taxable offerings and nontaxable offerings)
- Ten additional funds to be added by year end

### SERVICE PARTNERS

#### • Mercer

Mercer is a global provider of institutional investment research and consulting and operates in over 40 countries. Mercer's deep research team of over 125 members qualifies and monitors all funds on CAIS-X.

#### • State Street

State Street has approximately \$23 trillion in assets under custody and operates in over 25 countries. State Street performs a range of key functions for CAIS-X, including platform custodian, transfer agent, fund administration and reporting integration.

"Thus far, it has not been great," Brown claimed. "We've actually been welcomed. We know that part of our workflow very early on with any institutional relationship will involve legal and compliance. That goes for whether they're as big as HighTower or a few guys in a small shop. We provide management reports back to the firm on what advisors are buying, as well as the exposure and activity on the platform."

They can also imbed firm-specific disclosures and compliance requirements into the exchange. For instance, when members of that firm log on with their secure password, they may have to take a continuing education course at certain times of the year before accessing the platform.

*"Whenever you're a new business with a new solution, there's always a fair amount of work to do in order to get known."*

So does the explosion in interest in the alternative space post-2008 make the platform an easy sell? If only it were that simple.

"Whenever you're a new business with a new solution, there's always a fair amount of work to do in order to get known," Brown added. "Our ability to work with firms that are growing themselves is a big opportunity. Many of the players are aggressively acquiring new advisors."

It's that much more of a challenge, and opportunity, when the platform is expanding globally. Co-founder Norton is heading up operations in and around the Pacific Rim and Asia, relying on the connections he made from his past experience in alternative asset management, marketing and distribution, having worked at firms including Fuji Bank, Castlestone Management and Brownstone Advisors.

In fact, all three partners have relied on personal relationships and industry connections to help build the business. It's something else that sets the platform apart—after all, how many technology platforms get their start without some sort of early-stage venture capital funding?

"We've built relationships with like-minded individuals," Farooqui said. "When we think about raising money for a venture like this, you first have to find strategic shareholders that understand what you're trying to achieve. When we approached them as partners, it was really with the idea in mind and less about the capital that they could provide. Today, they're a well-diversified group of 20-odd global family offices."

"We also believed it was important to go into this business with deep resources," Brown clarified. "This adventure is not for the light of heart, so building a company like this really requires having strong financial backing. One of the things that we're most proud of is having a global shareholder base that allows us to run a global platform. I know we're talking a lot about the independent space in the United States, but CAIS is in fact global."

One last question—where is CAIS going? For a global alternative investment platform that can accommodate every business model, from small independent to large wirehouse, the answer is what one would expect.

"We've been growing month over month on headcount," Brown says. "Of course, we're always adding to our internal technology team. We have our compliance and operations teams as well, and our sales and marketing. The team now stands at 25 people. We expect that to double in the next 12 months."

"We have demand coming in on a consistent basis [from] both our current and future clients," Farooqui concluded. "We have the best product providers in private equity hedge funds, real estate, etc., looking to partner with CAIS on an increased [basis]. Couple those with the need for lower volatility and lower correlation components in a wealth portfolio that an advisor needs, and those trends are the wind in our sail."

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unique. so are  
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tell us your best.**

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