# New M&A Entry Using Alternatives to Woo RIA's

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Securing an equity stake in the fast-growing RIA market usually involves fierce competition among aggregators, private equity firms, banks and large financial service companies. A new contender, Aequitas Capital, is hoping to woo advisors with an unusual but potentially potent pitch: its expertise in alternative investments.

Aequitas bills itself as an "alternative investment management" firm specializing in private credit, private equity and merchant banking. Based in Lake Oswego, Oregon, the 21-year old firm has about $1 billion in assets and is best known for alternative products like private notes, a high-yielding fixed income fund and its private equity fund.

The company's push into wealth management began earlier this year, and last week [Oct. 7] Aequitas brought in Brian Rice, a veteran executive who has worked at KeyBank and Wells Fargo, to run the new wealth management division as president.

**LOFTY GOALS**

Aequitas' goals for the new business are not inconsiderable: chief executive and co-founder Bob Jesenik says he wants to have between $3 billion and $5 billion in assets under management for firms partially or fully controlled by Aspen Grove, Aequitas' "RIA-friendly private equity firm" that provides growth capital - in exchange for a minority or majority stake - to advisory firms with assets ideally between $300 million and $800 million.

Aspen Grove just took a majority stake in Private Advisory Group, a $750 million RIA based in Redmond, Washington and also has a minority stake in Fieldstone Financial, a Boston-based firm with around $300 million in AUM.

Within two to four years, Jesenik also wants to have 100 to 150 RIAs as members of Aequitas Capital Partners. That division offers advisory firms "intellectual, financial and human capital" as well access to lending, insurance and alternative asset services and investments via the Aequitas Financial Services Network.

**ALTERNATIVE EMPHASIS**

The key to Aequitas' wealth management success, Jesenik says, will be the firm's ability to provide RIAs with a robust "alternative asset platform" featuring Aequitas debt, equity and real estate products as well as financing, technology, investment banking and portfolio management. It also offers advisors research, training and education and access to its network of lenders, hedge funds and other products and services from third-party providers.

The big draw for advisors, however, clearly appears to be hard-to-get alternative products in high demand for high-net worth clients.

"High-net-worth clients are looking for income producing solutions, which are hard to find in the public markets," says Felipe Luna, chief executive of San Jose, Ca.-based Concert Wealth Management, an Aequitas Capital Partners member. "Products like private promissory notes are appealing because RIAs could use more tools to attract high-net-worth clients who would otherwise go to a trust company or a larger firm."

Doug Maurer, partner at Private Advisory Group, agrees.

"Advisors like the exclusive access," Maurer says. "The Aequitas guys are bankers at heart and they know how to put deals together. And they're able to protect investors by using alternatives in a conservative fashion."

**PROCEED WITH CAUTION**

As coveted as the alternative products may be, advisors need to know when they are, and are not, useful, says Kristofor Behn, chief executive for Fieldstone Financial, a Boston-based firm in whom Aspen Grove took a minority stake earlier in the year.

"Suitability is very important for alternative investments," Behn says. "They're not a fit for everyone. We usually want the client to have at least $2 million or $2.5 million in investable assets. You don't want clients who need to be liquid to be in something that is illiquid for five years."

Nonetheless, Behn -- and Aequitas -- are extremely bullish on long-term growth propelled by demand for alternatives.

Aequitas Capital Partners president Keith Gregg cites statistics showing the percentage of alternative investments owned by investors more than tripling by 2020. Behn, armed with capital from Aequitas, launched Fieldstone Financial Advisor Network as an acquisition vehicle, and believes he can reach $10 billion in assets in 10 years.

Private Advisors plans to use its funding from Aequitas to expand on the west coast through acquisitions and bringing in breakaway teams and advisors looking for a succession plan. The firm hopes to reach $5 billion in AUM in five years, says Maurer.

As aspirational as those numbers may be, that kind of growth is exactly what Aequitas is looking for.

"The more they grow, the more we grow with them," Gregg says, comparing the firm's business model to European merchant banking, where capital funding and subsequent growth ideally leads to "more outlets" for Aequitas products.

He also compared Aequitas' membership network with its selection of services, products and "solutions" for advisors with high-net-worth clients from an array of providers to M Financial Group, which caters to advisors working with high-end clients.

**COMMITMENTS AND CAVEATS**

RIAs who join the Aequitas network are asked to commit a minimum of $10 million of client assets to products and services on the platform, Gregg says. About three dozen RIAs are members to date, and firms who commit at least $25 million in assets receive additional consideration for access to services like credit lines and asset-based lending.

Luna says Aequitas has been "very flexible" about its terms for Concert's network participation, and that there has been "no mandate to do anything." Likewise, Behn says Fieldstone has felt "no obligation to build distribution" for Aequitas.

Those caveats may be critical, say industry observers.

While Aequitas' RIA growth strategy appears "pretty sound from a business perspective," says John Furey, principal and founder of Phoenix-based Advisor Growth Strategies, RIAs considering participating have to be alert to "the potential for embedded conflict."

Investment banker and mergers and acquisitions specialist **Dan Seivert** agrees.

"Advisors are inherently skeptical about deals that involve using them for distribution -- just look at the first questions that surrounded the Schorsch acquisitions," says **Seivert**, chief executive of Manhattan Beach, Calif.-based **ECHELON Partners**. "That being said, if they like the product, like the company, like the support, and like the deal, they can be convinced to sign up."

"It does not sound like Aequitas has requirements around distributing their product," **Seivert** continues, "but is using financing as a means to start a partnership and with the partnership hope to earn trust and gain the ability to discuss product."

**PROSPECTS**

As for Aequitas' prospects, "what they have going for them is a larger organization with deep pockets and coming to market with potentially more than just the capital," **Seivert** says. "The challenges they have are the same many other product manufacturers face: getting name recognition, earning trust, finding advisors that want the product category they offer and then convincing advisors that they are one of the best in that category."

By those standards, Aequitas may be on the right track.

Behn says he has spent the last three years talking to many of the well-known players offering financing to growth-minded RIAs but was discouraged by the "lack of rapport" he encountered. By contrast, Aequitas "is providing something more than just capital, they're available to us as a partner," Behn says.

And he sees "no end in sight" to the demand for the company's main calling card, its alternative products.

"The question I hear advisors asking," Behn says, "is 'How come I can't have more?'"



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