



FUNDfire

A Financial Times Service

[Print](#) | [Close Window](#)

New Platform Gives RIAs 'Direct' Path to Alts

By Billy Nauman September 25, 2013

A new web-based investment platform is setting out to make it easier than ever for investors to allocate their money directly to hedge funds and private equity. And the new platform from **FNEX** also may kickstart distribution for small-to-mid-sized alternatives managers.

So far, eight hedge funds, ranging from \$4 million to \$163 million in assets under management, have made products available on the platform, and FNEX CEO **Todd Ryden** expects that number to grow to more than 30 in the near future. He says he foresees the platform being “a great resource” for emerging managers to reach investors.

The platform, which is open to accredited individual investors, institutions and registered investment advisors (RIAs), also offers direct private equity investments from investment banks, as well as managed futures.

Smaller managers generally have been on the radar of some highly sophisticated asset owners like the \$19 billion Yale University endowment, [as reported](#). And consultants [have been touting](#) the ability of small managers to outperform their larger counterparts. But in the hedge fund world, experts say those trends have not yet translated to a huge influx of cash.

“Getting people excited about anything but the largest 20 hedge funds is tough,” says **Jason Gerlach**, president of the **California Hedge Fund Association** and CEO of **Sunrise Capital Partners**, a quantitative hedge fund with approximately \$200 million in client and proprietary assets. “For mid- and small-sized managers, it is tough [raising capital]. So if a platform can provide value [in terms of serious investors] and raise capital ... it can be very helpful.”

Data from **eVestment** shows the tide actually may be turning for small managers in some strategies, though it still shows a large divide overall in flows between large and small firms. “We have seen that the largest firms are taking in the lion’s share of assets, but the data suggests there is more distinct preference for size by strategy type,” says **Peter Laurelli**, v.p. of eVestment’s research group.

“For instance, the largest multi-strategy funds have been able to raise assets this year while smaller multi-strategy fund flows have been minimal,” adds Laurelli. “Prior to the second half of 2013, the macro fund space was showing similar characteristics, but in the second half we have seen outflows from some large firms and small firms alike, leaving no apparent size bias outside of general negativity surrounding recent returns.”

Credit investors, he says, are the least biased of the lot. “There is less of a size bias within credit strategies, which had seen strong flows across the board,” says Laurelli. “Obviously the majority of assets still go to the larger firms, as that is more a function of market share, but generally it has not appeared as difficult for mid-sized firms to raise assets in that segment of the industry.”

It remains to be seen whether or not platforms like FNEX will provide a windfall for these managers. So far, experts say the model has yet to be perfected.

“There are a lot of alleged platform solutions out there. People have been trying to build a perfect platform for a decade, and they all seem to start with a lot of promise,” says Gerlach. “[However], few have emerged as real, viable distribution channels for hedge funds. I commend [FNEX] for trying to do it better. The competition is good.”

But experts say managers, too, have to hold up their end of the bargain.

“[Platforms like these] are still in their infant stages,” says **Doug Cramer**, managing principal and founder of **Alternative Access Capital**, a specialty placement firm for alternative investments for the RIA channel.

“Just because you build it, it doesn’t mean they’ll come,” Cramer says. “Platforms are another way of providing access between investors and managers, but to put money in a manager, it takes more than just going to a website. If [the investors] are prudent, they’re doing proper due diligence. And it’s a two-sided effort, [where the managers must reciprocate]. It’s still too early to tell [how these platforms will help managers gather assets].”

FNEX may be unique in providing alternatives directly to the qualified investor “masses,” bypassing the need for intermediaries, but it will face competition offering RIAs access to smaller alternatives managers. **ClearVest**, an alternatives platform jointly launched by Clearbrook Global Advisors, **HedgeACT** and **The Alpha Cooperative** in July, offers RIAs access to 30 emerging managers, [as reported](#).

Unlike ClearVest, FNEX does not purport to vet the investments offered through its service. It has internal processes in place to weed out scams, but leaves the due diligence up to the investors themselves. “We have multiple groups that are part of our network,” says Ryder. “If an RIA wants some diligence done, they can reach out to the groups on the platform.”

Not knowing where to start is a big challenge for many investors, Gerlach says. “They say, ‘There’s no place where I can go compare [attributes like assets under management, style and performance].’ If an RIA can [use a platform] to compare and contrast and pick the best [of a particular strategy], there’s potentially value.”

FundFire is a copyrighted publication. FundFire has agreed to make available its content for the sole use of the employees of the subscriber company. Accordingly, it is a violation of the copyright law for anyone to duplicate the content of FundFire for the use of any person, other than the employees of the subscriber company.

An Information Service of Money-Media, a Financial Times Company