

# Tapping the Value Locked in Alternative Assets

*Unique Challenges for Individuals  
and Smaller Institutions*

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## Executive Summary

Liquidity has remained a top issue over the past few years, which have been marked by both incredible recovery and looming risks. Investors of all kinds are making critical decisions about where to allocate resources, how to fund — or save for — important events, and how all of their assets and liabilities factor into these decisions. This is especially true for owners of alternative assets, where mid-to-high net worth (MHNW) individuals and small-to-mid-sized institutions face unique challenges when it comes to tapping liquidity.

Alternative assets have long provided critical portfolio diversification and enhanced return potential, but often require investors to lock up capital for a dozen years or longer. Long lock-ups aren't a problem for large institutions. Their liquidity needs are low, and they have options they control if they want to sell an asset early.

That's not the case for MHNW individuals and small-to-mid-sized institutions. They are more likely to need liquidity because of a change in financial circumstances, a life event, or uncertain markets and may need it quickly. However, those who want to sell early are often ignored by intermediaries in the secondary market, who traditionally target large institutional clients.

These brokers often have no financial incentive to work with small-to-mid-sized institutions, those with \$1 billion or less in investment assets, or the MHNW individuals who have \$5–30 million in investable assets. Secondary-market intermediaries conduct deals worth eight or nine figures, charge high fees for complex transactions that may take 12 to 18 months to complete, and deliver full liquidity historically at discounts to Net Asset Value (“NAV”) — none of which is feasible for smaller entities and MHNW individuals.

That often leaves MHNW individuals and small-to-mid-sized institutions stuck holding their alternative assets long past the investments' peak return potential. Beneficient (“Ben”) has an answer to this problem. For investors who want to sell their alternative assets early, Ben — acting as principal and using its own balance sheet — can deliver exit options in a simple, rapid, and cost-effective way. Ben reduces the cost, complexity, and time involved with selling alternative assets in the traditional secondary markets.

We aim to deliver offer exit options at or near NAV, which will vary based on underwriting factors. If all investors know they can potentially tap liquidity for their alternative investment at any time at or near NAV, with the same flexibility as large institutional investors, then this model has the potential to modernize access to liquidity in the alternative asset space and could make the marketplace more transparent, more liquid, better priced, and more accessible.

# Realizing the Need for Exit Options

## How one family's struggle with estate planning uncovered a broader market need

Ben's leadership has been involved in the alternative asset space since 1989, and witnessed firsthand how MHNW individuals and small-to-mid-sized institutions can struggle to get liquidity for their alternative assets when the matriarch of a nationally known family passed away and the family approached estate planning.

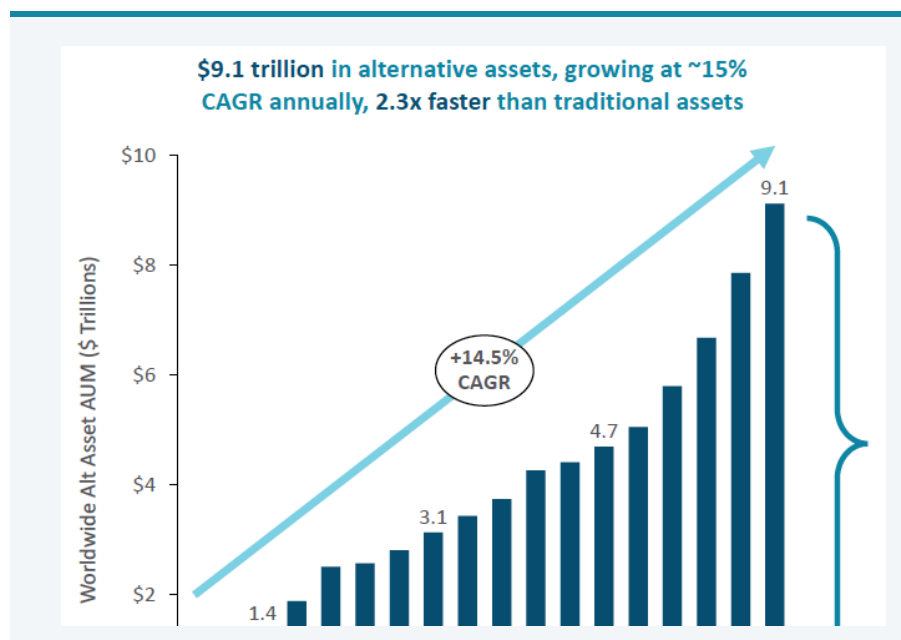
The family owned alternative assets as part of their portfolio, and in order to pay estate taxes, they needed liquidity from those holdings. Unfortunately, the family faced significant challenges selling their LP interests, in contrast to large institutional investors.

Ben's leadership realized there had to be a better way to provide exit options to investors of all sizes. After seeing many instances of investors' inability to liquidate their alternative investments, Ben's leadership began to consult with various nationally recognized investment banks, law firms, and accounting firms — as well as certain regulatory agencies — to create a different, more investor-friendly approach.

Meanwhile, the marketplace for alternative investments rapidly expanded. In 2008, the alternatives market held \$3.1 trillion in assets under management globally, according to Preqin. More large institutions entered the space, and private banks started to put more of their MHNW individuals and small-to-mid-sized institutional clients into alternatives. One of the main draws was the performance of the Yale endowment model, which held between 40% and 50% of its holdings in alternative assets and saw risk-adjusted returns that significantly beat the broader market.

By 2020, Preqin estimated that global alternative assets under management had grown to \$9.1 trillion, representing a 14.5% compound annual growth rate ("CAGR") since 2003. Even as the overall market grew, intermediaries in the secondary market continued to ignore the liquidity needs of the increasing number of smaller entities and individuals entering the market.

## Growth in Alternative Assets Under Management

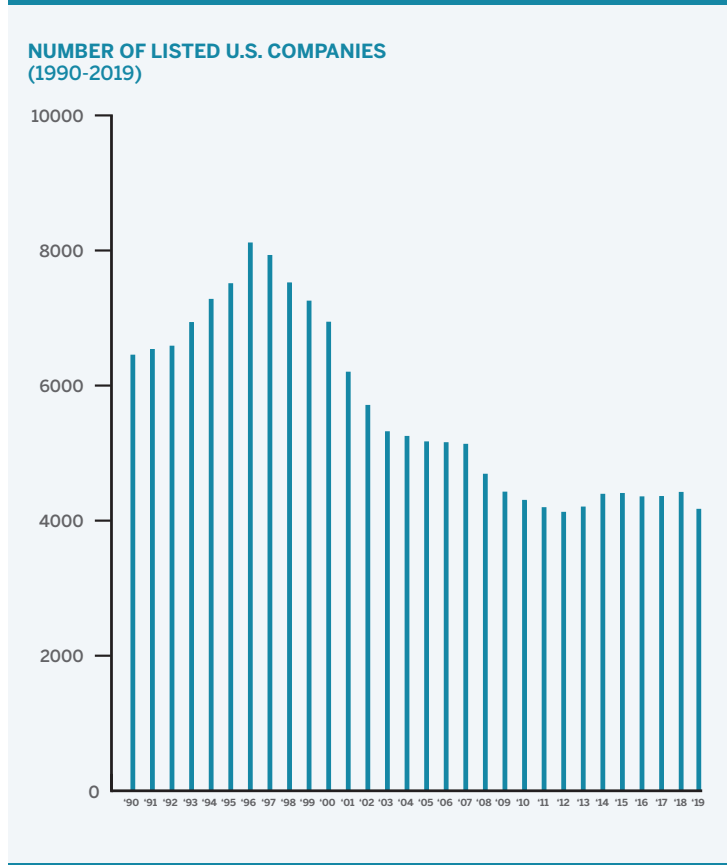


Sources: Preqin, Boston Consulting Group Global Asset Management 2020 Report

Alternative investments are forecast to continue becoming a bigger piece of the overall investing landscape. By 2023, Preqin estimates the alternative asset space will reach \$14 trillion. The space is growing as the number of publicly listed U.S. companies falls, down 36% since 2000, and down over 45% since its peak in 1996. This decline underscores the concentration of risk in public equity markets and explains why alternative assets have become a critical source of growth and diversification for a wide range of investors — not just large institutions.

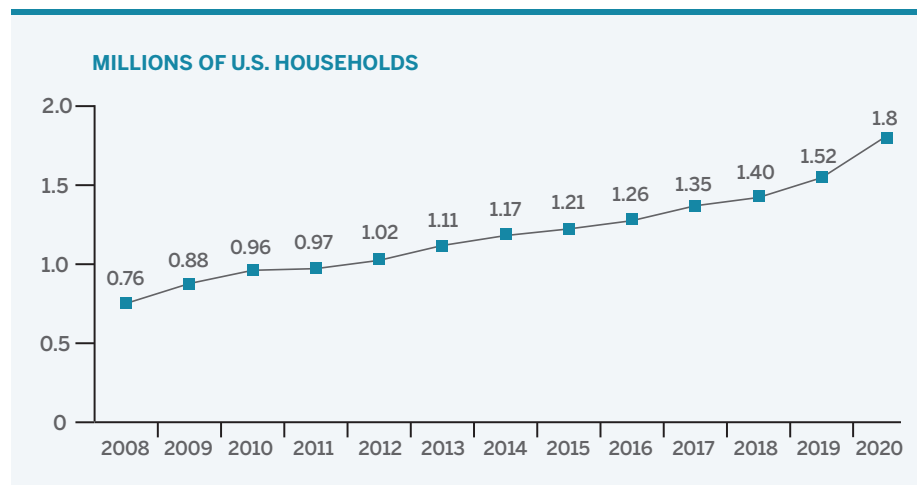
As the alternative asset market has grown, so has the number of MHNW individuals. According to Spectrem Group, the number of MHNW households in the U.S. rose from roughly 760,000 in 2008 to over 1.8 million in 2020. Yet, as the growth of alternatives has proliferated, most investors still face very real and significant challenges to obtaining liquidity for their professionally managed alternative investments. For those investors, Ben offers a solution: a simple, rapid, and cost-effective way to sell their alternative assets before the lock-up period ends.

## Decline of U.S. Public Companies



Source: The World Bank Group, 2021

## Growth of Mid-to-High Net Worth Individuals



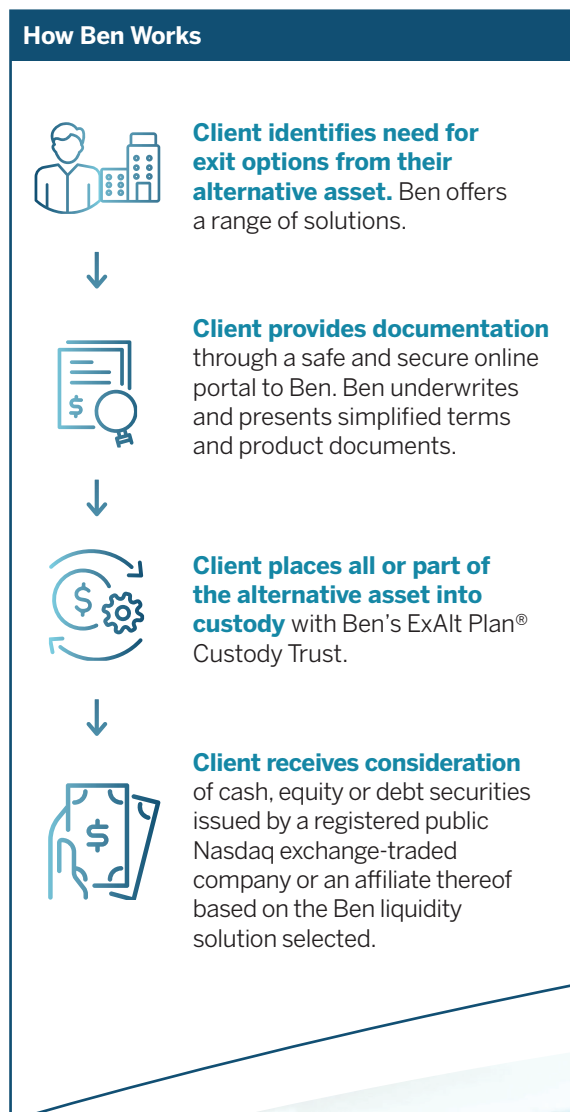
Source: Spectrem Group, 2021

# Liquidity Solutions Open Access to Alternative Assets

## Innovating to remove barriers and reduce complexity

Ben is in a unique position to provide options for alternative asset holders. Ben, acting as principal, can use its balance sheet to provide exit options directly to MHNW individuals and small-to-mid-sized institutions looking to monetize their illiquid alternative investments, and aims to deliver options at or near NAV — unlike other providers that rely on large discounts to NAV to make a profit.

When large institutions exit alternative investments, the transaction is similar to a mergers and acquisitions deal. They hire an intermediary to run an auction. Attorneys for both sides draw up lengthy, complex contracts, incurring a range of legal fees and broker expenses in a process that may take up to 18 months. By contrast, Ben streamlines and simplifies the administrative process for investors looking for options by removing the agents, brokers, attorneys, and fees involved in secondary-market transactions and by utilizing standardized, short-form plain English agreements — each typically as short as 20 pages for every client transaction — that are subject to routine examination by regulators.



Here's how it works: potential clients looking for liquidity provide investment-specific documentation to Ben through its secure online portal. The company then evaluates the client's alternative asset(s) through a robust yet streamlined underwriting process. Once the underwriting process is finished, Ben presents to the client clear and specific terms, including the Advance Rate, as well as the short-form documents.

Depending on the exit option selected, clients will receive either cash, preferred stock or debt securities issued by a registered public Nasdaq exchange-traded company or an affiliate thereof. In addition, certain Ben liquidity products are structured to permit clients to exchange their alternative assets through a non-taxable exchange for U.S. federal and state income tax purposes. From start to finish, transactions are designed to close in as few as 30 days, depending on the availability of prior underwriting data. To complete the transaction, clients exit their alternatives by placing their asset(s) into Ben's ExAlt Plan® Custody Trust. Developed by Ben to custody alternatives, the ExAlt Plan® Custody Trust is structured to alleviate the many challenges that owners of alternative investments have faced when looking for exit options, and provides these owners with as close to the NAV of their assets as possible.

# New Portfolio Solutions Designed to Offer Exit Options When Needed

## Understanding individual circumstances when it comes to investment decisions

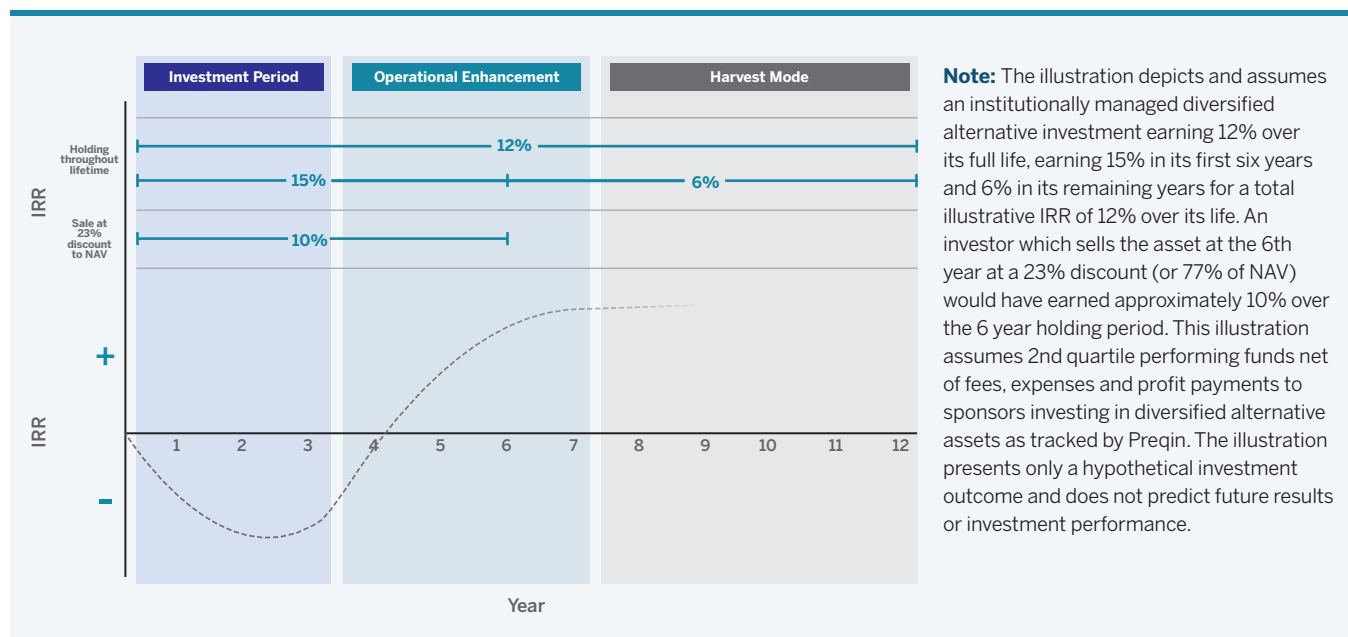
To gain a deeper understanding of why alternative assets have such a long lockup, investors need to know about the J-curve.

In the first few years of a private equity fund's life, owners often experience negative returns due to factors such as management and professional fees, investment expenses, and underperforming or non-performing investments. Typically, by the third or fourth year, the manager begins to harvest some of the fund's investments, and by the fifth year, the manager starts to reimburse the owners' upfront investment. The illustration below shows how the average private equity investor realizes an annualized return of 12% over the life of a fund. However, looking more closely at the typical return stream of a private equity fund, the average investor realizes a 15% return during the first six years and only a 6% return in the remaining years. This lifecycle is called the "J-curve" because of the return dips in the early investment stage, typically followed by better returns during the operational enhancement stage; returns generally flatten out during the fund's protracted harvest mode. By year six, the average fund realizes and delivers its peak rate of return based on the NAV, but the lockup period can last another six years or more. In fact, Preqin data shows the average life of a private market fund could go well beyond 12 years, and in some cases — depending on the asset class — can extend to 16 or 17 years.

Large institutions may decide to hold a fund through its lifecycle, or they may want to sell early in the secondaries market to rebalance their portfolio, pursue other investment opportunities, or manage portfolio construction risks. This optionality of selling "early" and obtaining liquidity prior to a fund's closing is largely unavailable to individual investors and small-to-mid sized institutions.

Exiting a private equity fund early usually means selling at a discount to the fund's current NAV that is based on a hold to maturity, but it also allows the seller to redeploy the proceeds. The chart below also illustrates how an investor who sells their fund in the sixth year of ownership at a 23% discount to NAV, or 77% of NAV, would have still earned approximately 10% annually over the six-year holding period, versus a 12% internal rate of return (IRR) if they hold the asset for another six years or more. Having an understanding of a typical private equity fund's return stream is important. With access to liquidity, investors can sell their investment fund at a discount to NAV and still potentially realize a double-digit IRR while not forgoing meaningful upside returns over the fund's remaining life. Our goal through our products is to provide investors with the opportunity to earn at or near NAV.

## Illustrative J-Curve Overview



Source: Credit Suisse, Preqin

See important disclosures on page 11



## Solving the liquidity conundrum for MHNW and STM alternative investors

Large institutional investors and ultra-high net worth individuals control the bulk of domestic alternative assets under management, at \$4.1 trillion. Trailing them is the comparatively small — but growing — group of MHNW investors who control a combined \$1.7 trillion in alternative AUM. In 2021, Ben conducted a survey designed to uncover the liquidity needs of MHNW investors with the goal of better understanding this traditionally underserved market. And, with few companies serving the liquidity needs of this investor group, it's no shock that 100% of respondents expressed interest in digital tools that can make seeking and finding liquidity more accessible and straightforward. The survey appeared to highlight three main reasons why MHNW individuals and small-to-mid-sized institutions may want to exit alternative investments early:

- ***Exit options when they're needed.***

MHNW individuals often have greater liquidity needs because they may not have predictable income streams. In fact, more than 82% of survey respondents report that they have tried to seek liquidity from their alternative assets at least once in the past five years. Their primary reasons for seeking early liquidation were to achieve access to new investing opportunities and to generate longer term return potential.

In addition, unlike institutions, people experience life events. They may need funds for their children's college education, they may be retiring, or there might be a divorce or a death in the family. Given today's uncertain financial markets, some may want to change their investment objectives. For those reasons and more, these individuals may opt to exit their alternative assets before the final harvest.

- ***Exit options when they're wanted.***

With early access to liquidity, wealth managers could create more estate planning strategies for MHNW individuals and family offices. Cerulli Associates estimates nearly 45 million U.S. households will transfer a total of \$68.4 trillion in wealth to heirs over the course of the next 25 years.<sup>1</sup> Generational wealth transfers can trigger heavy administration expenses and tax liabilities. Selling an alternative asset can offset those costs.

Additionally, for investors who have alternative assets in self-directed individual retirement accounts, government regulations have required minimum distributions from those accounts after a certain age, and taxes must be paid on those distributions. Holders may want to sell early to both receive distributions and pay taxes.

- ***Exit options when they makes financial sense.***

If small-to-mid-sized institutions could tap liquidity more easily, it would give these organizations greater balance sheet flexibility. They would have more opportunities to pursue different strategies, more easily rebalance portfolios, or react more quickly to a change in business focus. Additionally, 60% of MHNW individuals own a business and often need to free up cash flow. Selling an alternative asset early can help meet this need.

<sup>1</sup>"The Great Wealth Transfer" white paper published in 2018 by Cerulli Associates



## It's the Ben<sup>®</sup> Way

Ben was formed to serve the unmet needs of MHNW individuals and small-to-mid-sized institutions who are locked into long-term alternative asset investments. We are designed to provide exit options for most types of professionally managed alternative asset investments, including:

Private equity	Feeder funds
Venture capital	Infrastructure
Leveraged buyouts	Real Assets (Agriculture/Forestry)
Special situations/structured credit	Hedge Funds
Private debt	Fund of funds
Infrastructure assets	Co-investments
Non-traded BDCs	Natural resources
Non-traded REITs	Alternative energy/climate solutions
Private Real Estate	

Client Issues	Ben	All Other Liquidity Providers
<b>Net Consideration Received by Client</b>	Goal of at or near client's NAV, which will vary	Maximize discount to client's NAV
<b>Process</b>	Simple — because of plain English, 20 page short-form agreements	Complicated — hundreds of pages of contracts and forms requiring specialized legal review
<b>Time to Closing</b>	Rapid — 30 days due to standardized underwriting via Ben's secure online client portal	Long — 6–18 month, drawn-out process incurring intermediary brokers and consultants even if closing does not occur
<b>Cost</b>	Cost effective — no intermediaries, lawyers, or hidden fees	Very expensive — costs for lawyers, brokers, advisors, and consultants incurred even if closing does not occur

## The Ben<sup>®</sup> Way Foundationally Supports and Fuels Industry Growth

Ben subsidiary, Beneficient Fiduciary Financial, L.L.C., serves as a regulated fiduciary under the new Kansas Technology-Enabled Fiduciary Financial Institutions (TEFFI) Act (SSHB2074), which establishes TEFFIs and provides a new, streamlined set of industry regulations in a single jurisdiction for alternative asset management.

TEFFIs serve as fiduciaries that finance alternative assets held in Kansas trusts, including custodial and trustee services that historically have been scattered across multiple states.

Ben was instrumental in helping to develop applicable rules, regulations and examination standards before opening up to the industry at large.

# How Leveling the Playing Field for Alternative Assets Exit Options Benefits All Participants

## How a rising tide could lift all ships

Greater access to exit options has the potential to transform the alternative investment landscape in ways that benefit a wide range of stakeholders. Here are a few possible scenarios Ben sees once investors have improved access to exit options for their alternative investments:

- MHNW individuals would be able to more confidently plan for the future and respond to unexpected life and market events while being nimble enough to fund present needs.
- Smaller institutions, including foundations, endowments, and pension plans, may be able to create more robust and diverse portfolios that cater to both short- and long-term needs, putting them on even footing with large institutions without the added management fees and expenses required to invest like the big institutions.
- Wealth managers could more confidently increase allocations to private market alternative investments and have greater flexibility with estate planning services for clients.
- General partners may be able to introduce innovative managed or preferred liquidity programs for their investor base and reach more limited partners who have otherwise been hesitant to lock up funds for a decade or more.

Ben believes that to expand the industry, liquidity providers should strive to deliver exit options at or near NAV. This is in contrast to the existing model of liquidity providers who grow their business by offering substantial discounts to NAV at the cost of the alternative asset investor. Ben also believes both new and traditional users would benefit from the addition of new participants because greater access to exit options means continued growth, less risk, and greater transparency. Preqin's forecast for a 9.8% CAGR by 2025 in the global alternatives market could be conservative if market access broadened to allow an influx of new participants. If limited partners felt confident of defined exit strategies, this could lead to more efficient competition between general partners.

Ben believes that by modernizing investors' access to liquidity for their alternative investments through a simple, rapid, and cost-effective approach, more investors will consider owning alternative investments with the knowledge that they can more easily enter and exit the alternatives market. This would likely have positive effects for all market participants in the alternatives space over the long term.

For more information about how investors can tap the liquidity locked up in their professionally managed alternative assets, contact Ben at **888-877-8786** or **askben@beneficient.com**.



### About the author:

**Brad K. Heppner**

**Senior Partner Director, Chairman of the Board, and CEO, Beneficient**

Brad Heppner is CEO, Founder, and Chairman of Ben. He has over 30 years' experience working in the alternative asset space and in financial institutions. He previously worked at Bain & Co., the MacArthur Foundation, and Goldman Sachs. He was the founder and CEO of The Crossroads Group (sold to Lehman Brothers and now held by Neuberger Berman) and founder of Capital Analytics (now held by Mitsubishi Union Financial Group). He has BBA, BA, and BS degrees from Southern Methodist University and an MBA from the Kellogg School of Management at Northwestern University.

## Important Disclosures

Liquidity exit strategies offered may not include all options and may vary over time; all exit options, including historic options such as cash, may not be available or offered to prospective customers at any given time; your options may differ. Exit options are presented on a case-by-case basis in Ben's discretion and may be offered for less than current net asset value based on a variety of factors, including asset-specific factors such as Ben's valuation analysis. References to "liquidity" generally refers to an opportunity offered by Ben to exit an investment in an illiquid asset. Ben can discuss with prospective customers what options may be currently available, including based upon the specifics of such customer's situation and illiquid assets.

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