

ALTERNATIVE INVESTMENTS QUARTERLY

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FALL 2017
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ISSUE 3

An Introduction to **Solar Renewable Energy Investments**

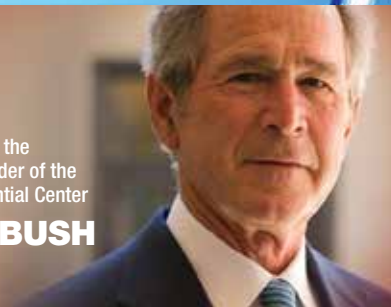
| The Financial Advisor's Guide to Millennials
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- 1 —** President's Letter
360 Degree View of the World
of Alternative Investing
- 2 —** Executive Director's Letter
A Taste for Online Groceries?
- 4 —** An Introduction to Solar
Renewable Energy
Investments
- 12 —** The Financial Advisor's Guide
to Millennials
- 18 —** Three Steps Financial
Planners Can Take to Use
Alternative Investments
Confidently and Prudently
- 20 —** NASAA Adopts Statement of
Policy to Usher in E-Delivery
and E-Signature for
Non-Traded Offerings
- 23 —** ADISA News & Events



President's Letter **360 Degree View of the World of Alternative Investing**

By John H. Grady, *DLA Piper*

It is now September, and as you can see from even a brief perusal of this issue that ADISA is gearing up for its Annual Conference & Trade Show at the Aria in Las Vegas, NV.

The Conference Planning Committee has been working hard to put together a compelling program, and I hope that you will join us there. We will have numerous panel and general sessions devoted to important and timely topics, and we have two speakers that you won't want to miss: former President George W. Bush, and Professor Roger Ibbotson, PH.D. , Professor (Emeritus) at Yale University's School of Management and an inveterate speaker, author and thinker. We will also have firms from across the alternative investment spectrum exhibiting during the Conference, which will give you a chance to learn more many new and/or exciting investment programs and offerings. Come join us.

In my view, the articles selected for this issue of AIQ show just how committed the Association is to bringing its members a complete, 360 degree view of the world of alternative investing. We cover important regulatory developments, such as the move by the States (through NASAA), to allow electronic delivery of disclosure documents, etc., for DPP offerings, as well as the use of electronic signature (e-signature) technologies to aid in their timely and accurate completion by investors. You will also find pieces that address current investing topics, including one by ADISA Board member Brad Updike on solar and renewable energy investments, and another by Mario Nardone that looks at the use of alternative investments by financial planners. This issue also contains a timely article that looks at the investing habits and attributes of so-called Millennials, who are viewed as helping change the very way that investors receive investment advice as well as information about investment products and services.

ADISA understands that advice professionals who use alternatives in their advisory practice want to be kept up to speed on a host of issues and trends that are impacting both investment sponsors as well as investment professional s and their clients. We hope that his issue of AIQ will spark conversations and/or generate new thoughts and ideas around the role and use of alternative investments in the portfolios of savers of all ages and goals. Given its scope and impact, we continue to keep a weather eye on the Department of Labor's fiduciary rule and related exemptions, and will keep ADISA's members updated on that topic as well as other new and on-going topics, ideas and developments. And ADISA's leadership will continue to advocate for our members with legislators and regulators across the country, and will help carry out enable the organization's mission to maintain the integrity and reputation of the alternative investment industry.

Thank you for your support of and investment with ADISA and the alternative investments industry. ▲



Executive Director's Letter

A Taste for Online Groceries?

By John Harrison, *Executive Director, ADISA*

An online mogul just bought a grocery store chain. I have a story about this phenomenon. Here's how it goes.

Once upon a time I invested in Amazon. I was in an executive MBA program, and my study group decided we'd all open up e-trading accounts for a cool five grand each (an education tax deduction at least). I proudly researched and decided Amazon was a promising idea, so I bought in at the very beginning. Even got the original coffee mug they sent out to all their early investors—when they made no money. Well, they continued to make no money for so many years, I played the cold-hearted analyst and considered it sunk cost and sold out. All of it.

Note to Self, Number 1: selling behemoth online retailer stock too soon may be unwise.

About that time Webvan comes along. You do not remember Webvan, but it was an online grocery service that was a great product. My wife and I were both working and liked good cooking. That requires buying food. We discovered the technology-disrupting Webvan. Their website was stellar, you ordered all your groceries online, and you could even keep your usual order on file for a starting point the next week. Plus, now get this: they showed up at your door at the appointed hour, brought the groceries into your house and put them on the counter. Let me repeat that. Some smiling man in a uniform brought the groceries into your house and put the grocery bags on your kitchen counter. One more time: yes, from the van onto your kitchen counter, and no tipping accepted. I was so impressed I bought 500 shares that day. Webvan went bankrupt inside of two years. The analysts said that this idea had been tried and failed before—back when you could phone in a grocery order. Apparently, it just doesn't take for some reason. The analysts further said that there was no one with grey hair working at Webvan—only hot shot techno wunderkind who didn't get how to organize and deliver a tangible product. Oh well.

Note to Self, Number 2: buying online grocery store stock too soon may be unwise.

All of this was around the turn of this century, and some bubbles were growing inside the stock market; the business professors were saying some fundamentals were being violated—something to do with dot coms. During this time my newly minted MBA put me into a new job as a CFO in an expanding association.

One of my many duties was overseeing the association's reserves of several million. The legacy investment advisor and I didn't hit it off, so I had the portfolio turned into cash temporarily and put it on my to-do list to figure out how to reappportion the portfolio. The to-do list however was huge, and I postponed weekly dealing with the portfolio, which was no real portfolio at all, just a pile of cash not doing much. I was busy hiring, firing, procedure writing, and so forth. I would get to the portfolio next week.

Then, the dot com bubble burst, and there was a market crash. The president of the association called in a panic, "How much did we lose?"

"Lose?" I said, not sure what he meant.

"Yes, lose in the stock market tumble?" Of course, he meant the reserves, which were a happy pile of cash waiting on the to-do list.

"Oh, well, sir, I put everything in cash a while back, and we didn't lose a cent. In fact, it looks like we've gained," I said something to that effect while quickly spying the balance.

"You are an absolute genius," he said. I have kept silent about this fortunate investment strategy until now.

Note to Self, Number Three: knowing when to do nothing can be very wise.

There you have my story of the online moguls meet groceries. I have a feeling the worse part of grocery shopping is driving to the store and hauling all that stuff to the car and from the car to the counter. The time in the grocery store is not so bad, especially if there are little wine tastings, classical music, and some free pastry samples. And, if you're an old fuddy dud, you see acquaintances you haven't seen in a while (especially at the grocery store on a Saturday night). Younger types can see cute other younger types and also silently judge them by what they have in their grocery baskets.

Moral is (besides, of course, remembering that *past performance does not necessarily predict future results*): sometimes you should just step up and enjoy the tasties, whether in the store or on your kitchen counter. ▲



An Introduction to Solar Renewable Energy Investments

By Bradford Updike, LLM, JD, *Mick Law P.C.*

Federal investment tax credits for renewable energy have served as one of the primary financial incentives for renewable energy capital deployment over the last two decades in the U.S. Renewable energy tax credits, including the wind power production tax credit and solar investment tax credits, were extended as part of the Consolidated Appropriations Act of 2016. The act extended the solar and wind tax credit deadlines by five years from their prior scheduled expiration dates, but included ramp downs in tax credit value during the latter years of the five-year period.

Notwithstanding, current federal tax laws applicable to renewable energy continue to provide high net worth investors whose income is taxed in the higher brackets (i.e., 40% plus state and federal) with alternative investment opportunities that can provide decent investment returns in relation to the risk taken.

Federal Rules

Unlike most types of tax preferred investment programs, the investment tax credit (“ITC”) accounts for a significant majority of the total return on investment (“ROI”) in these programs. This is permitted based upon Congress’s intent to stimulate investments in alternative energy projects that might otherwise be uneconomic absent favorable federal tax treatment.

The ITC for renewable energy projects are applicable for solar, geothermal, qualified fuel cell or micro turbine property, combined heat and power systems, small wind and geothermal heat pumps.¹ The ITC provides a credit for qualifying energy property. The ITC for any taxable year is the energy percentage of the basis of each energy property placed in service during the taxable year. Project costs that can be included in the tax basis are solar panels, solar curtain walls, sales and use taxes on the equipment, installation costs and racking, step-up transformers, circuit breakers and surge arrestors, energy storage devices, three-phase power conditioning equipment, and transfer equipment. The ITC is currently a 30% federal tax credit claimed against the tax liability of residential (IRC § 25D) and commercial and utility (IRC § 48) investors in solar energy property. Thus, 30% of eligible costs for fuel cell, solar, and small wind property are eligible for the credit. The IRC § 25D residential ITC allows the



Unlike most types of tax preferred investment programs, the investment tax credit (“ITC”) accounts for a significant majority of the total return on investment (“ROI”) in these programs.



A taxpayer that claims the commercial ITC for a solar PV system placed in service can typically take advantage of accelerated depreciation (i.e., Modified Accelerated Cost-Recovery System or MACRS) to reduce overall cost of an installation.

homeowner to apply the credit to his/her personal income taxes. This credit is used when homeowners purchase solar systems outright and have them installed on their homes. In the case of the IRC § 48 credit, the business that installs, develops and/or finances the project claims the credit.

A tax credit is a dollar-for-dollar reduction in the income taxes that a person or company claiming the credit would otherwise pay the federal government. The ITC is based on the amount of investment in solar property. Both the residential and commercial ITC are equal to 30% of the investment basis equating to fair market value or qualified project costs through 2019. The ITC then steps down to 26% in 2020 and 22% in 2021. After 2021, the residential credit will drop to zero while the commercial and utility credit will drop to a permanent 10%. Commercial and utility projects which have commenced construction before December 31, 2021 may still qualify for the 30, 26 or 22 percent ITC if they are placed in service before December 31, 2023.²

A taxpayer that claims the commercial ITC for a solar PV system placed in service can typically take advantage of accelerated depreciation (i.e., Modified Accelerated Cost-Recovery System or MACRS) to reduce overall cost of an installation. To calculate income on which federal corporate taxes are owed, a business takes the difference between its revenues and expenses, plus or minus any adjustments to income. Because depreciation is considered an expense, having a larger amount to depreciate during the tax year results in a lower overall tax liability. Note, whereas the ITC is a tax credit—a dollar-for-dollar reduction in taxes owed—depreciation is a deduction, meaning it reduces a business's taxes by the depreciation amount multiplied by the business's tax rate. When the commercial ITC is claimed, accelerated depreciation rules allow 85% of the tax basis to be depreciated over a five-year period (where any unused depreciation can be carried back two years and forward 20 years) on a 200% declining balance basis. This means that the 85% of solar PV system costs that a business can depreciate are not spread out evenly across the five-year depreciation period; instead, the business is allowed to deduct a larger portion of this amount in earlier years, giving it the benefit of a greater immediate reduction in federal tax liability. Alternatively, taxpayers can elect to take 50% of the allowable depreciation in the first year of service, with the remaining depreciation taken as provided under the MACRS schedule.

Typical Fund Structure

While investments in solar energy projects have been historically dominated by banks and institutional investors, these investments sometimes find their way to high net worth retail investors through private placements exempt from registration under Regulation D of the Securities Exchange Act of 1933. Investors acquiring the fund investments ("Investor Members") are generally investing as a non-managing member in a limited liability company ("Fund") specially formed and established to acquire equity ownership in solar energy projects. The money contributed by the Investor Members helps to fund the construction and establishment of renewable energy assets through "Intermediate Entities" that enter into partnership with a project developer and operator. Where the Fund is investing in multiple projects



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The Fund will invest in one or more project partnerships and underlying renewable energy assets through an Intermediate Entity or “Hold Co” limited liability company which will own a 100% interest in the project partnerships.

and assets, it will generally hold equity in multiple Intermediate Entities (which in turn control and own the project partnerships that hold the underlying renewable energy assets).

The Investor Members collectively will own 99.99% of the Fund through a five to six-year investment period and will receive that portion of the income tax benefits passed through to the Fund by the Intermediate Entities through the issuance of an IRS Form K-1. The entire amount of the subscription will be collected from each investor. Of the ROI typically realized, 80% or more may be attributable to the pass through of the ITCs and equipment depreciation deductions of the Fund.

The investment provider/sponsor (“**Manager**”) will manage the Fund and will own 0.01% of the Fund to maintain those management rights. The Manager will manage the Fund on behalf of Investor Members, and the Manager’s supervisory duties to the Fund will include asset monitoring and reporting project activity, collecting and dispersing K-1s and other tax/financial documents, and collecting and dispersing any cash distributions.

The Fund will invest in one or more project partnerships and underlying renewable energy assets through an Intermediate Entity or “Hold Co” limited liability company which will own a 100% interest in the project partnerships. In many cases, the Fund will likely make its capital contributions to an Intermediate Entity in multiple installments, with a substantial majority of the investment made to the Intermediate Entity upon executing the operating agreement, and with the remainder paid upon the receipt of a K-1 from the Intermediate Entity for the year the project asset is placed into service. The reason for holding back 10% of the contributed capital at the Intermediate Entity levels is premised upon the final allocation of tax credits versus what was initially projected by the Intermediate Entity manager/project developer (which is intended to equalize the projected allocation of tax credits per unit).

The Fund will initially own 99% of the Intermediate Entity for approximately 5-6 years, resulting in 99% of tax credits and business deductions flowing to the Fund from the Intermediate Entity (with losses limited to the Fund’s capital account). The remaining 1% of the Intermediate Entity is owned by the Intermediate Entity manager, which is typically the project developer. The Fund will “revert” from 99% ownership to 5% ownership in the Intermediate Entity after the recapture period expires. While acknowledging lower flip/manager waterfalls are commonly observed in real estate-related investment programs, flip provisions of the type described above within the Intermediate Entity are commonplace within investment entities that fund renewable energy assets (which are intended to transfer a substantial portion of the economic benefits to the project manager once the benefits of the ITCs are secured).³

The operating agreement of the Intermediate Entity will give the manager of the Intermediate Entity a call option to purchase the Fund’s interest in Intermediate Entity at fair market value after the recapture period expires. Such agreement likewise gives the Fund a right to put its interests in the Intermediate Entity to the manager. The call/put prices are based upon the fair market value of the Fund’s interest in the Intermediate Entity post flip. We would mention that IRS Notice 2014-12 (“**Notice**”), which is applicable to economic substance questions regarding programs that invest for rehabilitation tax credits, discourages put/call provisions within the organizational documents of the program. While the Notice is not directly applicable to renewable

energy programs, the presence of the call/put provisions is a circumstance the IRS may review if the Fund is audited in the future (but with the Investor Member's rights to distributions being contingent upon the sales of renewable energy which adds an element of investment risk).⁴

In many cases, the Fund is given a call right within its operating agreement that enables it to acquire an Investor Members' units at a fair market value price by issuing a call notice (with the call right deferred to the end of the recapture period). If the Investor Member disagrees with the fair value proposed in the notice, in some cases it may request that an independent and nationally recognized appraiser perform the valuation to determine the market price.

The structure mentioned above permits the income tax benefit from the energy ITC to pass through to the Fund and its Investor Members. An unfunded preferred return is generally afforded to the Fund and ultimately its investors from the Intermediate Entity (i.e., 1% of the contribution based upon documents reviewed from a prior program), with a 99/1 distribution split in favor of the Fund applicable to distributable cash after repayment of any operating deficit loans. A flip in the ownership and distribution shares among the LP/GP interest at the Intermediate Entity level is implemented after the five-year ITC recapture period expires. The Fund's ownership in each Intermediate Entity is specified in a separate operating agreement governing the rights of the Fund and the Intermediate Entity manager.

Tax Benefit, Economics, and Forfeiture Risks

Assuming the Fund is properly structured, the Fund/Investor Members earn a reduction in federal tax liabilities for 30% of the eligible construction and equipment costs. The value of the tax credit is earned when the energy property is ready and available for its intended use (i.e., placed in service). The tax credit can be carried back one year or carried forward 20 years and can be used to offset regular and alternative minimum federal income taxes. If the investment is planned correctly, the combination of the income tax credit and depreciation can generate an investment opportunity whereby an economic return can potentially be achieved within the first three to five quarters of project operations.

The allocation of tax credits to the Fund and ultimately the Investor Members is based on the fair market value of the project. Typically, the fair market value is based on an appraised value of the project prior to the Investor Members or Fund being admitted. Once the fair market value is established, the Intermediary Entity enters into a membership interest purchase agreement for 100% of the member interests in the Project Partnership. The purchase price formally establishes the fair market value but is a negotiated price based on either the receipt of an appraisal or preliminary internal calculation consistent with the appraisal approach that has been taken on similarly situated projects.

As stated previously, the ITC and related business/depreciations make up a substantial majority of the ROI. Notwithstanding, the ability of the solar assets to generate sellable energy does play a role in the program's ability to generate an economic return on investment. In the retail investor space, and assuming the program is properly structured, the return within the initial 3-5 investment months can range from 1.05-1.10, with a total ROI of *roughly* 1.20 or more provided during the 5-6-year



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As is the case in respect to other tax preferred investment vehicles, the devil lies in the details.

investment holding period (which rivals the low income housing opportunities of the late 2000's due to (i) the realization of the economics very early in the investment process, and (ii) the very low probability of ITC recapture among sponsors that have offered renewal energy investments over several years).

As is the case in respect to other tax preferred investment vehicles, *the devil lies in the details*. First, subscriptions and initial capital contributions in the Fund and the Intermediate Entity must be made before the solar energy property is placed in service. Assuming the requirement in the preceding sentence is satisfied among others, the full value of the ITC is earned immediately when a solar energy property is placed in service, with depreciation claimed under the rules previously mentioned. To retain the income tax benefits over the five-year compliance period, the property must also (i) continue to be a qualified energy facility (i.e., ability to produce energy), and (ii) not experience a change in ownership. From a due diligence perspective in relation to the change of ownership requirement, such risks are generally addressed through forbearance agreements within loan documents in which the project lender agrees to forebear any foreclosure actions during the recapture period. In respect to the first risk, the due diligence mitigants tend to include: 1) the procurement of casualty and business interruption insurance; 2) confirming that all local governmental approvals are in order to operate the solar equipment; and 3) the project developer and equipment operator have not caused tax recapture events to occur in the past.

During the first year after the facility has been placed in service, the recapture rate is 100%. The rate declines by 20% each year thereafter until the end of the fifth year. The compliance period expires at the end of the fifth year after the facility has been placed in service.

1—*Taxes and incentives for renewable energy*, KPMG (2015).

2— *Solar Investment Tax Credit (ITC), Issues and Policies*, Solar Energy Industries Association (website visited Jan. 25, 2017).

3— IRS Notice 2014-12 applicable to historic rehabilitation credits, which provides safe harbor guidelines on issues relating to economic substance.

4— *Historic Boardwalk Hall, LLC v. Comm'r*, 694 F.3d 425 (3rd Cir. 2012) (describing the presence of a funded preferred distribution as a factor that more resembling debt than a bona fide equity investment).

Conclusion

While solar tax credit programs are not for everyone, banks, institutions, and high net worth investors taxed at high marginal rates have found these opportunities to be helpful in reducing income tax burdens while also offering an investment return that is commensurate with the risks and which supports alternative energy initiatives. As green bonds issued by public companies typically generate annual returns of 2.0% to 2.5%, the solar tax credit programs, through the tax benefits mentioned, can also offer an investment that generates a 200 bps or higher return. For the right investor that is exposed to high income tax rates, the solar tax credit program poses a viable tax preferred investment to consider. ▲

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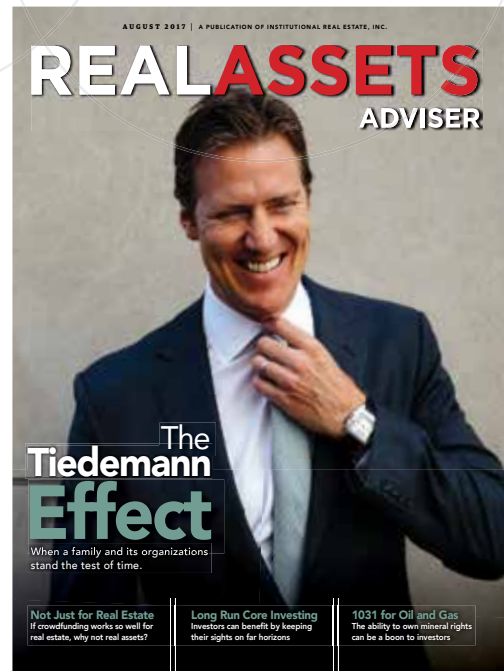
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The Financial Advisor's Guide to Millennials

By My RIA Lawyer



According to the U.S. Census Bureau, millennials (those born between 1982 and 2000) now number approximately 83.1 million and represent more than a quarter of the nation's population.¹ They exceed in size the number of baby boomers and are more diverse than the generations preceding them.² Millennials are also better educated and more economically active.³ However, they also face greater challenges—from economic uncertainty to the crippling weight of student loan debt—and these challenges mean they delay getting married, buying homes and starting families.

Personal Finances of Millennials

The Global Financial Literacy Excellence Center (GFLEC) at the George Washington University conducted a study of over 5,500 individuals that examined the personal finances of Millennials. This study found that millennials:

1. **Have inadequate financial knowledge.** Only 24% of respondents in the study demonstrated basic financial knowledge.
2. **Aren't happy with their current financial situation.** 34% reported being very unsatisfied.
3. **Worry about student loans.** More than half of millennials were concerned with their ability to repay their student loan debt.
4. **Have debt that crosses economic and educational lines.** Among those who were college-educated, a whopping 81% had at least one long-term debt.
5. **Are financially fragile.** Almost 30% of millennials are overdrawing on their checking accounts.
6. **Are heavy users of alternative financial services.** Over 40% of millennials used payday loans, pawnshops, auto title loans, tax refund advances and rent-to-own products
7. **Sacrifice retirement accounts.** For those who had retirement accounts, 1/5 had taken loans or hardship withdrawals in the past year.
8. **Don't seek professional financial help.** About 27% of millennials are seeking professional financial advice on saving and investment.⁴

Understanding these trends and the challenges millennials face is just the beginning. Financial advisers must also understand what motivates millennials.

Millennials don't need to own fancy cars or large, expensive homes. They are willing to pay for an Uber to their one-week rental in the south of France, because it is the *experience* that makes them happy.



How Millennials Feel

In a 2014 study conducted by Harris Poll on behalf of Eventbrite, nearly 80% of millennials said that they would rather spend money on a desirable experience or event than on an item. The study also found that nearly three quarters of respondents wanted to increase their spending on experiences, many finding that such experiences connected them to other people, their community and the world at-large. Millennials don't need to own fancy cars or large, expensive homes. They are willing to pay for an Uber to their one-week rental in the south of France, because it is the *experience* that makes them happy.

When millennials are searching for their next experience, they don't have to look any further than their pants pocket. Most millennials don't remember a time before the Internet, and many spend most, if not all, of their time on their smartphones accessing social media, searching for answers on Google and communicating with their cohorts. If a millennial wants to find out why their throat hurts, there is WebMd. If a millennial wants to go to Miami for a music festival, they can book their flight on the Delta app. If a millennial is going to be late for a date, they text. Millennials get information instantly and communicate constantly through various social media platforms.

So What Does This All Mean?

Millennials very clearly face serious financial challenges and need the help of financial advisers to create a plan that will allow them to pay down debt, save for the future and have money available for immediate needs. They want to be able to communicate on the go and utilize technology to receive and send information. They also want to work with a financial adviser who understands their motivations and needs. Accessibility is key.

The needs of millennials are best met when the financial adviser focuses on life planning instead of just retirement planning. Millennials need help creating a budget, putting money into savings, paying down debt, and paying for immediate needs. They need help planning for a wedding, the purchase of home and the cost of children. Retirement planning is important but not the primary focus. Millennials still have a lot of time to put money away for retirement, so retirement planning for them is committing to putting a certain amount, no matter how small, into a retirement account.

Also, since millennials are more focused on access instead of acquisition, advisers may find that charging their millennial clients a fee based on assets under management is not going to keep the lights on. Financial



The needs of millennials are best met when the financial adviser focuses on life planning instead of just retirement planning. Millennials need help creating a budget, putting money into savings, paying down debt, and paying for immediate needs.

advisers should instead consider charging their millennial clients a fixed fee per month. Advisers then can build their fixed fee into their millennial client's budget, show them how the investments will pay for it, and give them peace of mind knowing what they can expect.

Know your Customer

FINRA Rule 2090 requires firms to know the essential facts concerning each client which will allow firms to effectively service the client's account, act in accordance with any special instructions, understand the authority of each person acting on behalf of the client and comply with all applicable laws and rules.

Millennial investors face many unique challenges. Start with developing a list of services that are relevant to younger clients who are planning for immediate needs and short-term goals. Get creative about your marketing and how you engage millennial clients. Here are some suggestions for areas of discussion and how to engage your millennial clients:

1. Help your millennial clients set short- and long-term goals.
2. Create a budget. Make sure your millennial clients include all expected expenses and contemplate any possible situations that your client will need to be financially prepared for. Consider hosting a craft beer tasting at a local venue and discuss budgeting with a small group of your millennial clients.
3. Millennial investors are work willing to take on risk in hopes that it pays off. If it doesn't, they have time to recoup their money in the market. Consider more risky products and balance them with opportunities for capital preservation, growth and income.
4. You may need to discuss lifestyle changes with your client based on their monthly expenses and expected income.
5. Suggest your client start a savings account for their pet in lieu of paying for pet insurance. Putting away a small amount per month means peace of mind and relief if a pet requires expensive medical services.
6. Look at ways student loans can be consolidated and interest rates reduced.

Millennials are also all about accessibility. You should be comfortable communicating using various forms of social media and electronic messaging (email, texting, etc.). Consider ways of communicating in person and via technology.



7. Create an interdisciplinary team of professionals that work well with millennials and to whom you can refer your clients depending on their needs. For example, work with a local realtor who helps young professionals find homes in trendy areas that works in the budget you created.
8. Discuss basic estate planning with your millennial clients. All would benefit from a basic will as well as a durable power of attorney, healthcare directive and HIPPA waiver.
9. Create a plan for millennial clients to fund experiences- whether it is a trip abroad or a music concert.
10. Ask your baby boomer clients to bring their young adult children to the next meeting. Introduce yourself and engage them by speaking to them about their own short- and long-term goals.
11. Do some detective work on social media (like Facebook or Instagram) and take note of any life-changing events. Send a note congratulating your millennial client on their engagement, offer to tap into your interdisciplinary team of professionals to help them (wedding photographer, caterer or even connect them with other engaged couples that are your clients), and generally take a genuine interest in their lives.
12. Use technology. Utilize an app or software that allows your millennial client to access their budget and see how their investments are performing in real-time.

Millennials are also all about accessibility. You should be comfortable communicating using various forms of social media and electronic messaging (email, texting, etc.). Consider these ways of communicating in person and via technology.

1. Consider meeting in a coffee shop or bakery before work or for a meal.
2. Don't feel like you need to wear a suit and tie. You can be more casual, but keep it stylish.
3. Millennials are always on the go. Consider doing some of your meetings online using Facetime, Skype or a similar app.



The truth is that millennials entered the workforce during the worst recession since the Great Depression and continue to work in an economy that has been slow to recover. They face the weight of excessive student loan debt with high interest rates, low wages, and the lack of employer-provided benefits.

4. Utilize social media in your marketing. Take pictures using Instagram, post videos live on Facebook, leave posts on LinkedIn, and send texts to your clients periodically just to check in and say hello. Millennial clients will follow you on social media and get more comfortable as they see your content.
5. Do not lecture your millennial clients. When speaking with them, make sure it is like a conversation with a friend, not a parent.

Conclusion

Millennials are often ridiculed because they live at home with their parents, don't have jobs or use technology constantly. The truth is that millennials entered the workforce during the worst recession since the Great Depression and continue to work in an economy that has been slow to recover. They face the weight of excessive student loan debt with high interest rates, low wages, and the lack of employer-provided benefits. Despite these challenges, they have emerged more educated and diverse than the generations preceding them, and are more likely to engage in their community and take part in humanitarian efforts. While advisers may shy away from millennials because of the financial uncertainty so many of them face, they are severely underserved and ignoring over a quarter of the population is just bad business. Instead, by embracing technology and thinking outside of the box (and outside of the office), financial advisers will find that assisting millennials through these hardships will prove rewarding and they will earn a loyal client. ▲

1—<https://www.census.gov/newsroom/press-releases/2015/cb15-113.html>

2—*Id.*

3—riceWaterhouseCoopers. Millennials and Financial Literacy: the Struggle with Personal Finance. (2015) retrieved from <https://www.pwc.com/us/en/about-us/corporate-responsibility/assets/pwc-millennials-and-financial-literacy.pdf>1—<https://>

4—*Id.*

5—Poll, Harris. Millennials—Fueling The Experience Economy. (2014) Retrieved from http://eventbrite-s3.s3.amazonaws.com/marketing/Millennials_Research/Gen_PR_Final.pdf

6—*Id.*

Three Steps Financial Planners Can Take to Use Alternative Investments Confidently and Prudently

By Mario Nardone, *East Bay Financial Services*

Financial planners tend to enjoy (or at least prefer) spending time with their clients, helping detangle and re-organize many facets of their finances, and encouraging them to live enriched and fulfilling lives, to borrow oft-cited adjectives from their corporate missions. Running a holistic practice and maintaining expertise on a broad swath of topics from insurance to taxes can leave little room on their calendars for investment due diligence, yet many advisors lose sleep over whether or not they are fulfilling their fiduciary duty in this aspect of their practice.



1 To recommend or not to recommend?

Combining this with a desire to differentiate themselves from local competition and provide comprehensive services including investment management can leave them in a quandary: should they go the “safe” route and recommend entirely from a short list of well-regarded, low-cost ’40-Act funds according to a risk-based allocation to stocks, bonds, and cash? Or should they go the extra mile(s) and explore non-traditional options to enhance the risk-adjusted return of a portfolio, or to offer customized solutions to unique situations and sophisticated clients?

2 Steps for vetting alternative investments

Often, the planner choosing the latter finds him- or herself struggling to find the time or expertise required to evaluate the legal, financial, and reputational standing of boutique managers in asset classes that behave in less-transparent and less-understood ways than traditional markets. For planners who recognize that trying to be a jack-of-all-trades is a potential path to disaster, there is a way. Below are a number of steps a fiduciary advisor can take to set him- or herself apart by incorporating alternative investments:

Make sure it enhances the portfolio characteristics. Thorough evaluation of expected risk, return, and covariance with other assets is an absolute must. To put it one way, you must determine whether the diversification benefits are worth it if it’s going to reduce your expected return. Liquidity is another factor requiring consideration with alternatives.

Make sure it’s not just a sales pitch. There are a lot of experts in a lot of fields who have made or claim to know how to make money at it. That doesn’t mean he or she will continue to do so, or that the manager didn’t just get lucky in the past. Detailed statistical and economic analysis, and fundamental research of the past, present, and expected future environment can help see through the noise and slick-looking slide decks.

Evaluate the regulatory history and legal status of the manager. While “once a thief, always a thief” may not be entirely true, it is important when entrusting other people’s money with someone else that you know their history (at a minimum!). Many alternatives are not regulated the way we are used to with registered funds, so you may have to open a lot of closet doors to find the skeletons.

Know how to read the financials. For example, can you pore over the details of a prospective investment and determine whether a recent acquisition was really an acquisition as opposed to a business combination, or whether the acquisition expenses incurred should have been capitalized versus expensed and flow through the income statement?

3 Enlist the help of third parties

A prudent advisor would not invest in a mutual fund based solely on what its wholesaler says; at a minimum he or she might consult Morningstar or some other respected evaluation service. In the alternatives space, there might not be a service today with such a familiar name, but enlisting the help of third parties can certainly help in your own customized evaluations. ▲



NASAA Adopts Statement of Policy to Usher in E-Delivery and E-Signature for Non-Traded Offerings

By John Grady, ADISA President, DLA Piper

Under an initiative approved last spring by the membership of the North American Securities Administrators Association (NASAA), sponsors, issuers, broker-dealers and others involved in the offer and sale of shares of non-traded real estate investment trusts (REITs), business development companies and other direct participation programs (DPPs) will soon have a clear field to use electronic versions of their offering documents. Investors that wish to subscribe for shares, moreover, will be able to sign documents electronically.

While not effective until and as adopted by the various states, NASAA's e-delivery/e-signature initiative is a welcome development for issuers and financial services firms that have been generally forced until now to mail expensive printed documents that required a "wet" signature.

Why NASAA is acting

Despite general acceptance of electronic means for delivering documents relating to the offer and sale of securities, and despite the many ways in which investors can sign and adopt documents electronically, DPP offerings such as non-traded REITs have not been able to fully utilize available means for electronic delivery of their offering documents. Moreover, pursuant to NASAA guidance, issuers and their agents have been required to accept only those subscription documents that have been manually signed by the investor (ie, those with a “wet” signature).

This has added additional printing and mailing costs, of course, but it has also forced broker-dealers and other financial services firms to introduce a costly and complicated process to deliver or provide hard copy offering and subscription documents for DPP offerings recommended to their clients and to ensure that they are fully executed in manual fashion before being submitted for acceptance.

Accurate statistics are hard to come by, but it is generally believed that the current “wet signature” requirement is responsible for a large number of rejected or “not in good order” subscriptions received by DPP sponsors and their distribution arms.

NASAA's e-initiative: key elements

NASAA's newly adopted Statement of Policy (SOP) is aimed at streamlining the document delivery process by allowing for offering materials to be delivered “over the Internet or by other electronic means” to prospective investors and their financial advisers. And the SOP embraces the federal “E-Sign” protocol and will allow investors to sign subscription and related documents electronically, thereby increasing the likelihood that investor paperwork will be filled out and executed correctly and the investor's subscription processed quickly and efficiently by the programs that are in the market raising capital.



Past requirements added additional printing and mailing costs, of course, but it has also forced broker-dealers and other financial services firms to introduce a costly and complicated process to deliver or provide hard copy offering and subscription documents for DPP offerings recommended to their clients and to ensure that they are fully executed in manual fashion before being submitted for acceptance.

As is to be expected, there are elements of the new SOP that warrant focus and that will require sponsors, issuers, financial advisers and others to take steps to ensure that their e-delivery and e-signature programs are consistent with the SOP's requirements. Among the main elements that deserve attention are the following:

Electronic delivery requirements—general

The offering document (which includes among other things the prospectus, sales literature and subscription document) must be delivered as a single integrated document (or file), or if in multiple parts must be delivered together as a single package or list.

The format must permit the recipient to store, retrieve and print the document.

Electronic signature requirements—general

The process for obtaining e-signatures must follow the Federal E-Sign Act and the Uniform Electronic Transactions Act, which impose requirements relating to accuracy, security and disclosures and

The process must employ a user authentication element as well as include safeguards against alternation as well as retention requirements.

Consent

To carry out e-delivery, issuers and their agents (including selling brokers), must obtain “informed consent” from the investor or prospect, must ensure that delivery occurs at or before the time required by law, and must retain and make available evidence of delivery. Consent may be obtained either individually in connection with each offering, or on a global basis, subject to revocation at any time.

For e-signature, investors are required to expressly opt in and can terminate their participation at any time. An issuer can get an investor's consent for each offering, or provided by the issuer's agent.

Subscription agreement terms

Under the SOP, an issuer or its agent may deliver a subscription agreement for a single offering (multiple offerings if permitted by a state securities administrator), and allow that document to be reviewed and completed electronically, but only if:

- the issuer or financial adviser (or other agent) reviews “all appropriate documentation related to the prospective investment...” and
- “mechanisms” are established to ensure that the prospective investor “reviews all required disclosures” and “scrolls through the document in its entirety prior to initialing or signing.”

Conditionality and cost

The SOP does not permit:

- an issuer or its agent to condition participation in an offering on the investor's willingness to agree to e-delivery and/or to implement the electronic signature capability
- an investor to be charged more to invest if he or she eschews e-delivery (other than higher costs associated with such factors as printing or mailing) or discounts in exchange for participation in an e-delivery program.

Policies and procedures

Issuers must have and must require their principal underwriters, dealer-managers, placement agents, broker-dealers and/or other selling agents to maintain, written policies and procedures covering the use of electronic offering documents and subscriptions as well as electronic signatures elements.

Cybersecurity

In the event that a security breach occurs and is discovered anywhere in the world, the issuer and, as appropriate, its agents are required to take the following actions, as relevant:

- identify and locate the breach
- secure the affected information
- suspend the use of the compromised device or technology and
- provide notice to each investor whose confidential personal information has been improperly accessed and to the securities administrator in each state where an affected investor resides. ▲



2017 ADISA Due
Diligence Forum

ADISA Advocacy

ADISA Board of
Directors Nominations

2017 ADISA
Annual Conference &
Trade Show

2017 Due Diligence Forum Saw Record Attendance



ADISA's 2017 Due Diligence Forum, at The Fairmont Chicago in July, was an astounding success, with record attendance in each member category.

- 220+ total attendees
- 90+ associates from 70+ firms
- Associate to Sponsor ratio: 1:1

Attendees learned:

- How to succeed in the post-DOL world and how to practically apply the rule
- Valuable techniques on how to conduct due diligence
- The latest 1031 market trends and statistics, as well as a presentation on the technical aspect of an LKE
- Real world examples when evaluating a liquidity event
- And more, including audience interactive sessions

What people said (taken from participant survey):

"It was nice to learn more about conducting due diligence rather than sponsor presentation after presentation."

"Some very clever presentations!"

"A very organized meeting covering topics important to our industry"

"This was our first conference, and we walked away with some valuable information. My time was well spent." ▲



ADISA Advocacy

1031 Like-Kind Exchanges

In May, ADISA's Executive Director/CEO, John Harrison, met at length with Senator Tim Scott (R-SC) and others to reiterate the strong benefits of LKEs to the economy as a whole. Says Harrison, "ADISA is proud to have co-sponsored two studies showing the great benefit to the bottom line GDP of our country by LKEs; everyone in Congress we have dealt with, who sees these numbers, is in awe of the magnitude of LKEs' importance to the GDP across several industries."

Harrison also authored, with the insight and leadership of ADISA President John Grady, DLA Piper, an op-ed piece entitled "\$8 Billion Reasons to Save Key Tax Deferral From Reform Tax," which ran in The Hill in August.

ADISA's Executive Director/CEO, John Harrison, right, met at length with Senator Tim Scott (R-SC), left.

Furthermore, ADISA's largest efforts on LKEs are in preparing educational material for congressional staffers and in answering questions regarding how LKEs actually work. "Even though those in financial services know how the LKE stimulus aids with commercial real estate, many on the congressional staff level still need to know more," said ADISA's Legislative & Regulatory Committee Chairperson Catherine Bowman, The Bowman Law Firm. ADISA is currently preparing a "sequel" to its popular Guide to Alternative Investments, which will be solely dedicated to Like-Kind Exchanges, designed especially for congressional staff involved with tax and budget issues.

DOL Fiduciary Rule

Earlier this summer, ADISA partnered with the Financial Services Roundtable to help launch its industry-wide study to show the Rule's early effects. ADISA provided aggregate data on the nation's advisor industry—both fee and commission-based financial advisors and annuity providers—to help FSR, who commissioned the extensive study by Harper Polling. According to ADISA Executive Director/CEO John Harrison, the survey sample of over 600 was drawn randomly from all financial service professionals across the United States who provide advice to the nation's retail investors. Thus yielding a margin of error of $\pm 4.0\%$ on responses gathered by telephone and online interviews.

Additionally, ADISA sent further research and commentary to the DOL in response to its request for information on the Fiduciary Rule. In a letter dated Aug. 7, ADISA highlighted some of the real and dramatic consequences associated with the Rule, many of which are not consistent with the best interests of retirement savers.

Other Issues

ADISA has been actively submitting comment letters and joining other industry organizations in efforts to inform Congress on a variety of issues. These include:

- A letter to the House Committee on Ways and Means and the Senate Committee on Finance expressing view on tax reform and commercial real estate
- A letter to the Nevada Securities Administrator regarding implementation of a recently signed bill, SB 838, which removes the exemption for broker-dealers, investment advisors and sales representatives from the definition of "financial planner" in NRS 628A, thereby extending financial planner-specific duties and liabilities to them.
- Comment letters to FINRA Regarding RN 17-14 (Capital Formation) and 17-15 (Corporate Financing) ▲

ADISA Board of Directors Nominations Now Being Accepted

The ADISA Election Committee is seeking nominations for five open Board of Director seats. New Directors will serve a two-year term beginning January 1, 2018. ADISA members may nominate up to three individuals, including him/herself.

Criteria for nominations:

- *Time commitment.* All ADISA board seat terms begin January 1, 2018. At a minimum, anyone wishing to be considered for nomination should be willing to (i) attend ADISA's strategic planning meeting and board meeting in January 2018, (ii) participate in the very occasional conference call as situations arise, and (iii) attend the quarterly in-person board meetings immediately preceding the ADISA Annual Conference, Spring Conference and Due Diligence Forum.
- *Diversification.* Only one representative from a company may hold a board seat at the same time.
- *Good standing.* Nominees must be ADISA members in good standing (i.e., dues and all other financial obligations are paid) and in the appropriate category, defined as the class relevant to their primary business activity.

Candidates who do not meet all of the above criteria will not be considered.

Please note that a nomination does not guarantee placement on the final ballot. The ADISA Election Committee will choose nominees representing all membership categories and based on the criteria above. The ADISA office will notify each nominee of his/her status prior to the final ballot being released.

All nominations must be submitted by Friday, October 27, 2017.

Go to adisa.org to make a nomination.

900+
Attendees
Expected

80+
Exhibitors

The premier education and
networking event for the alternative
& direct investment industry



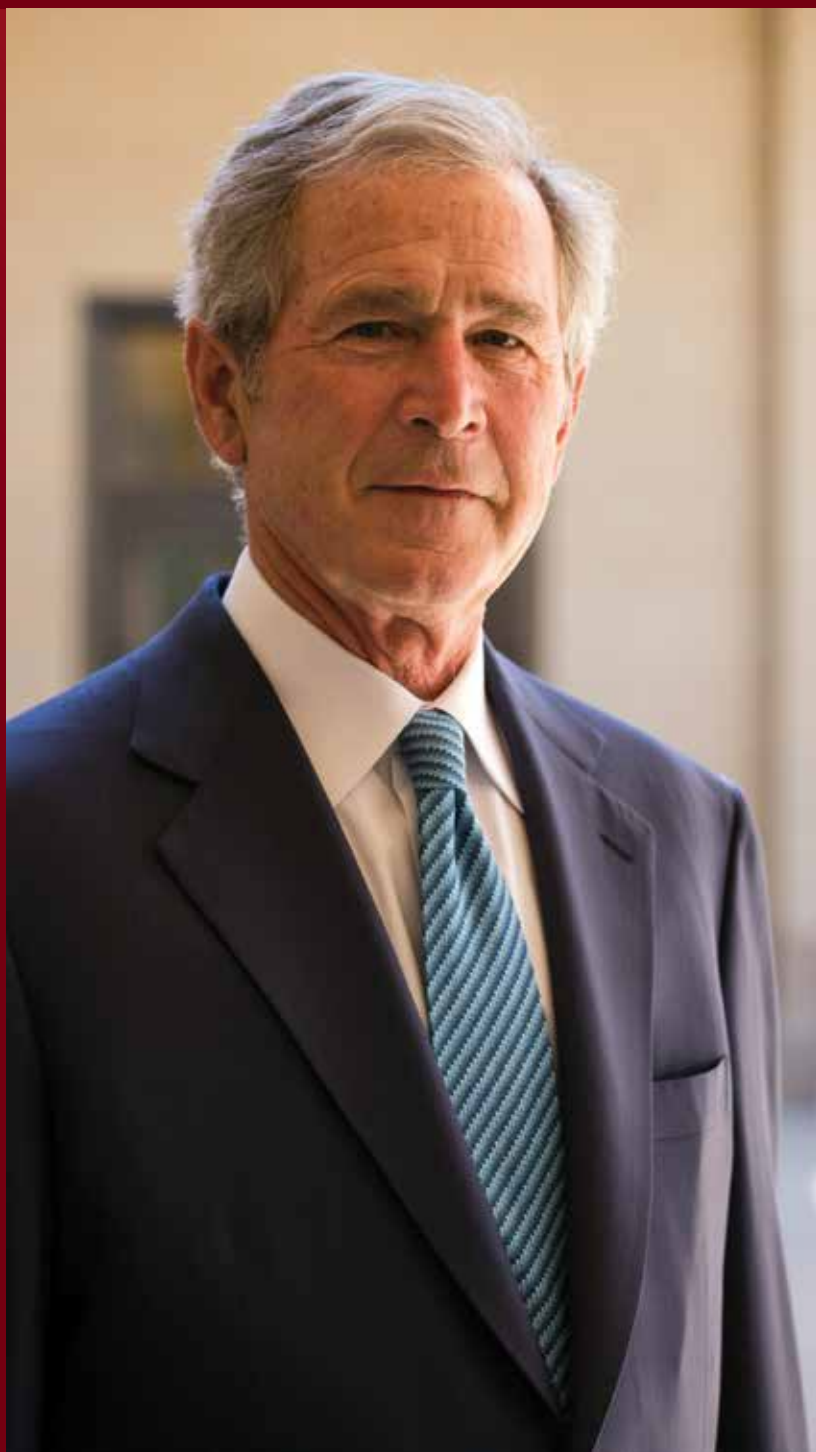
ARIA
Resort & Casino
Las Vegas
October 23-25

ADISA²⁰¹⁷ **ANNUAL** CONFERENCE & TRADE SHOW

Special Guest 43rd President of the
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GEORGE W. BUSH

An Exclusive Conversation with President
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Closing Keynote Speaker

**Roger G.
Ibbotson Ph.D.**

Chairman & Chief
Investment Officer
Zebra Capital
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SCHEDULE

As of 9/13/17. Please note all sessions are subject to change.

Monday, October 23

11:30 am-12:50 pm

Women's Leadership Forum Luncheon

Featuring Speaker Cheri Tree
Author of "Why They Buy"

1:00-1:50 pm

(1) 1031 Exchanges: Where to Start

(2) Technology for Investment Professionals for Their Firms

(3) Introduction to Private Equity

(4) Due Diligence on Preferred Stock

2:00-2:50 pm

(5) Can REIT Sales Return to the Former Glory Days? What Has to Happen?

(6) Efficient Product Due Diligence Reviews and Onboarding: Broker-Dealer Best Practices

(7) Retail Oil & Gas—What's New in 2017: The Opportunities and Risks

(8) Private Equity: Are Mom & Pop Investors Savvy Enough?

3:00-3:50 pm

(9) Robo Advisory and Crowdfunding

(10) Introduction to DPP

(11) 1031 Due Diligence: Risk Mitigation

(12) Expanding the Distribution Channel: Best Practices to Access RIA and Family Office Markets

4:00-4:50 pm

(13) Technology: How to Manage Sales Activity Compliant with DOL Fiduciary

(14) What Does it Mean When We Say Institutional Quality Assets? How and What Are the Institutions Investing?

(15) More than a Wrapper: When is a Closed-Fund Structure Appropriate and What Should Investors and Financial Advisors Know?

(16) Preferred Stock Offerings: Why It's an Important Business Opportunity

5:00-5:30 pm

Conference Kick-Off

5:35-6:30 pm

General Session I: An Industry Update Conversation

6:30-7:30 pm

Welcome Cocktail Reception

Tuesday, October 24

7:30-8:30 am

Breakfast & Exhibition

8:30-9:30 am

General Session II: Legislative & Regulatory Update Part I—What You Need to Know: Regulatory Updates Including FINRA, NASAA, and Other Important Issues

9:30-10:10 am

Break

10:10-11:10 am

General Session III: **Special Guest**
43rd President of the United States
George W. Bush

11:15 am-12:05 pm

(17) Practice Management: Self-Directed IRAs

(18) Non-Traded Energy Tax Symposium: A Closer Look at Renewables and Oil & Gas 1031 Products

(19) 1031 Exchanges: Deep Dive

(20) Options for Getting Portfolio Exposure to the Real Estate Asset Class

12:10-1:30 pm

Lunch & Exhibition

1:30-2:20 pm

(21) Breaking Into the Market: A How-To Manual for Sponsors

(22) DPP Best Practices

(23) Practice Management Advice from Elite Producers

(24) BDC Fundamentals: Understanding the Benefits, Sectors and Strategies

2:30-3:20 pm

(25) Regulation A+: Newest Look

(26) A View from the Buy Side: Advice from the Broker-Dealers on How to Gain Traction in Capital Raising

(27) Marketing and Media Strategies to Promote Your Practice

(28) Cybersecurity

3:20-3:50 pm

Break & Exhibition

3:50-4:40 pm

(29) Ask the Experts: 1031 Tax Analysis and Sales Practices

(30) The Household Endowment Model

(31) Interval Funds and New Structures: Is Third Party Due Diligence Necessary?

(32) Managing the Due Diligence Process: Do Broker-Dealers Have Enough Bandwidth?

4:50-5:40 pm

(33) Rep and Advisors Peer Panel

(34) Due Diligence on New and Evolving Structures

(35) Alts within Alts: Expanding Beyond Traditional Alts

5:45-6:30 pm

General Session IV: Legislative & Regulatory Update Part II

6:30-7:30 pm

Cocktail Reception

Wednesday, October 25

7:30-8:30 am

Breakfast & Exhibition

8:30-9:30 am

General Session V:

Roger Ibbotson Ph.D.

Sponsored by SHURWEST

9:40-10:30 am

- Broker-Dealer Advisory Council
- RIA and Family Office Advisory Council
- President's Sponsor Reception

10:40-11:30 am

(38) Sponsor Panel: When the Product Approval Timeline Keeps Moving

(39) Choosing the Right Technology Solutions & Not Living to Regret It: How Advisors and IBDs Can Avoid Pitfalls in the Selection of Technology Systems for Their Practice

(40) State of the Market for Lending/Debt Offerings

11:40 am-12:30 pm

General Session VI: CEO/C-Suite Panel

More information
at adisa.org

2018 ADISA EVENTS



2018 SPRING CONFERENCE

Rosen Shingle Creek
Orlando, Florida

March 26-28



2018 DUE DILIGENCE FORUM

New York Hilton
Midtown

July 10-11



2018 ANNUAL CONFERENCE & TRADE SHOW

ARIA Resort & Casino
Las Vegas

October 8-10

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