

# Guest Contributor: What's the Cost of Liquidity? The Illiquidity Premium and Alternative Investments

*By: Thomas J. Powell, Senior Managing Partner, Resolute Capital Partners*

When it comes to investing, what does the average person most likely think of? Stocks. Bonds. Perhaps mutual funds. Most individuals are very familiar with these *liquid* assets – assets that can be traded for cash at market price with relative speed and ease. As such, many portfolios are largely comprised of these investments.

Alternative investments, such as private equity, venture capital and real estate funds, however, are often avoided by investors, due in large part to their illiquidity. Illiquid assets tend not to have a secondary market and cannot be traded for cash as easily as their liquid counterparts. For many, this makes alternatives “too risky.” After all, emergencies happen, opportunities arise, and investors who need cash are stuck if their investments cannot be readily sold.

Many investors place a high value on the utility of cash and liquidity, and they pay a high price for it. Not only do those investors who rely too heavily on liquid investments expose themselves to all of the emotional volatility of traded markets, but they also miss out on the premium that illiquid alternative investments often yield.

## **What is the Illiquidity Premium?**

The illiquidity premium is the higher rate of return that an

investor can expect to earn by accepting the risk of holding illiquid assets. As the saying goes, “cash is king,” and that’s certainly true for the average investor. Because of this, they demand an extra return for those assets which may be more difficult to sell. Additionally, holding on to these illiquid assets results in an opportunity cost for the investor, as they can limit an investor’s ability to rebalance their portfolio when circumstances change or new information arises.

But the illiquidity premium is not just a hypothetical, “nice-to-have” idea for investors; it is observable. One of the most famous examples of the illiquidity premium in action is David Swenson’s “Yale Model.” When Yale hired Swenson as their chief investment officer in 1985, the Yale endowment was worth approximately \$1 billion. As of September 24, 2020, it was \$31.2 billion. How did Swenson do this? He shifted funds away from domestic equity and fixed income and moved toward real estate, private equity and hedge funds. In essence, he moved from liquid assets to illiquid assets.

But, perhaps a multi-billion-dollar university endowment does not resonate with the average individual’s portfolio. In that case, UBS Hedge Fund Solutions recently performed a study of 234 hedge funds on their platform in an attempt to determine the correlation between performance and the liquidity of the underlying investments. They discovered that each month of illiquidity results in approximately 20 basis points of additional return.

Along the same lines, a separate study observed by the UBS researchers found their results to be consistent with the investment histories of nearly 1,400 private equity funds over a 24-year period derived from the holdings of more than 200 institutional investors. As demonstrated by this analysis, these private equity funds achieved a median annual return net of fees of more than three percent higher than the S&P 500. Assuming a seven-year lifespan for the illiquid investment,

this outperformance would equal 21 percent in simple terms.

### **Additional Potential Illiquidity Benefits**

The illiquidity premium is not the only potential benefit of illiquid assets. As they generally have little to no correlation to the volatile public markets, illiquid assets offer the opportunity for strong diversification, as well as exposure to unique investment areas, such as commercial real estate, oil and gas and other markets to which the average individual investor often lacks access to or is simply unaware of, and, as illiquid investments are rarely bought and sold, they help to avoid the regular transaction costs and maintenance fees of a heavily traded liquid portfolio.

Illiquidity also helps to mitigate market volatility and can aid in minimizing losses in a down market. In the public markets, an individual investor may easily be gripped by fear, either of loss or of missing out, and buy high and sell low. Since illiquid investments are by their nature more difficult to sell, they can serve to protect investors from the emotional swings of the market that can often destroy an individual's hard-earned wealth.

What's more, the SEC's recent expansion of the accredited investor definition allows more people the opportunity to invest in alternatives than ever before, and, with advances in technology like blockchain and tokenization, it could be possible that even illiquid assets could become more liquid in the future.

Liquid assets will always have a place in the average investor's portfolio, but many are missing out on the potential gains that alternative investments can experience due to the illiquidity premium. For those investors with applicable goals, a long enough timeline, and a certain amount of risk tolerance, illiquid alternative investments can play an important part of a sound investment strategy.

*Thomas Powell is senior managing partner of Resolute Capital Partners, which he founded in 2010. His 35-year investment career began at Wells Fargo, and he later founded ELP Capital, a multibillion-dollar mortgage banking investment company, before shifting his focus in the early 2000's to private equity. Powell is the author of several books, including Standing in the Rain, and co-author of Six Secrets: An Entrepreneur's Guide to Attracting Startup Capital. He is an instructor at Harvard's Office of Executive Education program.*

*The views and opinions expressed in the preceding article are those of the author and do not necessarily reflect the views of The DI Wire.*

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The logo for 'The DI Wire' features the letters 'DI' in a large, white, sans-serif font inside a red circular gradient. The words 'The' and 'Wire' are in a smaller, white, sans-serif font on either side of the circle, all set against a grey rectangular background.

## **Resolute Capital Partners Appoints Managing Director of Real Estate**

Private equity firm Resolute Capital Partners has promoted Katherine Kane to the newly created position of managing director of real estate. In her new role, she will be responsible for overseeing and administering all aspects of the company's real estate transactions, including acquisitions and planning, financial structuring, development, asset management, and dispositions.

Kane, who joined Resolute Capital in 2019, served as managing director of commercial real estate acquisitions and investments prior to her promotion and will maintain her previous responsibilities, as well those of her new role.

Kane has more than 35 years of real estate and financial services experience, and prior to joining Resolute Capital, she was the founder and president of the Maestro Fund where she ran multiple investment opportunities through their disposition. She also headed Maestro Consulting where she ran the State of New Hampshire's New Market Tax Credit program.

Currently, Kane serves as treasurer and board member for the Portsmouth Housing Authority in Portsmouth, New Hampshire where she is developing the first tax-credit-funded, 60-plus unit workforce housing project in downtown Portsmouth in more than 30 years. Previously, she was appointed by three successive governors to the board, and served as treasurer, of the State of New Hampshire Business Finance Authority.

"Having known Katherine for 12 years, I know firsthand of her talent and expertise encompassing all areas of real estate and managing complex, structured real estate transactions," said Thomas Powell, senior managing partner. "From site visits to contract negotiations and market analysis, Katherine's ability to solve intricate problems has made her an invaluable resource at Resolute Capital."

Kane completed her post-graduate education through Harvard University's Advanced Management Development Program. Additionally, she completed her undergraduate education at the University of New Hampshire, Bowdoin College and Columbia University. She holds a certificate in portfolio management from the Massachusetts Institute of Technology Center for Real Estate and holds Certified Commercial Investment Member (CCIM) and Society of Office and Industrial Realtors (SIOR) designations. She currently serves on the board and as treasurer for the New England Chapter of SIOR.

Resolute Capital Partners is a private equity firm with offices in San Francisco, Dallas, and Minneapolis. Since its founding in 2010, the company has raised more than \$560 million in its various energy, technology, and real estate

funds.

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## Resolute Capital Develops Townhome Near Lake Tahoe

Private equity firm Resolute Capital Partners has completed the first two Village Walk Skyline townhome units, located in the all-seasons resort of Northstar California.

Located in Truckee, California, just north of Lake Tahoe, Village Walk Skyline is the resort's first new development in the Village at Northstar in more than 10 years.

"We are extremely proud to finish construction of the first two Village Walk Skyline townhomes and hand over the keys to the new owners. Interest in the project has been high: the remaining six of the first eight units are either under contract or have received a letter of intent," said Thomas J. Powell, Resolute Capital's senior managing partner.

Resolute Capital has partnered with a team of designers, builders, and real estate professionals to create the residences at Village Walk Skyline, brokered by local realty firm Tahoe Mountain Realty. Resolute Capital and development partner, Paradigm8, continue to oversee the process.

The homes are designed by architecture and construction firm sagemodern, with manufacturing taking place offsite at prefab home builder Method Homes' factory in Washington state. The modules are then transported to the development site in Truckee where construction is completed.

The current development phase includes 12 homes total, with 10 additional units slated as future-phase builds. Each of the 22 townhomes will include nearly 3,000 square feet of space with four bedrooms, three and a half bathrooms, a two-car garage, among other features.

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## **Resolute Capital Partners Hires Director of Marketing**

Private equity firm Resolute Capital Partners has hired Kimberly Duran as director of marketing to execute Resolute Capital's marketing goals and strategy, and to oversee all aspects of the marketing department, including ensuring the compliance and regulatory integrity of all marketing collateral.

Duran has more than 15 years of experience on both the retail and wholesale sides of the financial services industry. Previously, she worked as a marketing consultant who oversaw the content strategy, design, and advertising for several alternative investment sponsors across the country.

According to her LinkedIn profile, she spent nearly four years as the marketing director for The Lightstone Group and three years as director of marketing and education for Thompson

National Properties.

Earlier in her career, Duran worked as a financial advisor and co-founded Perennial Wealth Management Inc., a full-service financial advisory firm specializing in alternative investments.

Duran graduated with a bachelor's degree in business administration with an emphasis in marketing from the University of Denver's Daniels College of Business. She formerly held FINRA Series 7 and 66 registrations.

Last month, Resolute hired [Casey Minsheu](#) in the newly created position of president of energy to oversee the firm's energy segment. In addition, [Christine Hiatt](#) from vice president of real estate acquisitions and dispositions to chief operating officer.

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## **Resolute Capital Partners Hires President of Energy**

Private equity firm Resolute Capital Partners has hired Casey Minsheu as president of energy. In this newly created position, Minsheu will provide leadership and oversight to the firm's energy segment and will oversee the discovery and analysis of new investment opportunities.



“In today’s market environment, oil and gas remains an area with large investment opportunity,” said Thomas J. Powell, senior managing partner of Resolute Capital. “Casey brings a wealth of knowledge in both the energy and technology spaces, as well as a history of great client relations, all of which will help us as we continue to provide discerning investors with access to modern oil and gas opportunities and the possible tax advantages that come with them.”

Minsheu was the co-founder of EnergyFunder, an online crowdfunding platform for oil and gas investments. Earlier in his career, he held executive-level positions at both the National Association of Independent Mortgage Bankers, where he established the commercial loan division, and iWowWe, a technology company that markets video communication tools. Minsheu holds a bachelor’s degree in accounting from Texas State University.

In other company news, Resolute Capital recently [promoted Christine Hiatt](#) from vice president of real estate acquisitions and dispositions to chief operating officer.

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## Resolute Capital Names Chief

# Operating Officer

Private equity firm Resolute Capital Partners has promoted Christine Hiatt from vice president of real estate acquisitions and dispositions to chief operating officer. In her new role, Hiatt will be responsible for delivering on the company's business plan and investment strategies, while overseeing the daily operations and administrative functions of the company.

Hiatt started her career with Wells Fargo Bank in San Francisco and was part of the team that led the bank into the mortgage banking industry. From there, she went on to work with some of the country's top regional banks as a specialist in mortgage banking, real estate, and commercial lending.

In 2007, she founded Z.A.C Investments, a boutique real estate firm which focused on residential real estate, subdivision development, foreclosures and distressed properties, flips, and rentals.

"We could not be more excited to promote Christine to the role of chief operating officer. With over 30 years of experience in banking, mortgage lending, real estate, sales training, and IT staffing, her wealth of knowledge and experience is virtually unmatched in our industry," said Thomas J. Powell, senior managing partner. "Since joining Resolute Capital in late 2019, her presence has been invaluable in helping us discover and develop innovative opportunities for our partners and clients. As we grow and continue to expand in the areas of energy, commercial real estate, and technology, Christine will be instrumental in ensuring our continued operational success."

Hiatt graduated with a bachelor's degree in business administration from the University of Denver's Daniels College of Business.

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## Resolute Capital Partners Expands Sales Team with Two New Hires

Private equity firm Resolute Capital Partners has hired Jessica Neill and Steven Hill to serve as vice president of national accounts and director of sales-east, respectively. Resolute Capital's sales team markets its investments through independent broker-dealers, registered investment advisors and other independent agents.

"We are thrilled to welcome Jessica and Steven to the Resolute Capital team," said Shawn O'Shaughnessy, national capital markets manager of Resolute Capital Partners "We have rapidly ramped up and are expanding our investment platform to include the independent broker-dealer and RIA investment community. Their strong communication and financial services backgrounds will help us reach additional advisors throughout the country."

Neill joins Resolute Capital with more than 10 years of experience in the sales and marketing of real estate and other alternative investments. As vice president of national accounts, she will be responsible for procuring new selling

agreements, as well as increasing the company's visibility in the marketplace.

Neill previously served as director of national accounts at Legendary Capital where she was responsible for building the selling group and establishing distribution strategies for all Legendary Capital products. She holds FINRA Series 7 and 63 registrations and received her bachelor's degree in journalism and mass communications from Arizona State University.

Hill joins Resolute Capital as director of sales for the company's eastern territory. The company claims that he has sold a range of alternative investments, including tax-advantaged real estate offerings, 1031 Delaware statutory trusts, business development companies, and real estate investment trusts. In his new role, Hill will be responsible for growing sales throughout Resolute Capital's various distribution channels.

Prior to Resolute Capital, Hill served as regional vice president for the company's southeast region at Capital Square Realty Advisors. He holds FINRA Series 7 and 63 registrations and is a graduate of Pennsylvania State University.

Resolute Capital Partners was founded in 2010 and has offices in San Francisco, Dallas and Minneapolis. The company invests in energy, technology, and commercial real estate through its various investment funds.

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## **Resolute Capital Invests in**

# Firm Focused on Technological Innovations

Private equity firm Resolute Capital Partners has made a \$20 million investment in Finance Technology Leverage LLC, a private equity firm, to finance technological innovations in energy, life sciences, industrial technology, and aerospace.

Finance Technology Leverage utilizes its subsidiary, Breakwater Insurance, to fund large, complex and high-risk projects through the creation of specialized financial structures.

“Rarely is a company created with the vision of solving some of the world’s greatest challenges.” said Thomas Powell, senior managing partner and founder of Resolute Capital Partners. “Finance Technology Leverage believes no challenge is too great, and they have brought together a world-class team of scientists and engineers that turn dreams into reality.”

In other company news, earlier this month, [Resolute Capital completed](#) a \$1.5 million equity investment in Routinify, a technology-based, remote healthcare services company.

Resolute Capital Partners’ senior executives seek to identify emerging trends and advancements in the fintech, healthtech, and regtech fields that present what they deem as strong investment opportunities. The firm has offices in San Francisco, Dallas and Minneapolis, and since its founding in 2010, has raised more than \$230 million in its various energy, technology, and real estate funds.

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# Private Equity Firm Resolute Capital Invests in Healthcare Tech Company

Resolute Capital Partners, a private equity firm, has completed a \$1.5 million equity investment in Routinify, a technology-based, remote healthcare services company.

Routinify provides care for seniors and those with in-home or remote care needs through their WellAssist program, which collects real-time data from wearable and medical devices, as well as in-home sensors and the patient's interaction with the devices.

"We see that Routinify's technology-enabled home healthcare services are the future of eldercare and rehabilitation services within our community, especially as our population ages in a COVID-19 era," said Thomas Powell, senior managing partner and founder of Resolute Capital Partners.

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# Resolute Capital Reg D Fund Invests \$2 Million in FinTech Lending Company

Strategic Technology Assets II LLC, a private placement fund sponsored by private equity firm Resolute Capital Partners, has invested \$2 million in PLUM Lending, a San Francisco-based financial technology and commercial real estate lending company.

Strategic Technology Assets II invests in early-stage technology companies within the healthcare, financial services, and regulatory sectors.

PLUM Lending is a full service commercial real estate lender that specializes in the capitalization of middle-market commercial real estate properties with a focus on secondary markets.

“More often, companies are demanding an investment partner that can provide operational expertise and support in addition to capital investments,” said Thomas Powell, senior managing partner and founder of Resolute Capital Partners. “We are thrilled to make an investment in PLUM, as they seek to revolutionize the commercial lending market. As our world continues to evolve with events such as the COVID-19 pandemic, access to alternative forms of funding becomes increasingly important.”

According to its filing with the Securities and Exchange Commission, Strategic Technology Assets II is a Regulation D 506(b) fund that seeks to raise \$50 million in investor equity.

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