

ALTERNATIVE INVESTMENTS QUARTERLY

AI
QUARTERLY

SUMMER 2017
VOLUME 11
ISSUE 2

To DOL or Not to DOL:

Helping Advisors Develop Their Alternative Investments Due Diligence Process

| Exploring Alternative Investment-Based Insurance
| Advising Senior Investors | Decline of Single Home Buyers
| ADISA News



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ALTERNATIVE INVESTMENTS QUARTERLY

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President's Letter ADISA's Important Role Continues

By John H. Grady, *DLA Piper*

Greetings. We had a very successful Spring Conference in New Orleans this past April, and I am looking forward to our next event in Chicago just next month.

As we head into summer, with the Trump Administration working to get its agenda into gear, I am reminded of the many ways that our industry is closely affected by what goes on in Washington D.C. and elsewhere around the country. Not just in the offices of the SEC and FINRA, but also in Congress and in governmental agencies that don't always come to mind – the Department of Labor and the IRS, to name two. And let's not forget the states, acting either collectively or individually, who are involved in approving our members' offerings to their residents in jurisdictions all around the country.

The near tidal wave of changes, developments and initiatives coming out of this set of regulatory and legislative bodies is hard to keep up with, even for legal and regulatory specialists. ADISA's role is to participate to the extent appropriate and to distill these developments into useful information, recommendations and actions plans for our members. One timely article in this issue focuses on the Department of Labor's "fiduciary" initiative and its impact on diligence departments and their assessment of alternative investments. The piece seeks to provide a framework for advisors that who want to develop an alternative investments due diligence process. Alongside the developments coming out of the legislative and regulatory community, however, are ideas that tie into our members' efforts to bring products and services to the marketplace that will help investors achieve their objectives. In this issue, accordingly, you will find a timely discussion of the interplay between declining rates of home ownership and the multi-family housing market, as well as a discussion of private placement life insurance and annuities authored by a law firm that specializes in product diligence. Finally, we have included a discussion of a topic that touches the industry but also reflects a broader social dynamic—the special needs of elderly investors and the programs and protections created by regulators to protect them from abuse (often attributed to their own relatives and others close to them).

These pieces and all items included in AIQ are chosen because we believe that they are topical and timely. We also hope that they are relevant to your role or practice in some way. You should see these pieces for what they are—contributions from fellow industry members—and read them for the valuable insights that they can provide. Yes, ADISA plays an important role in conveying our members' and our industry's thoughts on the important legislative and regulatory issues of the day—the Labor Department's fiduciary rule, for example, or the new e-signature/e-delivery initiative adopted as a statement of policy by NASAA. But ADISA is also an organization dedicated to allowing members to educate one another and to bringing forth new and valuable ideas relating to economic trends, investment ideas and new products. Participate in ADISA however you see fit, but don't pass up the chance to learn from fellow members when and where you can.

See you in Chicago in July. ▲



Executive Director's Letter

Advocacy is a Fascinating Game

By John Harrison, *Executive Director, ADISA*

Advocacy is a fascinating game. It normally doesn't really change much, only the names of the players and the issues; and then, every once in a while, something happens. I've had the good fortune in my association career to deal with government relations on the state level, at the United Nations level, and the U.S. national level, and the game has common elements in every setting.

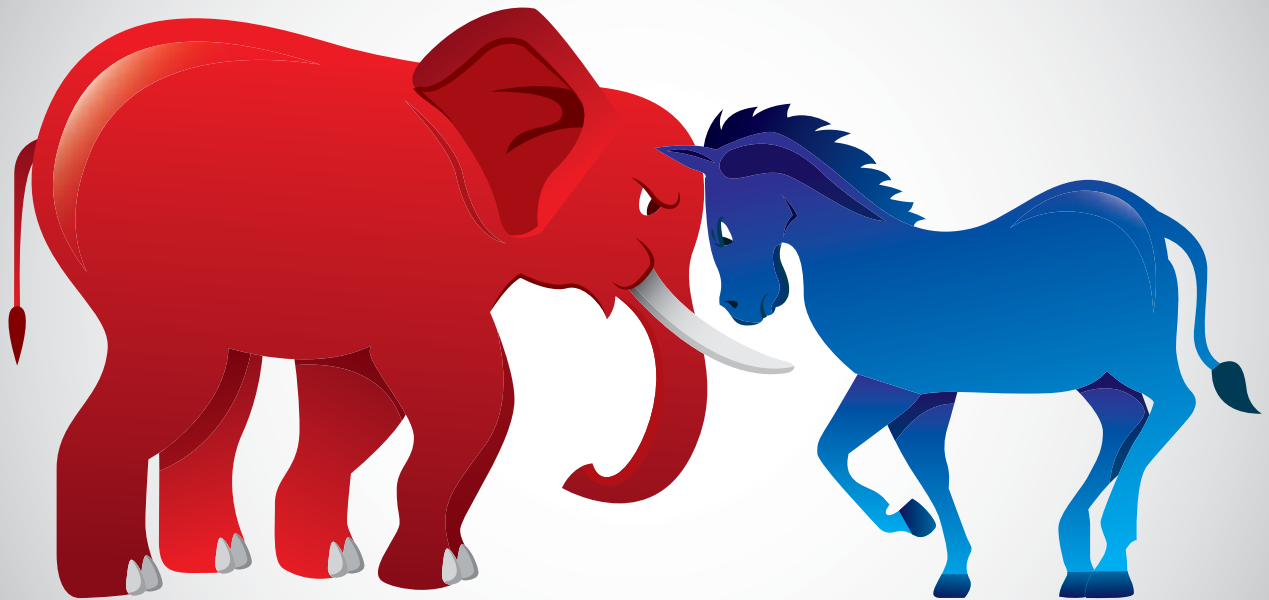
There are the issues, the players, the stakes, the message, the ask, and so on. It is indeed sausage being made. Except when the ingredients don't mix, and it starts to slow down. Then it's only meat sitting in the grinder in a cold room. Gridlock in various degrees ensues.

When there is gridlock on particular issues or in the D.C. ethos overall—which there has been for several years—then the usual mechanics of lobbying and government relations grind so slowly that the players can't show much progress. But they still try, of course, to show progress, for this is how they get re-elected (in the case of legislators) or raise money (in the case of interest groups).

Some of these interest groups are trade associations, and for them—especially the larger ones—gridlock in D.C. raises a lot of red flags. First, it hampers their ability to get anything done and that means their membership goes lacking in results and therefore decreases contributions. Why should an industry pony up millions of dollars to get little done when thousands can do the same? Secondly, it sets off volleys of meaningless public relations as to how active everyone is, when little is really happening. Don't get me wrong, trade groups must have a decent presence simply to keep track of the players and to look for the openings to make progress; however, gridlock takes the level of that necessary presence down a couple of notches.

What does the current gridlock from a hyper-partisan atmosphere mean for the financial services industry? It means that to make progress toward our goals, we have to be smarter than ever. Not bigger, not noisier, but more intelligent in how we play our limited hand. Good old-fashioned largesse and cash may not be enough. We have to refine our play book, look for better openings, and reach out differently to the other side.

As some of the key issues for our industry face headwinds, we must be honest with ourselves and



What does the current gridlock from a hyper-partisan atmosphere mean for the financial services industry? It means that to make progress toward our goals, we have to be smarter than ever. Not bigger, not noisier, but more intelligent in how we play our limited hand.

define our wisest course—always hanging on to what is ultimately best for the investor. That's the value we have to keep out front. We only differ with the other side in the methodology to make that happen.

ADISA and our sister associations will continue to fight for our industry and for the investor by helping the other side understand our methods and what we're about. And we are not just fighting with stagnant presence, but truly engaging with others at the table to make sure non-traded alternatives are well regarded in the picture. We know that the new administration in Washington is interested in innovative investment products, new technologies, and growth. These factors are what we will emphasize, and this new, fresh product and growth approach will be our best shot at prospering you and your business. And we aim to do this with efficiency—for you and for the investor. That's the growth all sides are about. ▲

An illustration of William Shakespeare, depicted from the chest up. He has long, wavy brown hair, a prominent mustache, and a goatee. He is wearing a dark grey or black Elizabethan-style garment with a wide, light-colored (off-white or cream) ruffled collar. He is holding a large, light green quill pen in his right hand, with the tip of the quill pointing towards the left. The background consists of a red curtain with vertical folds. The overall style is a flat, modern illustration with bold colors and clean lines.

To DOL or Not to DOL: Helping Advisors Develop Their Alternative Investments Due Diligence Process

Laura Sexton, Senior Director, Program Management
AI Insight

With phase one of the Department of Labor's Fiduciary Rule going into effect this month, where does responsibility lie when it comes to approving and offering alternative investments—with the advisor, the broker-dealer or the product sponsor?

Broker-dealers and product sponsors have been actively developing plans, shoring up due diligence processes and documentation, and repositioning fees and structures to help protect their businesses. However, advisors—who often work in individual or small group offices—must determine their responsibility when it comes to alternative investment due diligence. What do advisors need to do to protect themselves with regards to the DOL ruling and pre-existing rules—and, ultimately, protect the best interest of end clients?

In this article, we will review the existing regulatory guidance for advisors related to alternative investments due diligence (outside of the DOL Fiduciary Rule since at this point we don't know the final outcome, even as it will go into effect on June 9, 2017) and provide a framework for helping advisors develop an alternative investments due diligence process. The reason this is important for broker-dealers and product sponsors is clear: educated and regulatory compliant advisors who are working in their clients' best interest reduce the chance that alternative investment products are sold incorrectly.

Regulatory Guidance

There is ample regulatory guidance for broker-dealers and sponsors to review when developing alternative investments due diligence and product offerings. Some of the more influential notices for broker-dealers and sponsors include FINRA Regulatory Notice 09-09, FINRA Regulatory Notice 12-03, FINRA Regulatory Notice 10-22 and FINRA Notice to Members 03-71. Regulators have been focused on alternative investments for quite some time and although the majority of the guidance has been on how products are approved at the broker-dealer level, there is plenty of language in the guidance that focuses on the advisor's responsibility when it comes to recommending alternatives to clients. The



What do advisors need to do to protect themselves in the wake of the DOL ruling and taking into account existing guidance—ultimately, to protect the best interest of their end clients?

Existing Regulatory Guidance Related to Alternative Investments focused on Advisors

- FINRA Regulatory Notice 09-09
- SEC Risk Alert – Investment Adviser Due Diligence Processes for Selective Alternative Investments and Their Respective Managers
- FINRA Regulatory Notice 12-03
- FINRA Investor Alert – Public Non-traded REITs
- FINRA Notice to Members 03-71

The table on the opposite page provides an overview of the guidance and its applicability for financial advisors.

regulators are focusing on alternative investment trades and are looking to see if advisors know and understand the strategy, risks, fees and liquidity of products. Advisors may not need to run background checks themselves or conduct in-depth analysis of

financial statements, but they need to make sure someone capable is doing this on their behalf. The regulators are also looking for documentation of this, because as broker-dealers and product sponsors are hopefully aware, if it isn't documented, it didn't happen.

Four Key Elements of Advisor Alternative Investments Due Diligence

- Develop Alternative Investments Policies and Procedures
- Educate and analyze the alternative investment options
- Ongoing monitoring
- Document the adherence to Policies & Procedures

Four Key Elements of Alternative Investments Due Diligence

Taking into account the existing regulatory guidance on alternative investments and the uncertainty related to the DOL Fiduciary Rule, it is important that advisors develop their own alternative investments due diligence procedures. While developing procedures may take some time up front, there are

multiple benefits to advisors who develop and implement their own procedures. First, establishing proper procedures and following them helps ensure regulatory compliance and therefore a commitment to the most important party—the client. Second, financial advisors who have a strong due diligence process and fully understand alternative investments are better equipped to offer them to clients when it may help to meet a client's financial goals. Third, developing and following a specific process rather than reinventing the wheel with each review frees up time for advisors to focus on core activities such as business development.

Element 1: Develop Written Policies and Procedures

FINRA NTM 03-71 reminds members of their responsibility to develop written procedures

An Alternative Investment Policies and Procedures document for an advisor could include the following:

- How the advisor plans to source alternative investment options and become educated on the different options.
- The factors the advisor would review when analyzing the options. For example, using the information from the SEC Risk Alert, January 2014, an advisor could analyze the investment factors, risk factors and operational factors (including fees) of a product.
- What tools the advisor plans to use to analyze options, including any home office or third-party resources.
- What types of alternative investments the advisor may use in their practice and why.

for analyzing alternative investments and to document these procedures. Similar to developing procedures at the broker-dealer level, advisors should develop an Alternative Investment Policies and Procedures document for their practices. This document can be shared with clients and regulators and should help frame advisor-level decision-making regarding alternative investments due diligence. Advisors should create a file (either an e-file, a hard copy or both) where they house the policies and procedures document. Save all documents, notes, e-mails and other records related to the review and analysis of alternative investment options in this file as documentation.

Guidance	Topic	Summary	Key Takeaways
SEC Risk Alert – Investment Adviser Due Diligence Processes for Selecting Alternative Investments and Their Respective Managers	Financial Adviser Due Diligence Processes	Overview of due diligence procedures used by fiduciaries making decisions on alternative investments and what the regulators are focused on. Summary of key investment, operational and risk factors that the regulators are focused on as well as warning indicators in each of these categories.	<ul style="list-style-type: none"> • Advisors must know the investment, operational and risk factors of a product prior to offering to clients. • May be used by advisors interviewing their home office due diligence team to ensure they are following these procedures and reviewing the warning indicators. • For RIAs conducting their own due diligence, this alert provides an overview of primary areas of risk in the eyes of the regulators.
SEC Risk Alert Link: https://www.sec.gov/about/offices/ocie/adviser-due-diligence-alternative-investments.pdf			
FINRA Regulatory Notice 12-03	Heightened Supervision of Complex Products	Summary of the characteristics of complex products and the reasonable basis requirement for broker-dealers and registered representatives. Also provides a detailed explanation of broker-dealer or registered representative's responsibility prior to recommending the use of a complex product.	<ul style="list-style-type: none"> • Outlines the requirement that members must understand the nature of an alternative investment transaction as well as potential risks and rewards.
FINRA 12-03 Link: http://www.finra.org/sites/default/files/NoticeDocument/p125397.pdf			
FINRA Investor Alert – Public Non-Traded REITs	Public Non-Traded REITs – Perform a Careful Review Before Investing	Outline for investors on what to review and ask an advisor before investing in a public non-traded REIT.	<ul style="list-style-type: none"> • Advisors should review this alert and ensure they are educated on the factors outlined in the article (fees, liquidity, potential risks). • Advisors could proactively provide this information to clients. • Advisors should ensure they document their knowledge of these factors prior to offering a product to clients.
FINRA Investor Alert Link: http://www.finra.org/investors/alerts/public-non-traded-reits-careful-review			
FINRA Notice to Members 03-71	Non-Conventional Investments	Reminds members of obligations when selling non-conventional investments. Includes a review of the characteristics of a complex product and requirements of members selling non-conventional products to retail clients. Provides an overview of customer-specific suitability guidelines.	<ul style="list-style-type: none"> • Members must perform adequate due diligence and understand the features of a product. • Members must provide a balanced disclosure of the risks and rewards of a product, especially when selling to a retail client. • Customer-specific suitability requirements for complex products include a client's financial status, tax status, investment objectives, and other factors. • The notice reminds members of their responsibility to develop written procedures and document these procedures.
FINRA 03-71 Link: http://www.finra.org/sites/default/files/NoticeDocument/p003070.pdf			
FINRA Regulatory Notice 09-09	Unlisted REITs and DPPs	Addresses certain requirements that apply to the per-share customer account statement values and dividend distributions of REITs and DPPs that are sold through broker dealers, invest in real estate and do not trade on a national securities exchange.	<ul style="list-style-type: none"> • Members should analyze the amount or composition of a real estate program's dividend distributions (ongoing due diligence).
FINRA 03-71 Link: http://www.finra.org/sites/default/files/NoticeDocument/p003070.pdf			

Element 2: Educate and Analyze

The next element in alternative investments due diligence for advisors is to become educated on the options available and to analyze each of the options. Advisors can use home office or other third-party resources to help make the education and analysis more efficient. However, it is important to remind advisors that they, as the investment advisors, are ultimately responsible for educating themselves and for analyzing options within the context of their clients' needs. If advisors are unsure about what

factors need to be reviewed at their level (as opposed to what can be outsourced to a home office or third party), there is plenty of guidance related to this, including the 2014 SEC Risk Alert and FINRA NTM 03-71.

Advisors who work with a home office due diligence team or another third party to assist them in analyzing alternative investment options need to conduct diligence on them to ensure they are properly vetting products and that they have a proper process in place. Advisors should confirm the home office is not simply checking boxes on a checklist but

rather analyzing and vetting products in a thoughtful, prudent manner. Broker-dealers could allow and encourage advisors to call their due diligence teams. If this is too difficult or inefficient, broker-dealers could develop written communications to send to advisors, conduct regular due diligence conference calls or present their due diligence process at advisor conferences.

Element 3: Ongoing Monitoring

The next element in the alternative investment due diligence process is the ongoing monitoring of products offered to clients. The regulators have provided less guidance on this topic than they have on up-front due diligence. However, it would make sense to monitor the same factors that are reviewed initially to ensure

that nothing has changed, including the investment, risk and operational factors. Additionally, the regulators have specifically stated in FINRA Regulatory Notice 09-09 that members should "analyze the amount or composition of a real estate program's dividend distributions."

While advisors can outsource some of this ongoing monitoring to a home office or other third party, as it is with up-front due diligence, they are the ones ultimately responsible for knowing the status of a product they offer to clients. What has the fund invested in and how is it performing? Is it paying

While many aspects of the education and analysis can be outsourced, advisors should always know a product thoroughly including the following:

- The investment strategy and target investments.
- The fund's primary investment objectives.
- Risks that may limit the fund's ability to meet its primary investment objectives.
- Fees (and how they compare to similar products).
- Liquidity features (or lack of) and redemption options.
- The fund's investment time horizon and disposition strategy.
- The key decision-makers for the fund and their experience in the specific type of investment.

The following factors can be and often are outsourced to law firms or the independent third-party sources who are trained to analyze these specific factors:

- Run background checks on the key executives and determine if there are any potential red flags in the findings.

The following is a list of questions advisors can ask their home office or other third-party due diligence providers (remember to document these questions and answers):

- How do you source alternative investments? Do options get filtered through marketing teams, through industry meetings or national accounts?
- Is there an investment committee that votes on new product approval and, if so, who is on this team and how do products make it to a vote?
- How do you analyze red flags?
- Do you utilize any third parties for operational and legal due diligence?

dividends and how is it paying them? Have there been any changes to key decision-makers?

Monitoring the products and knowing the status also allows advisors to quickly and efficiently answer questions for clients and allows them to be proactive during quarterly or annual portfolio reviews. Advisors can monitor programs by listening to program updates, reviewing communications from sponsors and/or third-party resources, setting up conference calls with sponsors, utilizing online tools or attending due diligence conferences.

Element 4: Document Adherence to the Process and Results

The next factor, and possibly one of the most overlooked, is to remind advisors they need to document adherence to their Alternative Investments Policies and Procedures, as well as the results of their initial and ongoing due diligence. Remember this, as it is with broker-dealer home offices, if the regulators can't see any proof advisors have conducted due diligence, it will be as if they haven't done anything at all.

Advisors are most likely familiar with SEC Rules 17a-3 and 17a-4, which require them to keep trade documents for up to six years depending on the type of document. According to these rules, records must be kept in an easily-accessible place during the first two years following a trade. Any formation and

organization documents must be kept indefinitely. While these rules are not specific to alternative investments, advisors may consider applying them as guidance for how to document alternative investments due diligence.

With this in mind, advisors need to review all available documents from sponsors, their home offices or third-party resourcea. They should also document that they have educated themselves on products, analyzed them and monitored them. They should document any due diligence they have done on their home office or third-party providers. It's also important to maintain the following documents:

- Fund prospectus or private placement memorandum (PPM)
- Any supplements issued for a prospectus or PPM
- Updated financial statements
- Sales materials
- Notes from all meetings, calls or conferences related to a product
- Communications between the advisor and a sponsor, home office or third party (e.g. e-mails)

In summary, the outcome of the DOL's Fiduciary Rule will be important for advisors to follow as it is for broker-dealers and sponsors. Regardless of the final outcome, there is plenty of existing alternative investment guidance from regulators that can be shared with advisors. Advisors can follow this guidance to structure an alternative investments due diligence process that meets regulatory requirements and allows them to make decisions in the best interest of their clients. This is in the best interest of the broker-dealers and product sponsors in the alternative investments space as it could limit future issues that arise from products being sold incorrectly. Ultimately, having a strong due diligence process in place helps keep the industry moving forward. ▲

The following is a list of factors that advisors will want to monitor on an ongoing basis:

- **Investment strategy**—is the fund or product staying in-line with its intended investment strategy and objectives? If not, why?
- **Are there any red flags in the fund or sponsor's financial statements?** This can be outsourced to a third party but advisors should know of any relevant findings if they do choose to outsource.
- **Have there been any changes to any key executives, decision-makers or board members?**
- **Are there any legal or regulatory concerns on the fund or the sponsor?** This is another topic that can be outsourced, but an advisor needs to ensure they are aware if there are any red flags from a legal or regulatory standpoint.
- **If a fund pays distributions, what is the current distribution level and how is it paying these distributions?**

Exploring Alternative Investment-Based Insurance: Private Placement Life Insurance and Annuities

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



The assets under management within U.S. issued variable life insurance policies are estimated to be in the trillions of dollars. An emerging yet obscure sub-market of the variable insurance product segment involves Private Placement Life Insurance (“PPLI”), which is an alternative investment-based form of variable universal life insurance that is tailored to meet the mortality and investment needs of affluent clients.

These objectives are accomplished through the structuring of a specialized variable insurance product that offers indemnity in the event of death as well as a tax efficient investment that utilizes alternative investments to build income tax deferred cash values inside the policy. This article explores the features of PPLI and its companion product, the Private Placement Variable Annuity (“PPVA”).

What is PPLI?

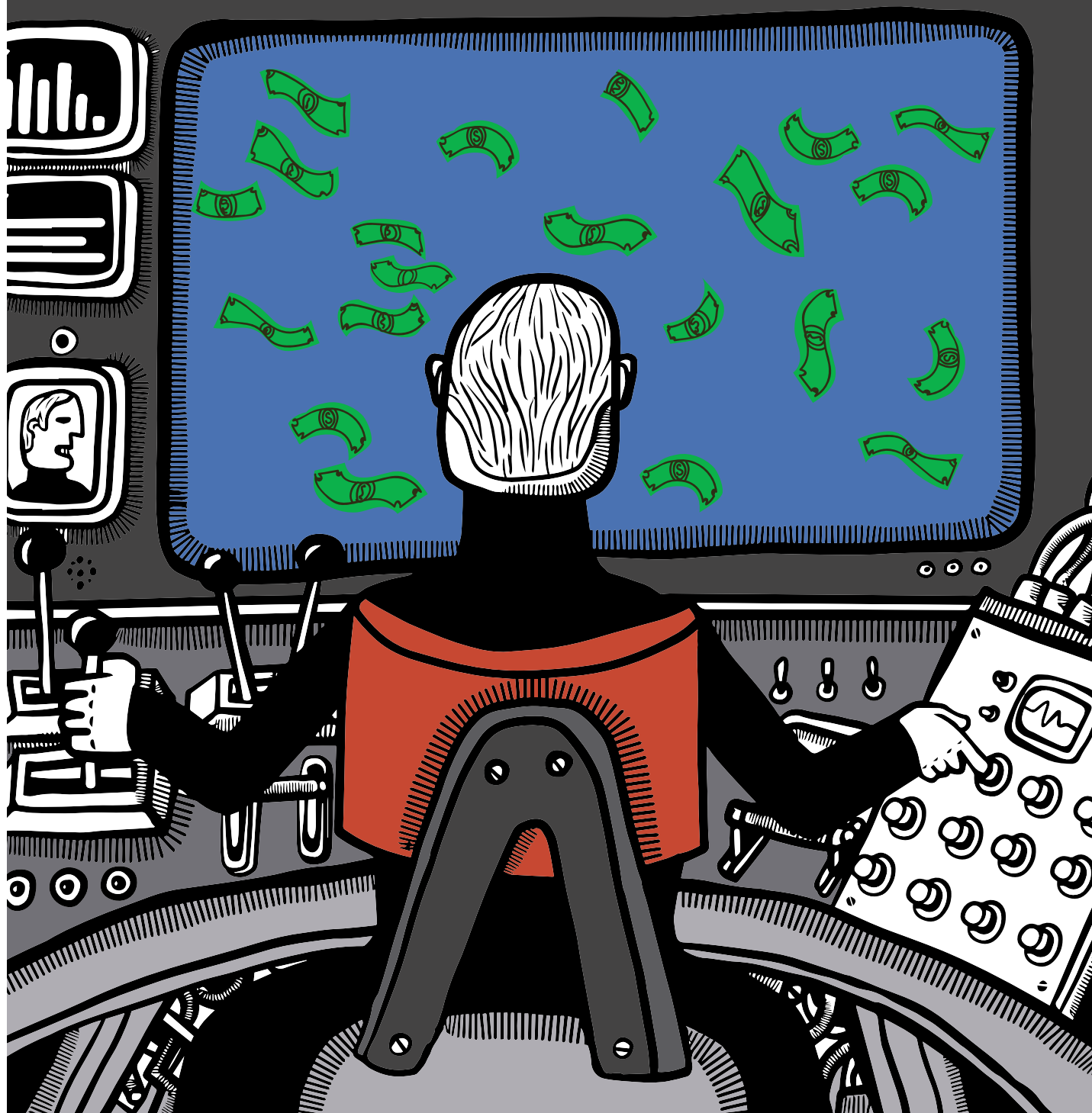
PPLI is a financial innovation developed over the past 25 years within the life insurance industry for highly affluent investors. It is a form of variable universal life (“VUL”) policy that is sold through a private placement securities offering. Because the product is sold through a private placement memorandum (“PPM”), some transactions involving PPLI can be customized for the investor in terms of investments and other features.

In contrast to traditional VUL products, which have generalized investment alternatives such as mutual funds, PPLI provides access to alternative investments. This allows the policy's cash to be invested in non-traditional investments, such as hedge funds, private equity, funds of funds, real estate, commodities, and financial derivatives. These investments are made in many cases through insurance dedicated funds (“IDF”), which are investment funds marketed exclusively to insurance companies. Some insurers also offer customized contract provisions for death benefit amounts and duration, funding options, borrowing interest rates, crediting of interest charges, fees and loads, choices of insureds, ownership options, access to cash value alternatives, and use of professional asset managers.

PPLI is less expensive than traditional, publicly-offered life insurance because agent commissions on PPLI are lower. Additionally, while PPLI can be underwritten under the laws of the various U.S. states, non-U.S. PPLI is even less expensive due to lower tax-based costs imposed against the premiums. Given the flexible investment options and lower costs, PPLI can be an attractive option for clients that are looking for mortality protection and income tax planning benefits available through life insurance.

If the assets in the underlying separate accounts perform well, the PPLI's cash value may substantially exceed its minimum death benefit (but with the opposite effect occurring if the investments do not perform well). Upon the insured's death, the beneficiary receives the greater of the minimum death benefit or the value of the separate account, each of which is income tax free based upon Internal Revenue Code (“IRC”) § 101(a). If owned by a properly designed irrevocable life insurance trust, the death benefits and all of the earnings of the PPLI can likewise be estate tax free.

PPVAs are often utilized by ultra-affluent individuals and families who intend to leave assets to a public charity or private foundation at their passing.



What is a PPVA?

A PPVA is a form of “variable” annuity that has investment features similar to that of a PPLI. In a variable annuity, the investment performance is based on the returns generated by the insurer’s separate account funds. These funds are typically mutual fund clones or sub-accounts and are segregated from the insurer’s general account assets. Similar to PPLI, the private placement version of the variable annuity is marketed to accredited investors and its performance is based upon the returns generated by alternative investments. Like PPLI, the companion annuity products are institutionally priced with no surrender charges, and the investment options include hedge fund, private equity and real estate options as well as traditional mutual fund-like options. Unlike a traditional annuity sold to retail investors, a PPVA doesn’t have features such as income guarantees or principal protection. As a result, the PPVA generally has lower fees than a traditional retail annuity.

PPVA tax benefits and asset-protection issues are similar to the benefits of life insurance in that the investment amount grows free of current income taxation. At some point, assuming the contract has an investment gain, either the annuity contract owner or the beneficiary will be required to pay income taxes on the gain at the short-term capital gains rate. That makes this product an alternative for deferring current taxation, but it does not have the preferred lifetime access to cash value on a tax-deferred basis or an income tax-free death benefit as do life insurance contracts. For this reason, certain clients may prefer the PPLI when the ultimate goal is income tax deferral with tax efficient access to cash during the client’s lifetime.

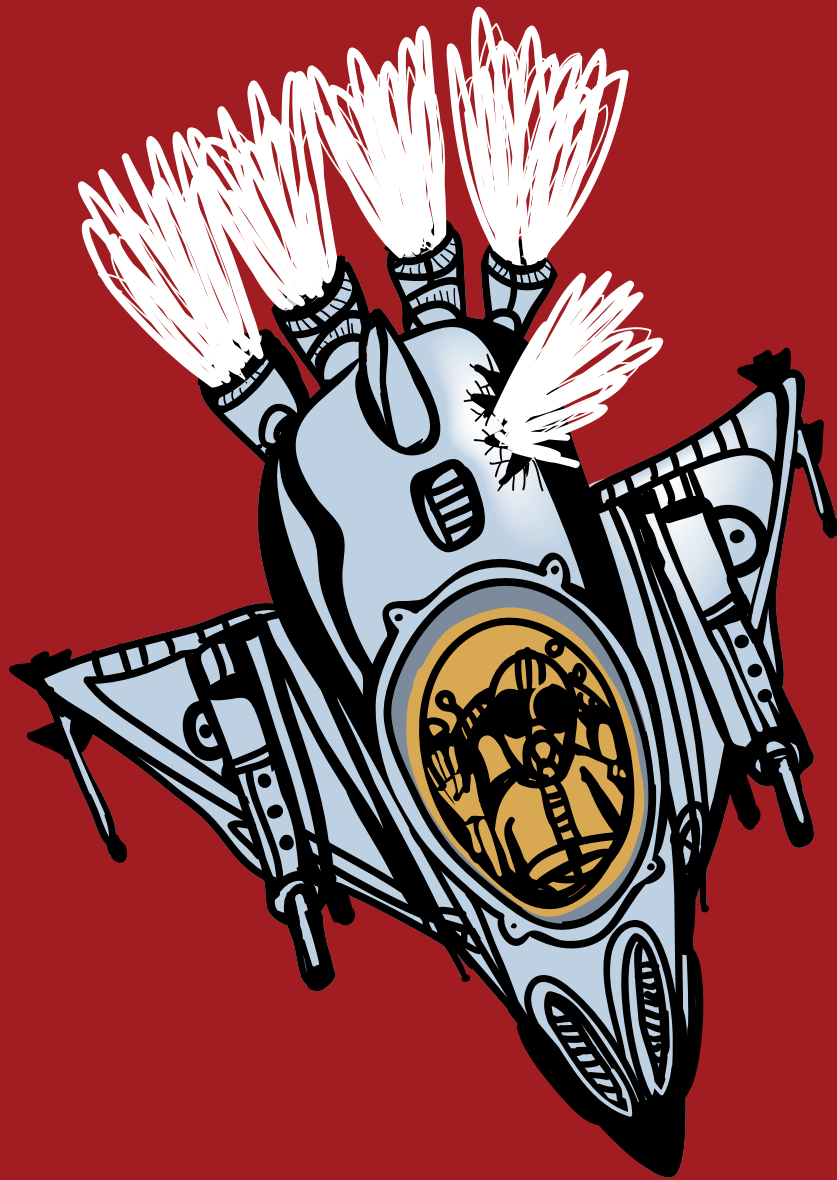
PPVAs are often utilized by ultra-affluent individuals and families who intend to leave assets to a public charity or private foundation at their passing. If a charitable entity is named as the beneficiary of a PPVA, all the deferred investment gains pass income tax-free to the charity. However, unlike other charitable strategies that are irrevocable in nature, PPVAs provide flexibility for the individual or family if there’s ever a desire to access the assets during the owner’s lifetime. The PPVA’s owner also retains control during its lifetime to change the beneficiary from one charitable entity to another.

Eligible Purchasers and Suitability

The offer of PPLI and PPVAs is limited to accredited investors and qualified purchasers. The Securities Act of 1933 provides an exemption under § 4(2) from securities registration for accredited investors as defined in Rule 501(a) of Regulation D under the Securities Act. An accredited investor is an investor with a net worth of at least \$1 million and joint income of at least \$300,000 in each of the last two years, with the likelihood of continuation in the current year. A qualified purchaser has investable assets of at least \$5 million. Given the minimum premium requirements relating to such products, however, the target client will have a net worth that substantially exceeds the minimum accredited investor requirements mandated under Regulation D (i.e., \$25 million or more in net worth).

Similar to other forms of life insurance, a medical underwriting is required for a PPLI that includes full health history disclosure and a medical exam that often involves a stress EKG. While the applicant’s net worth and/or future estate tax liability may often justify the insurance coverage, the application process for a PPLI involves full financial disclosure. As such, PPVAs have been preferred by some to PPLI to date mainly because PPVAs are simpler to implement. They involve a shorter application and no financial related underwriting is required.

Clients with large long-term investments in income tax inefficient asset classes (i.e., investments subject to ordinary income taxes) may benefit from the acquisition of PPLIs and PPVAs. Depending on the product, the client should be ready to invest a minimum of \$1 million in both forms of products (\$5 million and higher required in some cases) and have an investment horizon of 10 to 15 years for PPLIs (to overcome the impact of up-front fees and expenses) or until age 59½ for PPVAs (to avoid the 10% federal excise tax upon gains). PPLI can benefit clients who are insurable and have a need for life insurance coverage and/or a desire to fund tax-efficient multigenerational estate planning structures (i.e., dynasty trusts). PPVAs can



With higher investment return potential, however, comes greater market exposure and greater investment risk.

benefit clients who want to retain full ownership and access to their investment assets during their lifetimes but also are interested in long term charitable planned giving. In such cases, however, the client must accept some loss of investment control, since the tax benefits of both products require the investments to be under the management of an independent investment manager.

Investments

The ability of insurers to offer investment flexibility through alternative investments is one of the most important features of private placement products. Unlike traditional variable retail products, owners of PPLI and PPVAs can allocate among IDF's that mirror publicly available retail mutual and index funds, as well as alternative class options, such as hedge funds, private equity, funds of funds, derivatives, etc. Thus, the investment accounts of the private placement products will provide access to a range of alternative investments on an income tax-advantaged basis. If an investor wants to invest in an IDF that is not presently offered by a carrier, the manager of the fund can create a separate series that will qualify as an IDF. As there is often an additional cost for this process, it may be more cost efficient to select from existing IDF's. Investment in an IDF can only be made through the purchase of a PPLI or PPVA.

Since the purchase of a PPLI or PPVA must be made with a cash payment, it is not possible to transfer existing investments into such policies.

With higher investment return potential, however, comes greater market exposure and greater investment risk. A chart that illustrates where private placement insurance compares to other forms of permanent life insurance is provided in the following table:

High Investment Risk and Full Market Exposure ◀ No Investment Risk	Hedged Investment Risk and Limited Market Exposure	Reduced Investment Risk and Carrier Portfolio Exposure	No Investment Risk and Guaranteed Results No Investment Risk
Variable Universal Life & Private Placement Life Insurance	Indexed Universal Life	Universal Life and Whole Life	Guaranteed Universal Life
<p>Cash values are invested in a basket of mutual funds, hedge funds, private equity, or combination of the same</p> <p>Cash values maintained in separate accounts and are not subject to carrier's creditors</p> <p>Policy owner takes investment risk and policy performance is based upon investment performance</p> <p>Some carriers offer guaranteed riders that allow for both cash value growth and guaranteed premiums</p>	<p>Cash values grow based upon a specific market index return</p> <p>Cash values are not invested in the market, rather a small portion buys call options on a specific index</p> <p>Carriers set cap and floor and offer guaranteed caps and floors</p> <p>Some carriers offer guaranteed riders that allow for both cash value growth and guaranteed premiums</p>	<p>Cash values are subject to carrier's creditor claims</p> <p>Credit ratings reflect new money rates</p> <p>Carriers offer Contractually guaranteed minimum credit rates</p>	<p>Premium amounts and durations are guaranteed and are not interest sensitive</p> <p>Essentially term life to age 100 with carrier taking more performance risk</p> <p>Policies designed to have less cash value</p> <p>Non-correlated to other assets</p> <p>Market is shrinking</p>

Modified Endowment Contracts ("MEC")

According to IRC § 7702A, a MEC is a life insurance policy overfunded in the initial years of its existence based upon the timing and premiums paid in relation to its death benefit. The determination of whether a life insurance policy is an MEC is based on actuarial calculations that are referred to as the "seven-pay" test. A policy is an MEC where the cumulative premiums paid at any time during the first seven years exceed the sum of the maximum net level premiums that could have been paid on or before such time, if the contract provided for paid-up future benefits after the payment of seven level annual premiums. The test requires that the premiums be made over a period of years, as opposed to a single up-front payment. The following are consequences of a life policy characterized as an MEC:

- Loans taken from or secured by the policy are deemed to be distributions of earnings from the policy;¹
- Distributions, including payments upon the lapse or surrender of an MEC policy, are taxable as ordinary income up to the amount by which the cash surrender value of the policy exceeds the cumulative amount of premiums paid into the policy;
- A 10% excise tax is imposed on distributions made prior to the insured attaining age 59 1/2 (but

the penalty shall not apply where the insured is disabled or where the distributions are part of a series of substantially equal periodic payments extending over the life of the taxpayer).

Avoiding MEC classification may be of concern where the goal is to invest as much in the PPLI as quickly as possible so that the return can begin accumulating on a tax efficient basis. If, however, the PPLI owner has no intentions of accessing policy cash values, MEC classification may be beneficial because the overall cost of insurance will be less.

What are the Costs?

A potential factor in the conservative growth in popularity of PPLIs relates to the disparity in their compensation when compared to the sales compensation of retail products. Retail VULs, in general, have a commission structure that pays selling agents 55-95% of the target premium in the first policy year. Commissions in subsequent years on VUL premiums vary by carrier from 2-5% of the premium. Additionally, the agent receives 25-35 basis points (0.25-0.35%) of the VUL's account value each year. The policies usually have declining surrender charges of 10-12 years. Traditional variable annuities have a commission structure that pays the selling agent 4-5% in the first year and on any subsequent premium payments. Additionally, the agent receives 25-35 basis points of the account value each year. Traditional variable annuities also have declining surrender charges over 5-8 years.

In contrast, PPVI and PPVAs generally have no surrender charges and compensate the selling agent with premium based commissions equal to 1-4% and asset based commissions based on the account value of .10-.50 basis points. Note that PPVAs typically do not incur charges for DAC Taxes, state premium taxes (other than in a small number of states), or costs of insurance. Thus, PPVAs will have a somewhat simpler fee structure. A summary of the sales costs and other fees commonly associated with PPVIs is provided below.

Fee	Recipient	How Paid	Amount
Fed. Deferred Acquisition Cost Tax	Fed. Govt.	Premium	0-1% Foreign 1-1.5% Domestic
State Premium Tax	State Govt.	Premium	0% International 2% avg. but varies by state (0.10% to 3.0%)
Mortality & Admin. Exp. Charge	Ins. Co. / Ins. Advisor	Mo. Assess. Cash Value	Often scaled by asset size and duration (i.e., 0.80% to 1.50% of cash value per year for first 10 years, but scaled down after that). Includes cost of insurance.
Insurance Cost	Insurance Cost	Cash Value Assess	Variable depending on net amount at risk, age, sex, and health of insured. Typical annual COI charges for PPLI policies range between approx. 25 basis points (0.25%) and 50 basis points (0.50%) of the cash value for a single life product (sometimes slightly less for a second-to-die contract) once all premiums have been paid.
Sales Comp.	Ins. Advisor	Premium / Cash Value	1-3% of premium Trail compensation — 0.15 - 0.50% of cash value per annum

For PPLI and PPVAs, at the investment level, asset management fees are charged at market rates and paid at the IDF level of the separate account. The investment returns are reported to the separate account net of these fees, which effectively makes the entire fee tax-deductible, without regard to the deduction limitations typically imposed on taxable accounts for itemized deductions or alternative minimum tax purposes.

Risks of PPVI and PPVA

PPLI and PPVAs have special risks that must be discussed with clients prior to investing, and the offering materials of the products will generally contain an explanation of such risks. PPVI and PPVAs are unregistered securities that are not subject to the same regulatory requirements as registered variable products that include financial reporting obligations to the SEC. Similar to most forms of alternative investments, and due in part to their sales costs, insurance costs and other charges, PPVI and PPVAs should also be viewed as investments that require a long-term investment horizon to effectuate the client's financial objectives.

The value of the investment options of the separate accounts will be subject to economic and market risks that affect the portfolio investments of the segregated accounts. As such, cash values associated with these products will fluctuate, and when redeemed or annuitized, may be worth more or less than the invested cost. While the investments of the separate accounts may be diversified for federal tax code compliance purposes, it is possible that the investments covered within the fund investments can be concentrated within a limited number of industries.

PPLI and PPVAs often require a significant premium commitment (i.e., \$1 million plus) funded over a period of years. Thus, a failure by the client to fund required premiums due to unforeseen financial difficulties could result in a substantial reduction of planned life insurance benefits and anticipated cash values supporting the client's retirement or estate planning objectives.

The continued final stability of the insurer is also a necessary development to ensure that the life benefits and cash value objectives of the client are achieved. Thus, the benefit of the PPLI or PPVA will be substantially compromised if the underlying insurer or reinsurer fails to remain in business as a going concern.

While cash values from PPLI and PPVA are generally maintained in separate accounts of the insurer, the accounts contain the cash values of numerous variable policies accounts. Thus, while separate accounts, to the extent used by the insurer, will generally insulate the insurer's variable policy assets from the liabilities of its other business lines, it does not prevent claims from one policy from being paid with the assets of multiple insureds.

Conclusion

Although taxpayer burdens on federal income tax obligations are likely to be eased to at least some extent through the transitioning of executive control to the GOP, the only two things that will continue to remain forever constant for all U.S. Citizens, including affluent ones, are death and taxes. While income tax related expenses are perhaps the single biggest expense any person has from a financial planning standpoint, we operate in an environment where (i) few investors and their advisors truly understand the need to manage their taxes, and (ii) few alternative investments address this planning need in a meaningful way. Acknowledging that private placement insurance products are niche products that will not appeal to everyone, their features are noteworthy for affluent clients that desire mortality protection coupled with a tax efficient wealth accumulation strategy that utilizes alternative investments as the underlying assets. ▲

1—I.R.C. §72(e).

The Financial Professional's Guide to Advising Senior Investors

By Shaver Law Group



Baby boomers are retiring in droves. Many of them are facing health issues, the loss of a spouse or the realization that they haven't saved enough for retirement. In fact, some have already dipped into their retirement savings to pay for unexpected expenses and to care for aging parents. Baby boomers have seen pensions disappear and employment benefits shrink. Many who had money in the stock market took their money out after the collapse in 2008. They have been afraid to put money back in the stock market and so have missed out on the market's rebound and are making nothing off the money sitting in their savings accounts. There are still others who have saved for retirement, have little to no debt and are looking to enjoy their retirement years.

Such diversity in the circumstances of senior investors may prove challenging, but once financial services professionals understand the individual needs of each of their senior clients, these challenges can turn into opportunities to adequately provide for their senior client's retirement.

Sources of Income

Baby boomers rely on multiple sources of income—Social Security benefits, pensions, retirement savings (including IRAs and 401(k)s), and earnings from full- and part-time work.¹ Since the 1960s, Social Security benefits have consistently comprised one-third of the income of those ages 65 and older.² For lower-income households, Social Security accounts for 76% of incomes, while comprising only 21% of income for higher-income households.³ Older racial and ethnic minorities are acutely dependent on income from Social Security, as they are less likely to have income from pensions, earnings or assets.⁴

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How Baby Boomers Feel

According to the Employee Financial Wellness Survey published by PwC, which surveyed Baby Boomers, members of Generation X and Millennials, not having enough emergency savings for unexpected expenses, the inability to retire and difficulty meeting monthly expenses were the top financial concerns.⁵ Not having enough emergency savings for unexpected expenses was a top financial concern cited by women more often than men. Baby boomers were more likely than any other age group to say that lower healthcare costs, lower inflation and a rising stock market would help them achieve their future financial goals.⁶ Less than half of the baby boomers surveyed stated that they would be able to meet their basic expenses if they were out of work for an extended period of time. Twenty-five percent of baby boomers stated that their health had been impacted by their financial worries.⁷



Of the 59% of baby boomers who plan to retire in the next five years, only 42% know how much income they will need in retirement and 42% are not confident they will be able to cover medical expenses in retirement.

What Does This All Mean?

These statistics and facts point to the scary realization that a majority of baby boomers have either no retirement savings or not enough. They are also combating a higher incidence of physical and cognitive impairments as well as unexpected expenses from the dissolution of a marriage, care for an aging parent or surmounting health care costs. Of the 59% of baby boomers who plan to retire in the next five years, only 42% know how much income they will need in retirement and 42% are not confident they will be able to cover medical expenses in retirement.

These issues may be more significant for a client based on their gender, ethnicity or cultural expectations. Financial services professionals must be able to understand how gender, ethnicity and culture affect the behavior of the senior client and provide custom solutions that will enable them to adequately provide for their retirement.⁸

Know your Customer

FINRA Rule 2090 requires firms to know the essential facts concerning each client, which will allow a firm 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.

Senior investors face many unique challenges. Start with developing a list of services that are relevant to older clients who are preparing to or are retired. Below is a non-exhaustive list of areas for discussion:

1. Help your senior clients set short- and long-term goals.
2. Create a budget. Make sure your senior clients include all expected expenses and contemplate any possible situations that your client will need to be financially prepared for.
3. Many senior investors depend on investment income for their living expenses, so consider less speculative products.
4. You may need to discuss lifestyle changes with your client based on their monthly expenses and expected income.
5. When senior investors retire, they face new tax rules arising from their receipt of Social Security, pension and 401(k) or IRA income. Be prepared to discuss these new rules and how they will need to manage their money in response.
6. Senior investors may also need to consider life insurance and long-term care insurance. Be prepared to discuss when your senior client may need to buy it and what the cost would be.
7. As senior investors prepare for their golden years, they should also start figuring out what, if anything, they wish to leave as an inheritance. Good estate planning will bring comfort to those who wish to leave assets behind for their loved ones.
8. Be prepared to discuss specialized matters, such as health care planning and real estate transactions. Have in place a team of professionals that may be called in to discuss these more specialized issues.
9. When senior investors face emotionally charged situations, financial professionals may find themselves questioning their client's capacity to make sound financial decisions. If such questions of capacity arise, you must be prepared to refer your client to other professionals who will be to address the client's needs and provide guidance.

When senior clients come into your office, make sure that that it is welcoming and accessible.

1. Walkways should be cleared of any clutter and doors opened. This is especially important for your senior investors who may be in a wheelchair or require the assistance of a walker.
2. Use a tablet or have versions of documents that utilize large font for those senior investors who may have problems with sight.

3. Speak clearly and slowly to ensure your senior clients understand you. If necessary, repeat what you have already said using the same words to minimize confusion.
4. Ask your senior investor to bring a trusted friend or family member with them. You can use this trusted person to help your senior investor understand your recommendations.
5. Provide documents that your senior investor may take home with them and review further.
6. Make sure to provide extra time for your appointment with a senior investor.
7. Be prepared to discuss your qualifications and fees in a way that is easy to understand. Be sure to describe any conflicts of interest and provide this information in writing for them to review.
8. For clients going through an emotionally charged time, observe a “decision-free” period, during which the client may take uninterrupted time to review the information you have provided.

The Exploitation of Senior Investors

Financial services professionals may find it useful to use a trusted family member or friend to help communicate with a senior investor so they may better understand the financial recommendations being rendered. However, an adviser should look out for any possible red flags that their client is being exploited by the trusted family member or friend. According to the MetLife Study of Elder Financial Abuse, 34% of elder financial abuse cases were perpetuated by a family member, friend or neighbor.⁹

Below is a list of some indicators of elder financial exploitation or abuse:

1. The appearance of a new friend or caregiver
2. Sudden changes in the senior client's banking practices
3. Large credit card transactions or an unusual increase in credit card debt
4. Abrupt changes in a will or other financial documents
5. A sudden transfer without a reasonable explanation of the senior client's assets to a friend, family member, provider or acquaintance
6. Indications that the senior client is being isolated and controlled

Financial services professionals serving senior investors may find such indications of elder financial exploitation or abuse to be troubling, but they do have the power to help their senior clients. The Securities and Exchange Commissions (the “SEC”) recently approved the adoption of new FINRA Rule 2165 (Financial Exploitation of Specified Adults), which permits members to place temporary holds on disbursements of funds or securities from the accounts of specified customers where there is a reasonable belief of the financial exploitation of these customers. The SEC also approved amendments to FINRA Rule 4512 to require members to make reasonable efforts to obtain the name of and contact information for a trusted contact person for a customer's account. Financial services professionals have the support of FINRA and the SEC to protect the accounts of their clients when there is a possibility of elder financial abuse.

Conclusion

Helping senior investors plan for their retirement and ensure that they will have the ability to provide for the rest of their lifetime can be gratifying. With a large segment of the American population retiring or on the brink of retirement, the need is greater than ever for financial professionals ready to provide specialized services to senior investors. Elder financial abuse and exploitation remains a concern and FINRA and the SEC have empowered financial services professionals to identify red flags and protect the assets of their senior clients. ▲

1—Federal Interagency Forum on Aging-Related Statistics, *Older Americans 2010: Key Indicators of Well-Being* (2012); Indicator 9.

2—Barry P. Bosworth and Kathleen Burke, “Changing Sources of Income Among the Aged Population,” Center for Retirement Research at Boston College, Working Paper 2012-27 (November 2012).

3—Alison Shelton, “Social Security: Who's Counting on It?” AARP Public Policy Institute Fact Sheet (2015).

4—Id.

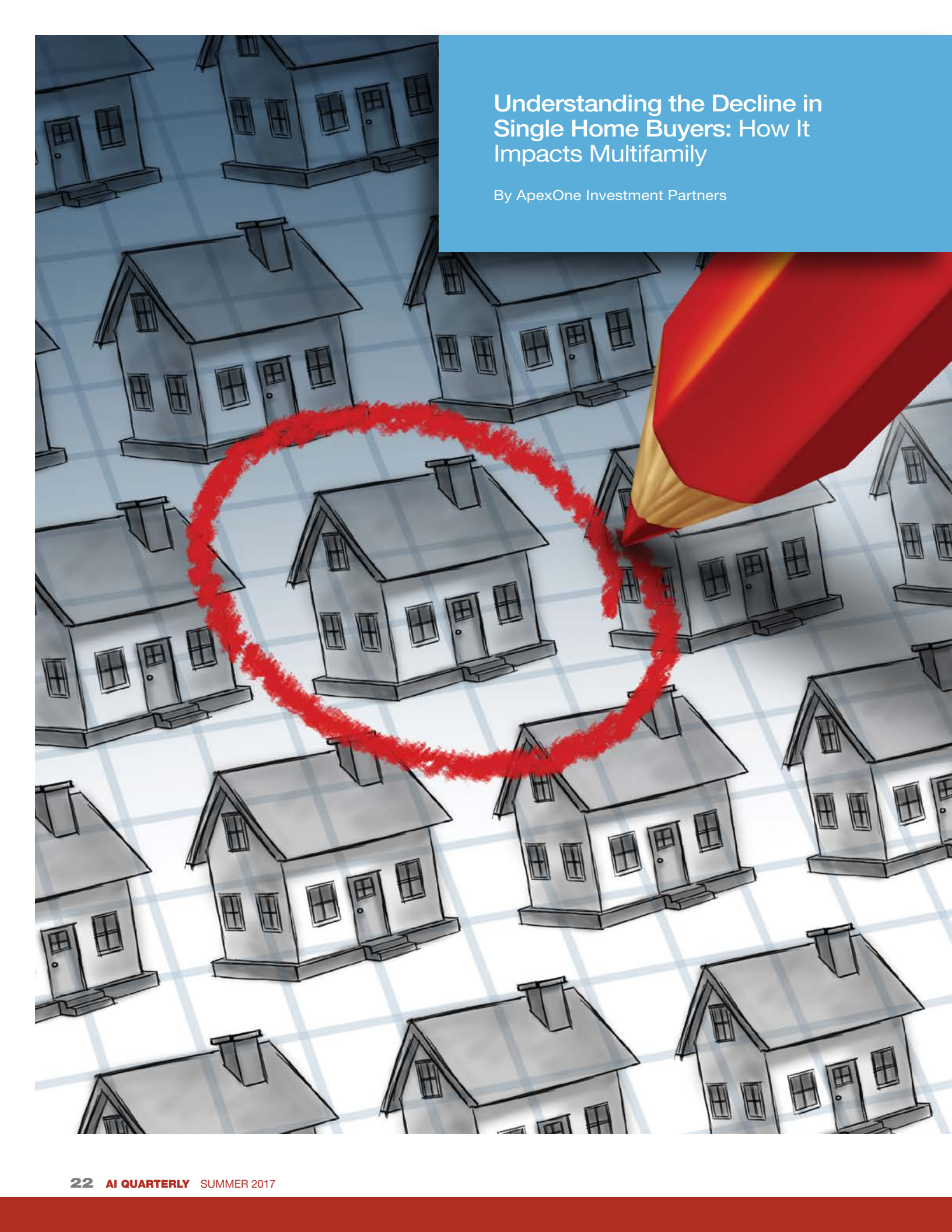
5—Employee Financial Wellness Survey 2017 Results. PwC (April 2017).

6—Id.

7—Id.

8—Employee Financial Wellness Survey 2017 Results. PwC (April 2017).

9—The MetLife Study of Elder Financial Abuse: Crimes of Occasion, Desperation, and Predation Against America's Elders (June 2011).

An illustration of a neighborhood with several houses. A red circle is drawn around one house in the center, and a large red pencil is pointing at it from the right. The houses are drawn in a simple, sketchy style with grey roofs and walls, and blue windows and doors. The background is a light blue grid.

Understanding the Decline in Single Home Buyers: How It Impacts Multifamily

By ApexOne Investment Partners

As a country we are moving into new and uncharted waters. However, some areas of life remain constant, including the need to have a roof over our family and the right to choose to own, or rent that roof.

Challenges to Finding and Affording a Home

A consistent theme we are hearing from economists is the challenge of acquiring a home, especially for first time homebuyers. Economists believe this challenge will continue for the following reasons:

1. Construction costs continue to rise, making it nearly impossible to create supply for first time homebuyers. A reduction in the immigrant labor force and a near full capacity work force may drive labor costs up in the construction industry. Material costs continue to climb. One offset may be a relaxed regulatory environment that will ease some burdens on developers and home builders.
2. The inventory of homes continues to shrink. At the end of December 2016, according to the Federal Reserve Bank of St. Louis, the supply of existing homes was 3.6 months, the lowest since January 2005 in the midst of the housing bubble. In terms of absolute supply numbers, this is the lowest since 1999. A six-month supply is seen as a healthy balance between supply and demand.
3. Home prices continue to increase, with the average home price rising to \$233,900 in December 2016, up 4.0% from a year ago. From 2011 to 2016, the median home price is up 42%.
4. Interest rates continue to increase, with the fixed 30-year mortgage rate recently rising to 4.20%, the highest since April 2014. Rates could go higher with the Federal Reserve forecasting three rate hikes this year. Higher rates mean fewer families can qualify for a mortgage.
5. President Trump's suspension of the cut in mortgage insurance premiums on federally insured home loans, which would have saved eligible homeowners an average of \$500 per year, will, according to the National Association of Realtors, sideline 30,000 to 40,000 new home buyers.



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Over the past decade, the delivery of 8.7 million units is short 8.3 million units of the 15 million units that would have been needed to maintain equilibrium.



The Job Market, Supply and Demand for Housing

The apartment market is driven largely by job growth, supply and demand. The job market looks good and shows signs of continued improvement with the loosening of tax burdens on businesses along with the aforementioned regulatory policy changes and a political mandate to keep and create new jobs in the United States.

Regarding supply, it is worthwhile to look at the overall housing supply market, not just single family homes or apartments. Approximately 1.1 to 1.2 million net new households are formed each year. Throw in the fact that 300,000 to 400,000 homes and apartment units are demolished each year. Thus, an annual construction rate of about 1.5 million new homes (and/or apartment units) is needed to ultimately keep supply and demand in balance.

The 50-year annual average housing starts, up through the year 2000, was 1.51 million units. From 2001 to 2006 (the housing bubble era) the average was 1.8 million per year, creating an oversupply. From 2007 to 2016, from the crash and through the recovery, the average was 870,000 per year, comprising an undersupply. Through the total cycle from 2001 through 2016, the average delivery was 1.25 million units, down 17% from the historical average, (yet during a time the population swelled significantly).

Over the past decade, the delivery of 8.7 million units is short 8.3 million units of the 15 million units that would have been needed to maintain equilibrium. Some of the shortage has been absorbed by people moving into apartment and other rental vacancies and buying into the existing inventory of single family homes. This shortage is the driver behind the national occupancy average in apartments moving from 92% in 2003 to 96% in 2016 and the reduction of supply of available homes in 2016 to the aforementioned 3.6 month supply.

An annual construction rate of about 1.5 million new homes (and/or apartment units) is needed to ultimately keep supply and demand in balance.

Conclusion

The bottom line: to increase vacancy rates in apartments and to increase the inventory of homes for sale to a more balanced market, the market needs to deliver an average of 1.7 million units per year over the next 8-10 years. Based on a consensus of various economists and publications, projected starts for 2017 are about 1.3 million and for 2018, 1.4 million. Therefore, it appears the housing shortage will grow even more severe over the next 3-4 years before there is any opportunity for improvement.

While we expect this to continue to keep occupancy at record levels, we do not believe rent growth will sustain at the 5% levels of the past few years but move to the 3%-4% range, and values will grow moderately as interest rates rise slightly but remain below long term historical averages.

Therefore, the conclusion of ApexOne Investment Partners is the combination of a shortage of affordable and available homes in most markets in the United States will continue to increase demand and thus values in the multifamily sector, especially in the value-add segments of B+ and A- complexes. ▲



Video Series • ADISA Foundation • 2017 Due Diligence Forum

ADISA & Real Assets Adviser Video Series

ADISA is pleased to announce the second installment of an educational video series covering key terms and topics in the alternative and direct investment space. This series was produced at ADISA's 2017 Spring Conference in New Orleans, and we have partnered with Real Assets Adviser once again to provide viewers with these valuable educational tools regarding the various product types and issues affecting alternative and direct investments.

The first series was shot during ADISA's 2016 Annual Conference & Trade Show, and featured topics such as DOL Fiduciary Rule, T-Shares, Secondary Markets, Energy Sector Investing Options, 1031s, Due Diligence on Alternative Products, Reg A+, Conservation Easements and more. Prominent industry leaders presented, including ADISA President John Grady, DLA Piper; Larry Sullivan, Passco Companies; Bob Rice, Rice

Partners; Derek Peterson, Terra Capital Partners; Malone Mitchell, Redhawk Investment Group; Catherine Bowman, The Bowman Law Firm; Louis Rogers, Capital Square 1031; along with others.

Over the course of several weeks, ADISA and Real Assets Adviser will debut a video per week. The partnership's inaugural video featured ADISA President John Grady, DLA Piper, who spoke about the DOL fiduciary rule and where the industry is heading. Other presenters and topics will include Economist and Spring Conference Keynote Speaker Marci Rossell; Oil & Gas with Matt Iak, U.S. Energy Development Corporation; Private Debt Investing with Cory Johnson, Pender Capital; Cybersecurity with Tom Embrogno, Docupace; Investing in Land with Bill Shopoff, Shopoff Realty Investments; RIAs and Alternative Investments with Vali Nasr, Claraphi Advisory Network; and many others. ▲



ADISA Foundation Supports Collegiate Scholarships

The ADISA Foundation is a registered 501(c)(3) not-for-profit which assists with scholarships and special projects to grow the study and appreciation of the alternative and direct investment space.

ADISA Board Member Brandon Balkman from Orchard Securities has recently been named president of the Foundation. Craig Porter Rollins, LJCooper Wealth Management; Dustin Zachmeyer, Griffin Capital Corporation; and Keith Lampi, ADISA President-Elect, Inland Private Capital Corporation; all serve on the Foundation's Board.

ADISA continually supports the Personal Finance Program at Utah Valley University. Many students from this program volunteer at ADISA's Spring and Fall events each year. ▲



ADISA 2017 DUE DILIGENCE FORUM

Registration

Broker-Dealers/RIAs/Family Offices

Eligible for discounted registration rates and hotel rooms. Be sure to register before June 21 to ensure your spot!

Sponsors & Affiliates

Registration rates will increase after June 21. Register now and save! (There will be a fee for onsite registration.)

July 13-14

The Fairmont Chicago Millennium Park

Designed for Broker-Dealers, RIAs, Family Offices, Due Diligence Officers, Compliance Officers, Sponsors, Affiliates, and others that offer alternative investments in their business.

More information at adisa.org/2017-due-diligence-forum

SCHEDULE as of 5/31/17

Thursday, July 13

7:45-8:30 am

Breakfast & Exhibition

8:30-8:45 am

Welcome & Introductions

8:50-9:40 am

Legislative & Regulatory – The Latest on DOL Fiduciary

How does the DOL's Fiduciary Rule, which is now in effect, transform the way broker-dealers do business with their retirement clients? Have broker-dealers, advisors and product sponsors been effectively protecting themselves and their clients? What if mistakes are likely to happen during this transition period? Learn more about the responsibilities under the rule and the accompanying extensions, as well as more extensive due diligence procedures as they relate to alternative investments.

Other legislative & regulatory issues, and how they affect alternative investments directly and indirectly, will also be discussed.

9:45-10:40 am

The Sector Report: An Update on the Non-Traded Alternatives World

To fully evaluate the merits of an investment strategy, one must first understand the sector in which the strategy will be deployed. Learn where real estate, private equity, private credit, energy and other sectors represented throughout ADISA are in the current cycle, and where the opportunities and headwinds may lie.

10:40-11:10 am

Break & Exhibition

11:15 am-12:00 pm

Keynote Presentation

Keynote Speaker Dr. Kelly Shue

Professor of Finance, Yale School of Management

"Recent Behavioral Finance Research and What It Means for Investment Advice"

Highlights of research on market reactions to earnings, dividend announcements, social media, news, news, and more news, and the effect advisors' behavior toward investors. How is decision-making affected overall, and what does this imply for the future?

Dr. Shue is a Professor of Finance at the Yale School of Management. She earned a Ph.D. and M.A. in Economics and an A.B. in Applied Mathematics (summa cum laude) from Harvard University. Prior to her doctoral studies, she worked as an analyst at Weiss Asset Management.

12:00-1:30 pm

Lunch & Exhibition

1:30-2:25 pm

The 411 on 1031

The securitized 1031 market continues to grow and evolve. Mountain Dell Consulting will present the latest 1031 market statistics and

trends, followed by a forum of expert attorneys who will discuss and debate a number of 1031-related topics, including tax opinions, master leases and springing LLCs.

2:30-3:25 pm

Technical Analysis: The Right Approach

Sharpen your due diligence skills with in-depth expert training on important topics, including:

- 1) Evaluating a program's financial model;
- 2) Distribution coverage; and
- 3) The math of a 1031 exchange.

3:25-3:55 pm

Break & Exhibition

4:00-4:55 pm

Alternatives for Capital Formation

Crowdfunding, Reg A+ and issuer-direct sales are just some of the examples of how capital formation is evolving. Learn more about where this evolution is going, and what the potential opportunities are for those who choose to adapt, as well as what the potential threats are for those who do not.

5:00-6:30 pm

Welcome Reception & Exhibition

Friday, July 14

7:30-8:30 am

Breakfast & Exhibition

8:00-8:55 am

Broker-Dealer Advisory Council

ADISA's popular gathering of broker-dealers who will discuss relevant issues affecting the broker-dealer community.

9:00-9:50 am

Key Due Diligence Considerations

An interactive discussion with the industry's third-party due diligence providers who will provide tricks-of-the-trade and answer questions when it comes to monitoring the performance of alternative programs.

9:55-10:45 am

Beyond Due Diligence

The due diligence process may be the beginning point, but it's certainly not the end when it comes to the obligations of broker-dealers and RIAs who offer alternatives. Rep education, compliance, suitability and fiduciary duty are just some of the post-due diligence responsibilities that firm executives and compliance professionals will discuss during this session, which features panel analysis of audience voting/response.

10:45-11:15 am

Break & Exhibition

11:15-12:10 pm

Behind the Curtain of a Liquidity Event

Listing vs. merger? Affiliated vs. third-party? Learn what's on the table when it comes to evaluating liquidity events through real world examples.

12:10-12:25 pm

Closing Remarks



10401 North Meridian Street
Suite 202
Indianapolis, IN 46290



SAVE THE DATE

**ADISA 2017
ANNUAL CONFERENCE**

**OCTOBER 23-25
ARIA RESORT & CASINO, LAS VEGAS**