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CAIA's Filbeck On 'Taking The Alternative Out Of Alternatives'

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Aaron Filbeck, managing director at the CAIA Association, industry association for Chartered Alternative Investment Analysts. Read the Q&A below as Aaron says that the evolution of alternatives over the last few decades has made it to where it's naive for investors to effectively lump the wide range of investment options under the simple label of "alternatives". Filbeck, who oversees UniFi by CAIA – a platform that educates private wealth managers about alternative investments – says that sophisticated investors look past the label to dig into the different risks and return profiles of assets that vary from hedge funds to private credit, real estate, commodities, infrastructure and more, but he notes that they also have a long way to go with alternatives which still represent a small percentage of investors' portfolios despite the wide range of assets available.

Aaron Filbeck

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Aaron Filbeck, managing director at the CAIA Association is here and we're talking about the evolution of alternative investments, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today, well, we're actually heading in alternative directions, and we're being driven that way by Aaron Filbeck, he's managing director of the CAIA Association. CAIA, the acronym for the Chartered Alternative Investment Analysts Association, Aaron oversees UniFi by CAIA, which is a learning platform built to educate the private wealth management industry on alternative investments, you can learn more at CAIA.org. And to learn more about closed-end funds, interval funds, and business-development companies generally, check out AICAlliance.org, the website for the Active Investment Company Alliance. Aaron Filbeck, welcome to the NAVigator.

AARON FILBECK: Thanks so much for having me, happy to be here.

CHUCK JAFFE: I used to sit there and talk about alternatives and say, "We don't want to call them alternatives anymore because they used to be something that a few people had and now they're mainstream." Everybody has alternatives to one extent or another, but it used to be that alternatives were anything that wasn't stocks, bonds, or cash, and now it seems like every day we're talking about a new alternative. Well, in fact as we're looking at it this week, we're expecting the evolution of certain Bitcoin funds and crypto funds, so help us understand what's happening with alternatives and how you have a category that sounds contained, "It's alternatives," but how it's evolved and expanding constantly right now.

AARON FILBECK: Yeah, sure, and I think you hit on a lot of themes when it comes to the evolution of alternatives. CAIA ironically has recently really focused on trying to take alternatives out of alternatives and think more about the portfolio construction, elements of these different strategies, how they fit into a client's portfolio and the goals that they're trying to accomplish within their asset allocation portfolios. When we look at the evolution of alternatives, it has been quite an evolution and quite a diversifying evolution if I can kind of put the headline over that evolution. Just as an example, CAIA was founded 21 years ago, at the time hedge funds were really the predominant source of alternative investments when you looked at that evolution of the pie chart of what represented alternative investments, it was pretty synonymous with hedge funds, so maybe 90% of that allocation would have been to the various different hedge fund strategies, long-short equity, futures, macro, arbitrage strategies and so on. Really when we got to the global financial crisis did the alternatives world start to really explode in other areas, and particularly in private capital. So today we're sitting right around $22 trillion in assets under management, hedge funds are still a pretty substantial portion of that but only 25% of the total pot, and the remaining 75% is really dominated by things like private equity across all the different stratifications, whether it's venture growth, buyout, private credit, which has been one of the fastest growing areas of the alternatives universe over the past 10 years, real estate, commodities, infrastructure. So we've got a really, really diverse set of strategies that move in different directions that are driven by different risk and return profiles, and to your point, kind of taking the alternatives out of alternatives. I think it's almost naive at this point to just kind of throw all these strategies into one buck and name it alternative investments, and typically when we see the most sophisticated investors and sophisticated asset owners that are thinking through asset allocation, they're not doing that anymore, it's not stocks, bonds, cash, and then all this other stuff that we're going to put over in the corner. We're thinking a lot more about what are the risk profiles? What's really driving each of these different strategies? And it's become much more of a core portion of the overall portfolio.

CHUCK JAFFE: In certain types of alternatives, we're talking about baseball cards or coins, we would be talking about dealer risk. Well, with CAIA and its mission, and the evolution of alternatives, do we have not necessarily dealer risk but advisor risk, if you will? Where plenty of advisors are coming out and going, "Hey, let's add alternatives to part of what you're doing," but how much they know is going to determine the experience of the end user. So how do the end users determine is this guy who's pitching me alternatives, is he really an expert, etcetera? How much of a gap do we have between, "Hey, I can sell this," and "I really know this"?

AARON FILBECK: It's a great question and I think there is still an education gap, which I think is kind of the underlying question that you're asking, in the advisor private wealth area of the industry, and you can really just look at the numbers, where the allocations sit today. You look at a typical institutional allocator such as an endowment or sovereign wealth fund, even pension funds have allocations to many of these different strategies that I just walked through, upwards of 30-40%, maybe even 50% depending on the aggressiveness and the tolerance for illiquidity in a portfolio. When you look at a typical private wealth client, high-net worth individual, there's a couple of studies that are out there but the average allocation typically tends to sit between, let's say three and five, maybe even 6% in the portfolio, so still a very small overall contribution to the overall portfolio, which I think shows just a lack of education, understanding how these strategies work. Historically the access wasn't there, and getting into an institutional type quality fund structure is very challenging for high-net worth individuals, that is obviously reversed and the access is becoming less and less of a barrier, although there's education needed there. But yeah, there is kind of an educational gap that exists when it comes to the adoption of alternatives, and if I breakup where the education is sorely needed, there's three different categories that I would lump these into. One is just understanding the strategies themselves, what are hedge funds? How do I differentiate growth equity from venture capital? How do I think through all the different stratifications of private credit? So just understanding how the strategies work, the risk-return profile, what they're trying to accomplish as individual strategies. The extension of that is the second kind of gap, which is how do I fit this in the portfolio? So as you were mentioning in your first question, should I be lumping this all into an alternatives bucket or should I be thinking about this in a more wholesome way in terms of risk exposure and client goals and so on and so forth? I think the third gap, which I think is even more important today, and part of the reason why this podcast is probably very important, is how you access these different strategies, all of the fund vehicles, whether it's interval funds or tender-offer funds, non-traded REITs, BDCs, a plethora of different vehicles and strategies that are available to access alternatives has exploded in the past 10 years and it's no longer a binary decision between a traditional institutional drawdown fund and then a very simple open-end mutual fund or ETF. There's a lot of different registration levels, liquidity levels, that are available now that advisors now have a lot of choice, but understanding how these things works, there's a really important education gap and something that we're really focused on at CAIA.

CHUCK JAFFE: Let's talk a little bit more about that focus at CAIA, because I mentioned that you head up the UniFi by CAIA program, so what is being done in terms of educating advisors, and does that do anything for consumers? In other words, should an investor who's hearing us talking about alternatives on the show and says, "Yes, I don't want to consider it alternatives, I want to consider it mainstream, a piece of my portfolio that I need," should they be making sure that somebody has a credential or what have you, before they say, "Oh, yeah, you wanted to add private credit to my portfolio," or what have you?

AARON FILBECK: Great question and very timely for us as we just had a huge launch this week with one of the flagship programs on UniFi. But if I back up, UniFi by CAIA is an online learning platform, a learning ecosystem, kind of an online academy of different educational programs that are available to the private wealth management industry. And when I say private wealth, it's kind of a broad term and we encompass it into a value chain of private wealth management which goes all the way from asset management and the creators of these products to people who are distributing these products in particular. Getting them up to speed, the intermediaries, the big banks, the wirehouses who are trying to figure this out, all the way down to the RIA, the independent wealth management firm that's also trying to figure this out in this portfolio, in their clients' portfolios. And if we can get all three of those groups to speak the same language and understand how alternatives work, how they fit in portfolios and how they're accessed, I think that's a win for the industry. CAIA is a professional body, we're a not-for-profit that's focused on education, we have this unique position where we can teach a lot of the stuff with no commercial interests, there's no angle behind what we're trying to deliver other than just to help people make better decisions in their portfolio, so that's the platform and the rationale behind UniFi. What we've done on UniFi is we've created a couple of programs and are continuing to develop these programs over the course of the next couple of years. The flagship of which we just re-launched here a couple days ago is our Fundamentals of Alternative Investments Certificate program, which is basically your foundation to alternatives. We're providing you the 101 of how these strategies work, we're talking about portfolio construction in a more wholesome way, and then we're talking about those fund vehicles, so really hitting on those three points that I mentioned before; the access and how do you think about liquidity across different fund vehicles and access points. So that is kind of the flagship of UniFi, and beyond that what we've done is we've created this series of these micro-credentials, which are short five-hour programs that allow you to go a little bit deeper into things like private credit, private equity, digital assets, real estate, and so on. And so theoretically you can come onto this platform and choose your own adventure depending on where you are in the learning cycle, whether you need the foundations, whether you need the deep dive, or you can journey in between them. So that's kind of the delivery mechanism of these programs, all online, all CE credit approved, and video based, so accessible in bite-sized pieces.

CHUCK JAFFE: Aaron, great stuff. I got more questions, I just don't have more time, so hopefully we'll get chance to chat with you again on The NAVigator down the line.

AARON FILBECK: Thanks so much, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yeah, that's me, why don't you check out my hour-long weekday show by going to MoneyLifeShow.com or looking wherever you find your favorite podcasts. To learn more about closed-end funds, interval funds, and business-development companies check out AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Aaron Filbeck, he's managing director of the CAIA Association, the Chartered Alternative Investment Analysts Association. Aaron oversees UniFi by CAIA, which is a learning platform built to educate the private wealth management industry on alternative investments, learn more about it at CAIA.org, and Aaron is on Twitter or X @Filbeck_A. The NAVigator podcast is new every Friday, make sure you don't miss one by subscribing or following on your favorite podcast app. We'll hope to see you again next week, and until then, happy investing everybody. *Recorded on January 11, 2024*

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