ALTERNATIVE INVESTMENTS QUARTERLY

AI QUARTERLY

WINTER 2025
VOLUME 19
ISSUE 1

One Bright Spot for the 2024 Election, No Matter Who Wins.

| ADISA Keeps on Growing | Outsourcing Your Securities Compliance to a Broker-Dealer | Asset Allocation for RIAs: Adopting Institutional Best Practices for Portfolio Construction | GOP Majorities Seen More Favorable to Alternative Investments | ADISA News

ADISA

AI QUARTERLY

WINTER 2025
VOLUME 19
ISSUE 1

ADISA EDUCATION & PUBLICATIONS COMMITTEE

Chair | **Greg Mausz** | *Skyway Capital Markets*

Editor | **Brad Updike** | *Mick | Law*

CONTACT INFORMATION

ADISA | 450 E. 96th Street, Suite 185 | Indianapolis, IN 46240

Direct: 317.663.4180 | Toll Free: 866.353.8422

Fax: 317.815.0871 | E-mail: adisa@adisa.org

John Harrison | Executive Director | 317.663.4172

Tanisha Bibbs | Director of Business Development & Events | 317.663.4174

Jennifer Fitzgerald | Director of Marketing & Communications | 317.663.4175

Erin Balcerzak | Director of Membership & Data Services | 317.663.4183

Design | **Cooper Design** | Susie Cooper

adisa.org


Pool House

ADISA Keeps on Growing

By John Harrison, DBA,
ADISA Executive Director

During the past dozen years, ADISA has grown by leaps and bounds. That's a little cliché, we've actually grown by 468% in terms of membership (if just IBD/RIA/Reps, then it's 975%), and we now have over 1,100 member firms, and the size of our operations have quadrupled. Let's call that leaps and bounds, if you will.

Now, we are planning even more growth as the operations of TNDDA (The National Due Diligence Alliance) are folded into ADISA's. Here's how that will work: TNDDA's usual early spring 2025 event will shift to February 23-25 and be administered by ADISA's events team. Likewise, TNDDA's usual November event will be run under ADISA's auspices, November 2-4, in Dallas. The summer event will be back to back: TNDDA, July 13-14, followed by ADISA's RDDF, July 15-16, both in Philadelphia. ADISA's Spring Conference and Annual Conference will run as usual; this year the ADISA Spring Conference is March 31-April 2 in Los Angeles, and the ADISA Annual Conference is September 29-Oct 1, in Las Vegas. In other words, TNDDA's three existing events will become part of ADISA's operation with the summer one combined.

This means ADISA's important advocacy and publication works will also encompass a larger base as ADISA's membership will now include those participating in TNDDA. To handle the increase, ADISA is adding a new staff person from the industry to boost the IBD/RIA side, and ADISA's Board of Directors has added a TNDDA Council to help lead that special component.

You might ask, what is effectively the difference between ADISA and TNDDA from the events perspective? As you know ADISA's events feature programs designed around IBD/RIA/Advisor education; educational sessions are limited to experts, and promotional activities are limited to the exhibit and networking portions. Fewer than half of the sponsor companies in attendance are actually part of the conference's formal educational program. The commercial presence happens in the exhibits. There is a lot of demand and a big advantage for this professional-level knowledge-based program.

But there is also a place for commercial presentations as well, and that's where TNDDA comes in. TNDDA's program is indeed comprised of short serial sponsor/fund presentations with a twist, and that twist is important: after a series of several presentations, the audience of IBD and RIA types meets in closed door session for review and analysis of the presentations. Obviously, a set-up such as that has to be smaller and well-moderated; TNDDA events host about a hundred attendees in total at each one. This is an event format we feel will be very complementary to ADISA's other events.

Here's my take on the high-level purposes for these industry events as they run through the calendar: 1) TNDDA's February—kicks off the year by seeing new sponsors in particular, 2) ADISA's Spring Conference--to see what's new and to touch base with almost everyone in the industry at the beginning of the year, 3) TNDDA's summer event followed by ADISA's Research and Due Diligence Forum—see more product, and then explore methods and techniques of analysis, 4) ADISA's Annual Conference—if you have but one event to attend to keep up with who's who and what's what in the industry, it must be this one, and 5) TNDDA's November event—find out even more on what's out there before year's end.

ADISA, as a non-profit, is led by and belongs to the industry. We're in Washington, DC, and the states on your behalf advocating, particularly in a productive way (by informing and gaining trust). We're involved in research and curriculum and program development. We publish this industry's magazine of record (Alternative Investment Quarterly), and we have a charitable foundation to help students become familiar with retail alts. Plus, we have done all this efficiently (at the same prices since 2019). It sounds indeed like we are growing by leaps and bounds, but more importantly we grow by satisfying our industry members—like you! ▲

One Bright Spot for the 2024 Election, No Matter Who Wins

By Sylvia Kwan, *Chief Investment Officer, Ellevest*

Sylvia Kwan is Ellevest's Chief Investment Officer. She is a CFQ® charterholder with more than 30 years of industry experience. Before Ellevest, she founded SimplySmart Asset Management and held senior portfolio management positions at Financial Engines and Charles Schwab.

Editor's note: This article was published on Election Day 2024.

Ellevest's chief investment officer says don't panic about your money. "The health and future growth of the economy, not politics, drive financial markets."

Today is a big day for our country. It's Election Day, the day that we collectively have a say in who our next President will be—and, depending upon where you live, in your state and local government officials, as well as various ballot measures and propositions. Whatever the outcome(s), we are going to feel all sorts of emotions—crushed, elated, mad, excited, frustrated, hopeful, disappointed.

Today is a big day for our country. It's Election Day, the day that we collectively have a say in who our next President will be—and, depending upon where you live, in your state and local government officials, as well as various ballot measures and propositions. Whatever the outcome(s), we are going to feel all sorts of emotions—crushed, elated, mad, excited, frustrated, hopeful, disappointed.

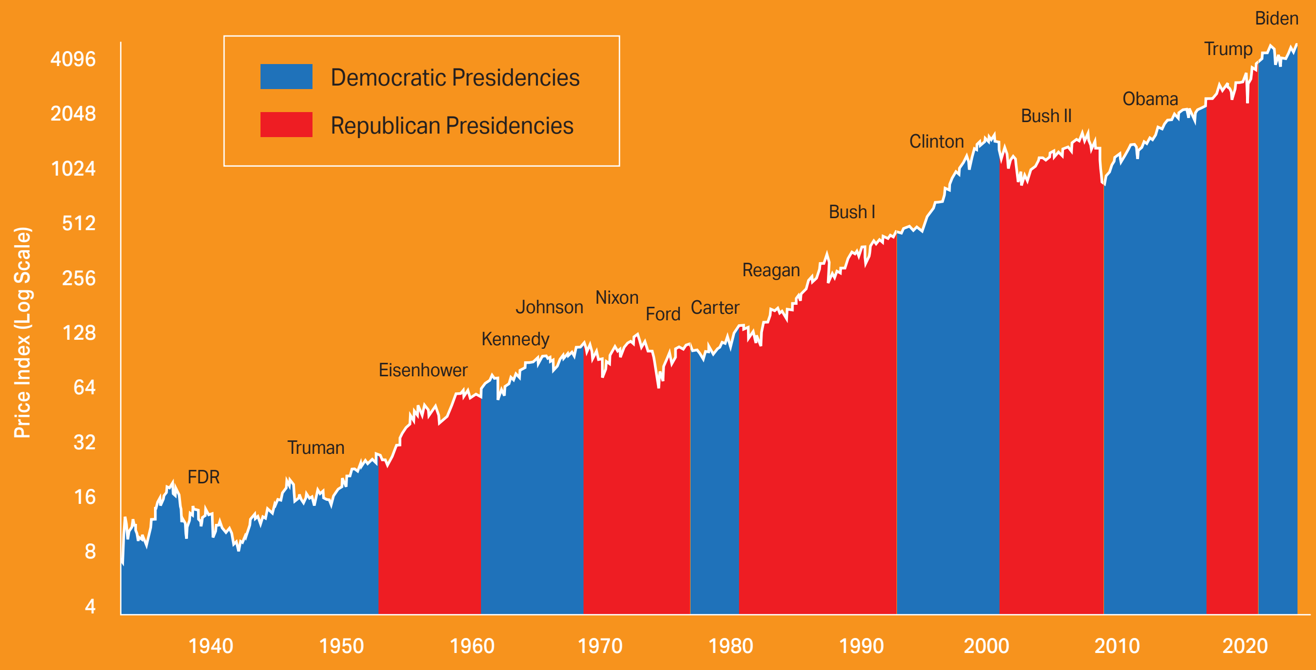
But how we feel, or how we think we might feel, shouldn't influence how we invest. Emotions can be our number-one enemy when it comes to investing. Regardless of the election's outcome, history shows that elections don't have a significant long-term impact on the financial markets or your portfolio.

I've had many friends ask me whether they should sell out of the market or do something in advance of the election. The short answer for long-term investors is a definitive "no."

Why? The state of the economy is by far a more important factor in determining market performance than who is governing in the White House. And right now, the U.S. economy is humming, healthy enough for the Federal Reserve to pivot to lower interest rates. It's not going to collapse next week, regardless of who wins the election. In the short term, the market may react to an outcome that was unexpected from what the polls predicted, but so far, the polls anticipate an extremely close race with no clear-cut winner.

The Stock Market and Presidencies

S&P 500 price returns on a log scale with presidents and their parties highlighted since 1933.



Latest data point is Dec 31, 2023

Source: Clearnomics, Standard & Poor's

For illustrative purposes only. Past performance is not a guarantee of future returns. Please see important disclosures at the end of this presentation

The chart above shows market performance during Democrat and Republican presidencies since 1933. You'll note that historically, markets have generally trended upwards, no matter which political party is in the White House.

The health and future growth of the economy, not politics, drive financial markets. While a President's policies—regulations on tariffs, taxes, immigration, health care, and more—can impact the economy, they take time to attain Congressional approvals (if needed), get implemented, and trickle through the economic system. And that gives both corporations and individuals time to prepare (and work with their financial advisors) to take any necessary actions.

While markets slid in October, with the S&P 500 falling 1.9%, the DJIA 0.9%, and the NASDAQ 2.8%, the U.S. economy remains resilient and healthy, with positive GDP growth, stable employment, and slowing inflation.

With the polls pointing toward an increasingly tight Presidential race, none of us can predict the outcome of the election. But each of us can vote. So if you're reading this before polls close and you haven't yet voted, stop reading now. And get yourself to the polls to exercise your right and privilege to vote.

I often hear people say that their single vote doesn't count (so why bother?), or that they feel powerless to move the needle on anything. Now if all of us think that, then for sure, nothing will change.

Beyond that, we have other ways to effect change: We each have the power and means through our capital—especially collectively—to bring about change. Every single day, we use our dollars to vote. We decide where, how much, and what to spend; for what and to whom we donate; and with whom, how, and in what we invest. These decisions are fully in our control.

Fair or not, like it or not, money has the power to effect change. One study shows that in the vast majority of House and Senate races, the candidate who spent the most money campaigning won. No surprise there. What might be eye-opening is that the dollar amount of political donations from men is twice that of women.

Political giving aside, one of the most powerful and sustainable ways you can effect change through your capital is also one most people haven't thought of. And that's investing—specifically impact investing, which targets financial returns alongside better economic, social, and/or environmental outcomes. Let's double-click to explore how.

If you're concerned about climate change, you probably can't influence government policies or mandates on carbon emissions—but you can invest in companies focused on cleaner energy production or technologies that capture and store carbon, or companies working to improve the sustainability of products and processes.

If you're frustrated with the lack of progress by government-sponsored programs in addressing homelessness, you can invest in the development and/or financing of affordable housing, in the renovation and preservation of workforce housing, and/or in technologies that significantly reduce the time and cost of housing construction.

If the widening wealth gap is depressing, you're unlikely to influence tax policy— but you can invest in companies that are increasing access to wealth-building opportunities, and those investing in under-resourced and underserved populations to help uplift those communities economically.

I'm not claiming that impact investing is the panacea to all of our problems, but it remains a powerful tool that we can all use to help improve outcomes and bring about change. And because investing comes with the expectation of financial returns alongside positive impact, any gains can be re-invested again . . . and again . . . toward those areas we care about most deeply.

So despite what happens, don't panic. Instead, start investing in the change you want to see.. ▲

The state of the economy is by far a more important factor in determining market performance than who is governing in the White House. And right now, the U.S. economy is humming, healthy enough for the Federal Reserve to pivot to lower interest rates.

Outsourcing Your Securities Compliance to a Broker-Dealer: Navigating the Reg D Securities Offering Gauntlet

By Justine Tobin, *Tobin & Company*

Justine Tobin, who has a 40-year career in the securities industry, founded Tobin & Company, which provides a range of investment banking services. Tobin & Company has served as a Managing Broker-Dealer (MBD) for private placement offerings for more than twelve years, bringing a wealth of experience in regulatory compliance and distribution support to sponsors creating QOF, DST and other offerings for their investors. When you engage TOBIN as your Managing Broker Dealer for your private placement offering, you can outsource significant compliance obligations, duties and tasks, including those related to the investor subscription process and due diligence, the management and compensation of your internal sales representatives and the management and compensation of your outside distribution network.

Your Managing Broker Dealer plays a critical role in the successful execution of your private securities offering.

The key responsibilities of a Managing Broker-Dealer

1. Regulatory Compliance and Oversight:

FINRA and SEC Compliance: The MBD ensures that all aspects of the fund's securities offering comply with the rules and regulations set forth by the Financial Industry Regulatory Authority (FINRA) and the U.S. Securities and Exchange Commission (SEC). This includes adherence to proper disclosures, suitability standards and advertising regulations to protect investors.

Due Diligence: The MBD conducts thorough due diligence on the fund's offering, the underlying real estate project or business and the investment structure. This process ensures that the fund is a legitimate, high-quality investment vehicle for potential investors and helps mitigate risks of misrepresentation or fraud. Your MBD may even recommend a third-party due diligence partner to supplement its own internal processes.

KYC Requirements: The MBD implements and monitors customer identification and anti-money laundering compliance programs to ensure that the fund and its investors are compliant with all relevant laws, particularly those concerning the sourcing of investor funds and protections against terrorism.

2. Managing the Reg D Securities Sales Process:

Selling Agreements: The Managing BD establishes agreements with other broker-dealers to form a distribution network for the sale of the fund's securities. This syndicate of broker-dealers will introduce the investment to their customers and help raise capital for the fund.

Due Diligence Cooperation: Managing Broker-Dealers such as TOBIN share their internal due diligence with other broker-dealers to support them in their required due diligence processes. Not all MBDs provide this support, but TOBIN has always believed in cooperation rather than competition among fellow MBDs and selling group members.

Supervision of Sales Agents: Your MBD supervises the activities of sales agents involved in selling the private Reg D securities, ensuring that they adhere to regulatory standards and follow proper procedures when dealing with investors. This includes oversight of how Reg D securities are marketed and sold to ensure that all activities are conducted transparently and in the investors' best interest. TOBIN supports direct selling by issuers and through both commissioned and non-commissioned sales reps. Tobin & Co. also helps build out an external sales force with its strong relationships and friendships throughout the broker-dealer and RIA community.

Investor Suitability: Managing Broker Dealers ensure that your securities are only sold to suitable investors, typically accredited or sophisticated investors. This requires evaluating each investor's financial status, risk tolerance and investment goals to ensure that the investment vehicle is an appropriate fit for their portfolio. TOBIN provides this service for all investors, whether inside or outside the issuer's captive sales force.

3. Marketing and Distribution Support:

Investor Education: The MBD often helps design marketing materials and presentations for potential investors and broker-dealers. These materials must be accurate and clear, and must comply with U.S. regulatory standards to ensure that investors fully understand the risks and potential benefits of investing in the non-correlated investment. TOBIN reviews and approves each marketing presentation and sales piece, even investor email messages, to ensure that they comply with FINRA rules and communicate appropriately to investors.

Coordinating Investor Communications: The MBD facilitates communications between the issuer and the selling broker-dealers, ensuring that any investor questions, concerns or requests for additional information are addressed in a timely and compliant manner.

Offering Documentation: Your Managing Dealer ensures that the offering documents (private placement memorandum, subscription agreements, etc.) are clear, compliant, comprehensive and aligned with the interests of investors, providing full disclosure about the fund's structure, risks and investment strategy.

4. Fundraising and Capital Deployment:

Capital Raising Strategy: The MBD works closely with the sponsor's management team to develop a strategy for raising capital. This includes targeting appropriate investor groups, coordinating roadshows and leveraging the broker-dealer and RIA syndicates to access a wide network of potential investors.

Monitoring of Investor Subscriptions: The MBD tracks and manages investor subscriptions to ensure that capital is raised in accordance with the fund's offering guidelines. This includes processing subscription agreements, monitoring investor funds and confirming that capital is deployed into the related projects according to the plans communicated to the investors.

5. Reporting and Record-Keeping:

Regulatory Reporting and Recordkeeping: The MBD, as a FINRA licensed broker-dealer, is required to submit all selling materials to its regulatory body. The MBD also submits sales materials to FINRA's AdReg division to obtain their review and sign-off on materials meant for investors. Your MBD is also required to report all securities sales and commissions earned by all related parties to FINRA each quarter through a regular reporting process called FOCUS.

Preparation for Regulatory Investigation and Litigation: The Managing Broker-Dealer not only files numerous reports, materials and facts and figures to its regulators, but also prepares its files for future regulatory investigations and possible litigation. In the eyes of regulators and litigants, compliance activities did not happen unless documented. FINRA and the SEC regularly audit MBDs to ensure offerings throughout the country are compliant with securities laws. Your MBD arms and safeguards its files in preparation for these inevitable events.

Ongoing Compliance Monitoring: Your MBD monitors the fund's compliance throughout the life of the investment, not just during the capital-raising phase. This includes monitoring investor reports and quarterly and annual financial statements. TOBIN's founder and CEO often invests alongside other investors in order to augment such oversight.

Investor Reporting: Managing Broker Dealers assist in providing regular reports to investors regarding the status of their investment, the fund's performance and any updates on the related project or business. This transparency is essential for maintaining investor confidence and trust.

6. Risk Management:

Mitigating Investor Risks: By ensuring that all aspects of the fund's offering are properly vetted, documented and distributed through appropriate channels, the Managing Broker Dealer helps reduce investors' risks. This includes ensuring that the offering complies with legal standards and is sold only to suitable investors.

So there you have it

The Managing Broker-Dealer's primary role for a Reg D offering is to ensure compliance with regulatory standards and manage the distribution and sale of securities and related money flows. The MBD's duties span from regulatory oversight and investor suitability checks to marketing support, capital raising and exceptional record-keeping. By providing these services and safeguards, the Managing BD protects investors and ensures the fund operates smoothly, meeting all legal and regulatory requirements while facilitating efficient capital deployment into projects that create wealth for investors. ▲

Asset allocation for RIAs: Adopting Institutional Best Practices for Portfolio Construction

By Rizwan Ibrahim, *Accretive Wealth Management*

Rizwan Ibrahim is director of due diligence and strategy at Accretive Wealth Management, a member of Real Assets Adviser editorial advisory board, as well as an ADISA member who speaks often on topics related to RIAs.

This article originally appeared in the November 2024 issue of *Real Assets Adviser.*

Asset allocation, the distribution of investments across asset classes, is the single most critical factor influencing portfolio performance. Research by Brinson, Hood and Beebower (1986) revealed that asset allocation accounts for 93.6 percent of return variations, and Ibbotson and Kaplan (2000) confirmed more than 90 percent of a typical portfolio's return variability stems from allocation decisions, rather than individual stock selection or market timing.

Modern portfolio theory, introduced in the 1950s, established diversification as a core principle, advocating for the combination of low-correlation assets to reduce risk. However, market evolution has driven new approaches to portfolio construction. The Norwegian model leans heavily on public securities and passive management, reflecting a belief in market efficiency. The endowment model, pioneered at Yale by David Swensen, prioritizes diversification through alternative investments such as private equity and hedge funds. The Canadian model, typified by the Ontario Teachers' Pension Plan, emphasizes direct investments in private markets and active management to generate alpha.

Many institutions are now transitioning from static asset allocation models, such as modern portfolio theory, to more dynamic approaches such as total portfolio allocation. This shift embraces agility, allowing portfolios to adapt quickly to market changes. A key aspect of total portfolio allocation is its focus on the entire portfolio's risk/return profile, rather than on individual asset classes. This flexibility enables portfolio managers to pursue opportunities as they arise, rather than adhering strictly to pre-determined asset categories.

Institutional investors use structured processes to align their portfolios with long-term objectives, a practice RIAs can adopt to create diversified and adaptive portfolios. The following five steps, drawn from institutional approaches, outline a pathway for RIAs to enhance portfolio construction.

Risk assessment has evolved in institutional investing. Traditional notions of risk as volatility are now seen as inadequate. Instead, institutions define risk as “not having what you need when you need it.” This perspective focuses on meeting future obligations, aligning portfolio construction with long-term objectives.

Understand client needs and time horizons. The first step in constructing a portfolio is goal-based financial planning. This involves defining the specific needs of the client—be it growth, income or capital preservation—alongside the timeline during which these goals must be achieved. Just as pension funds must meet future liabilities, RIAs must structure client portfolios to cover future expenses, such as retirement or education. A detailed financial blueprint, including cash-flow projections and required rates of return adjusted for inflation, fees and taxes, is crucial. Translating client goals into a structured investment plan is the foundation of portfolio construction.

Evaluate market and investor-specific constraints. With clear client goals, the next step is to assess the market environment and client-specific risk factors that may influence the portfolio design. Market constraints are typically shaped by capital market assumptions, which provide forecasts on macroeconomic trends, returns, risks and correlations for various asset classes. Capital market assumptions form the basis for strategic asset allocation and allow dynamic adjustments as market conditions evolve.

Risk assessment has evolved in institutional investing. Traditional notions of risk as volatility are now seen as inadequate. Instead, institutions define risk as "not having what you need when you need it." This perspective focuses on meeting future obligations, aligning portfolio construction with long-term objectives. To manage this, institutions use risk budgeting, which allocates risk capital to different investments based on the investor's risk capacity and tolerance while paying attention to risk perception and appetite, in meeting their financial objectives. This method balances risk across a portfolio, ensuring it aligns with the client's comprehensive risk picture. Risk budgeting takes into account risk capacity (an investor's ability to absorb losses without derailing financial objectives), risk tolerance (measuring the comfort level with variability in returns and market fluctuations), risk perception (how market participants view the risks of different assets), and risk appetite (the level of risk an investor is willing to take).

Flaws in traditional risk scores, often based on client questionnaires, further complicate the risk assessment process. Risk scores can fluctuate with market conditions, leading to inconsistent portfolios that may expose clients to undue volatility or, conversely, fail to capture enough growth potential. This one-size-fits-all approach is inadequate, particularly when two investors with vastly different timelines and needs are placed in similar portfolios.

Build customized asset allocations. Once the investor's risk profile and market outlook are clear, the next step is to bridge financial goals with portfolio design. Institutional investors typically use a goals-based approach to ensure each portfolio is diversified across return drivers. Unlike traditional asset class silos (e.g., equities, bonds, real estate), institutions evaluate all investments by their contribution to outcomes such as growth, income generation, inflation hedging or volatility reduction.

Institutions also emphasize capital efficiency, agnostically evaluating investments based

A detailed financial blueprint, including cash-flow projections and required rates of return adjusted for inflation, fees and taxes, is crucial. Translating client goals into a structured investment plan is the foundation of portfolio construction.

Rebalancing is critical to maintaining a portfolio's alignment with both market conditions and the client's evolving needs. Institutional investors typically rebalance portfolios periodically, guided by internal policies to maintain desired asset allocations.

on their contribution to overall portfolio performance. Competition among asset classes is fostered, enabling institutions to optimize diversification.

Reference portfolios are often constructed as benchmarks to track performance and guide asset allocation strategies. While private investments constitute a significant portion of institutional portfolios—offering enhanced returns over time through the illiquidity premium—RIA clients can benefit from similar allocation principles. For example, high-net-worth individuals and qualified purchasers may allocate 30 percent to 50 percent of their portfolios to private assets, while retail investors might consider 10 percent to 15 percent.

Select managers and funds to meet portfolio targets. The choice of asset managers and funds is critical to executing a successful asset allocation strategy. Leading institutions gravitate toward top-quartile managers across asset classes. To maintain access to top managers, institutions often subscribe to all vintages of drawdown funds. Interval and evergreen funds have also gained traction recently, offering greater flexibility and liquidity management.

To maintain access to top managers, institutions often subscribe to all vintages of drawdown funds. Interval and evergreen funds have also gained traction recently, offering greater flexibility and liquidity management.

When selecting managers, institutional investors analyze funds through the lens of risk/return factors, focusing on how each fund contributes to the portfolio's risk/return profile. Manager track records, the ability to adapt to changing markets, and fee structures are all crucial considerations.

RIAs must adopt this mindset, focusing not on outperforming benchmarks but on how well the selected funds drive the client's financial goals. Understanding the risk/return exposure of each investment ensures portfolio construction aligns with the investor's long-term objectives.

Rebalance as markets and client needs evolve. Rebalancing is critical to maintaining a portfolio's alignment with both market conditions and the client's evolving needs. Institutional investors typically rebalance portfolios periodically, guided by internal policies to maintain desired asset allocations. For instance, the equity market pullback in 2022 led many institutions to rebalance portfolios that had become overweight in private equity. Similarly, rising interest rates prompted institutions to increase allocations to private credit, taking advantage of higher yields in direct and asset-based lending.

For RIAs, rebalancing is often driven by personal shifts—such as changes in legacy planning or a new need for income. Significant market changes or life events can alter a client's risk tolerance, requiring a reassessment of portfolio strategy. By rebalancing in response to these factors, whether incrementally or counter-cyclically, advisers can ensure portfolios remain aligned with long-term wealth plans, closing any gaps between actual and target outcomes.

Asset allocation remains the cornerstone of portfolio performance. By adopting institutional best practices—such as risk budgeting, capital efficiency and dynamic asset allocation—RIAs can deliver superior client outcomes. ▲

GOP Majorities Seen More Favorable to Alternative Investments

By Mark Schoeff, *Financial Services Reporter, CQ Roll Call*

Investors may get more latitude to add nontraditional assets to their portfolios under legislation expected to get a better chance for passage from the Republican majorities in the House and Senate next year, advocates for alternative investments say.

The unconventional assets include private real estate, private equity, private credit, and some forms of infrastructure and energy investments. Most of those assets are currently limited by law to so-called accredited investors who meet income and net worth thresholds.

"I think a Republican Congress can get that done," said John Grady, president-elect of the Alternative and Direct Investment Securities Association and chief operating officer and general counsel at ABR Dynamic Funds, referring to a new definition of accredited investor. "[The new] Congress is more likely to see an emphasis on capital formation."

Anya Coverman, CEO of the Institute for Portfolio Alternatives, said the customary reliance on bonds and public equity may not be enough to deliver strong returns.

"The solution is to give individual investors access to alternatives," Coverman said. "We expect a lot of focus on capital formation initiatives in the incoming Congress."

Advocates of alternative investments would like to see Congress not only expand the definition of an accredited investor, but also allow mutual funds and retirement savings vehicles, such as 401(k)s, more leeway to include alternatives. That would give ordinary investors the same opportunities as institutional investors for growth through private investments.

The alternatives carry greater risks, and some Democrats are skeptical.

But Rep. Brad Sherman, D-Calif., a member of the House Financial Services Committee, said in a hearing this month that the Senate should use the lame duck session to pass three capital formation bills that the House has already passed. The Senate left town for the holidays without doing so, but the Republican majority next year will have a chance to revisit the issues.

The House easily passed bills sponsored by Rep. French Hill, R-Ark., the likely chairman of the House Financial Services Committee next year, (HR 835) and Rep. Bill Huizenga, R-Mich., another committee member, (HR 1579) in 2023 that would expand the definition of accredited investor to include professional or educational qualifications.

The House also easily passed a bill (HR 2812) from Rep. Jim Himes, D-Conn., another committee member, that would direct the Government Accountability Office, the Securities and Exchange Commission and the Financial Industry Regulatory Authority to report on the costs for small- and medium-sized companies to undertake initial public offerings.

The bills "passed this committee unanimously, have been held up in the Senate, and, I think, should be hotlined," Sherman said.

With Republicans holding a three-seat Senate majority next year, the chances for those and similar capital formation bills will improve.

"Even a mildly supportive Senate means we'll likely get legislation through that we couldn't over the last few years," Grady said.

Coverman said there is "a willingness to work across the aisle on pro-growth and pro-capital-formation policies. Building support with Democrats will be important."

Building on past legislation

In 2012, a GOP-led House and Democratic-led Senate passed with strong bipartisan support a law (PL 112-106) — known as the JOBS Act — that changed securities registration requirements and eased entry into public markets for small businesses.

Republicans have been trying to build on that legislation.

The House in March passed along party lines, 212-205, legislation (HR 2799) that would establish exemptions to securities laws and regulations for startups and other small companies seeking to expand through public markets. It included provisions to boost private markets, such as creating new ways for investors to become accredited.

The bill didn't advance in the Democratic-controlled Senate.

But Sen. Tim Scott, R-S.C., who is poised to become chairman of the Senate Banking Committee, introduced a bill (S 5139) in September that would provide a roadmap of policies he will likely pursue.

The measure, co-sponsored by most of the GOP members of Senate Banking, incorporated provisions to catalyze capital formation in public and private markets, including changing the definition of accredited investor.

Warnings

Investor advocates warn that the private markets pose risks for ordinary investors and caution against allowing more of them to become accredited without adequate protections. Private securities offerings don't have to meet disclosure requirements attached to public market securities. They can be opaque, difficult to value and expensive, all of which could put smaller investors at a disadvantage. "While investors may sometimes benefit from

Investor advocates warn that the private markets pose risks for ordinary investors and caution against allowing more of them to become accredited without adequate protections. Private securities offerings don't have to meet disclosure requirements attached to public market securities. They can be opaque, difficult to value and expensive, all of which could put smaller investors at a disadvantage.

having a broader range of investments, private market offerings made directly to investors are not some new opportunity similar to those of the largest, most connected investors," Andrew Park, associate director for private equity and capital markets at Americans for Financial Reform, said in an emailed statement. "Rather, these kinds of investments are often the offerings rejected by established players that instead rely on the path with the least guardrails for investors."

State securities regulators, in their annual enforcement reports, often cite private investments as a leading cause of investor harm.

One problem is that recommending a private security to an investor can be lucrative for financial advisers, who often receive high fees fordoing so, said Ben Edwards, a law professor at the University of Nevada Las Vegas.

"These are products that are overwhelmingly sold to retail investors by their advisers," Edwards said at a recent meeting of the Securities and Exchange Commission's Investor Advisory Committee. "These are not things that retail investors decide on their own to go acquire." ▲

ADISA NEWS

ADISA Announces 2025 Board of Directors

The members of ADISA (Alternative & Direct Investment Securities Association), the nation's largest trade association serving the alternative investments and securities industry, have chosen new directors for its 2025 board. ADISA holds democratic elections hosted by a neutral online vendor, and the elections are open to all member categories (with a maximum of three votes per firm).

The five newly elected (or re-elected) board directors are:

Jake Heidkamp, FactRight

Greg Mausz, Skyway Capital Markets

Katie Shook, NexPoint

Michael Underhill, Capital Innovations

David Wilson, Equifinancial

Additionally, two directors-at-large were appointed:

Rajeev Kotyan, Innovative Advisory Group

Sylvia Kwan, Ellevest

They join the returning 2024 board members, who were elected or appointed last fall to two-year terms, and include:

John Grady, 2025 President, ABR Dynamic Funds

Jade Miller, 2025 Immediate Past President, Bourne Financial Group

Catherine Bowman, The Bowman Law Firm

Christy Hutchison, Shopoff Realty Investments

Matthew Iak, U.S. Energy Development Corporation

Kyle Kadish, IBN Financial Services

Mark Kosanke, Concorde Financial

Ann Moore, International Assets Advisory

David Pittman, Bonaventure

Brad Updike, Mick Law

Joanna Venetch, Hana Solutions

Darryl Steinhause of DLA Piper also serves as a non-voting, volunteer general legal counsel, Thomas Voekler of Williams Mullen serves as volunteer hospitality counsel, and Brandon Balkman of Net Lease Capital Advisors serves as president of ADISA's 501(c)3 Foundation.

ADISA board elections occur in the fall; each new director was elected to a two-year term through 2026. At the first board meeting of 2025 in January, the board will elect its 2025 officers and its president-elect to take office in 2026.

ADISA News

ADISA Names Alyssa Palmer Director of Membership Development

ADISA, the nation's largest trade association for the alternative investments industry, announced today the addition of Alyssa Palmer as director of membership development. Alyssa's arrival comes at a significant time as ADISA continues to expand its reach within the broker-dealer and registered investment advisor communities through its recent partnership with The National Due Diligence Alliance (TNDDA).

In her new role, Alyssa will have several responsibilities pertaining to both ADISA membership and events, some of which will include supporting ADISA's executive director in the field with researching, acquiring, developing and retaining new broker-dealer, RIA and advisor members.

"Over the last two years, ADISA's RIA membership has steadily grown, and is expected to continue to rise as a result of joining forces with TNDDA," said ADISA Executive Director John Harrison. "Approximately 40% of our member firms are investment advisory groups, providing our association with a very healthy ratio of investment advisory groups to investment sponsors and industry affiliates. Alyssa will work with the ADISA team to increase the association's outreach and enhance our relationships within the investment advisor community."

Alyssa will also develop and maintain relationships with ADISA's current membership. She joins fellow ADISA staff members Executive Director John Harrison, Director of Operations Erin Balcerzak, Director of Business Development & Events Tanisha Bibbs, and Director of Marketing & Communications Jennifer Fitzgerald. She will work with the ADISA team to execute a membership recruitment and retention plan focusing on the highest quality associate members for attendance at both TNDDA and ADISA events.

"We are excited to welcome Alyssa to the ADISA team," said ADISA President John Grady. "As we execute our plan in uniting two of the most respected organizations in the alternative investment industry, TNDDA and ADISA, now is the time to expand our outreach and strengthen our relationships within the broker-dealer and RIA communities."

Prior to joining ADISA, Alyssa served as the national sales director at Great Oak Funding, an ADISA sponsor member, where she worked to identify potential new clients and maintain current relationships with financial advisors.

ADISA Submits Comments to NASAA Regarding Proposed Revisions to NASAA's Model Rule

ADISA responded to NASAA's request for comment on the Proposed Amendments to the NASAA Model Rule, Dishonest or Unethical Business Practices of Broker-Dealers and Agents.

ADISA's membership includes retail broker-dealers as well as managing broker-dealers involved in the marketing of alternative investments, including nonlisted REITs, BDCs, interval funds, closed end funds, and private placements, among others. As such, this ADISA membership constituency is particularly impacted by the Proposal.

The Proposal Improperly Conflates Form CRS with Reg BI Violations

The Proposal states that the amendments "are intended to update the model rule in light of the SEC's 2019 adoption of Regulation Best Interest and other developments in the securities industry" by adding a new Part 1.d to NASAA's Dishonest or Unethical Business Practices of Broker-Dealers and Agents Model Rule applicable to broker-dealers. Specifically, the Proposal, if adopted, would prohibit "failing to comply with the obligations set forth in Regulation Best Interest, as set forth in rule 17 C.F.R. 240.151-1, including, but not limited to, 17 C.F.R. 240.17a-14. In doing so, the Proposal elevates a violation of Form CRS to a violation of Reg BI. But equating these violations—which impose distinct requirements on broker-dealers—would cause confusion and, more importantly, would prove inconsistent with SEC guidance. ADISA believes the Model Rule should take a slightly different approach and avoid any such potential confusion.

Because the stated reason for the Proposal is to "update the model rule in light of the SEC's 2019 adoption of Regulation Best Interest," ADISA recommends removing the words "including, but not limited to 17 C.F.R. 240-17a-14" from Part 1.d of the Proposal. Doing so would, in our view, help ensure that the distinction between Reg BI and Form CRS is maintained in the resultant Model Rule.

NASAA Should Move Form CRS Violations to an Independent Section

In the event that NASAA believes it necessary to expressly incorporate a violation of Form CRS into the Model Rule, we recommend creating a new sup-part (Part 1.e or even Part 1.z) to separately include violations of 17 C.F.R. 240.17a-14.

The letter was drafted by ADISA volunteer Kevin Bendix, DFPG Investments, and was signed by ADISA President Jade Miller, Bourne Financial Group.

ADISA
450 E. 96th Street, Suite 185
Indianapolis, IN 46240

2025 the SAVE DATES

TNDDA by ADISA
February 23-25, 2025
The Ritz-Carlton Orlando Grande Lakes

ADISA 2025 Spring Conference
March 31-April 2, 2025
InterContinental Los Angeles Downtown

TNDDA by ADISA
July 13-14, 2025

ADISA Alts Research & Due Diligence Forum
July 15-16, 2025
Loews Philadelphia Hotel

ADISA 2025 Annual Conference & Trade Show
September 29-October 1, 2025
The Cosmopolitan of Las Vegas

TNDDA by ADISA
November 2-4, 2025
Marriott Dallas Uptown