

**Welcome to RIABiz! We provide independent news and analysis for the RIA community.**

Take a minute to [read about us](#), and consider subscribing to our free daily email:

Email:  Password:   [More Info](#)

RIABiz – <http://www.riabiz.com/a/9463515>

---



## AI Exchange to offer hedge fund-like investments in managed-account form through Schwab, Fidelity

The startup's platform offers advisors access to long-short strategies in managed-account form for investors with \$100,000 minimums

13h 16min ago by [Steve Garmhausen](#)

Marco Bitran: There is a lot of demand for alternatives in the space we're targeting—the RIA and broker-dealer space with high-net-worth clients.

*Brooke's Note: Alternative investments continue to be major problem for RIAs, custodians and investors. When they're good they're very, very good. And when they're bad, they can be terrible. Demand is high. Fear is sometimes higher from those who need to take responsibility. Here's another effort to bridge the gap.*

With advisors' demand for alternative investments on the rise, a startup firm says it's broken ground in the ability to offer those products in managed-account format.

The company, AI Exchange Inc., recently inked deals with Charles Schwab and Fidelity to provide advisors with long-short strategies run by hedge fund managers on a low-minimum, multimanager platform.

"There is a lot of demand for alternatives in the space we're targeting— the RIA and broker-dealer space with high-net-worth clients," says Marco Bitran, AI Exchange's chief executive. "They very much want alternatives in a structure that's palatable for them."

### The long and the short of it

Long-short equity managers typically require million-dollar minimums, well beyond the reach of the majority of Schwab and Fidelity clients, says Charlie Hipwood, Ai Exchange's chief operating officer. Yet those clients still need uncorrelated strategies in their portfolios.

The platform is an "intriguing" development given advisor demand for alternatives, says Greg Cherry, senior analyst with consulting firm [Aite Group](#).

account form for as little as \$100,000, he says. The low minimums are facilitated by proprietary technology that makes them operationally efficient; pooling is not involved, the company says.

The platform went live Nov. 5, with five managers, including Stoneharbor Strategic Income, Gator Long/Short Equity Financial, Pemigewasset Long/Short Equity, KeyPoint Long/Short Equity Real Estate and Weatherbie Long/Short Equity.

## Full transparency

Advisors and end-investors retain full custody and control of the assets, are able to make liquidity decisions on a daily basis and have full transparency into the underlying securities held in their name. Advisors will access the strategies the same way they access other managed accounts through their custodians; advisors don't need to implement additional technology.

Competing firms include Lyxor Asset Management Inc. and RBC, which offer large managed-account hedge fund platforms.

"Today there exists very limited options for retail investors looking for alternative investment products, at the low account minimums we're trying to achieve," says Bitran.

## Appetite for alternatives

A recent survey of retail investment advisors by [Cogent Research](#) found that 78% of respondents now use alternative investments within client portfolios. Advisors are most concerned with diversification and managing risk, and to a lesser extent, with achieving absolute returns, the survey revealed.

Mutual funds that mimic hedge fund strategies are now common on custodians' platforms, and Schwab and TD Ameritrade Institutional say they offer numerous choices in the separate-account format as well.

But the leadership of AI Exchange believes there is still a significant unmet need for what it has to offer, saying that both mutual funds and the typical separate-account offerings available to advisors have significant shortcomings.

The major custodians have good open platforms for separate-account managers, but most are long-only, says Bill Kindle, AI Exchange's recently hired senior vice president of national sales and marketing. Formerly, Kindle was a senior sales executive with both Schwab and Fidelity.

The problem is that the custodians pay straight management fees rather than the performance fees that hedge fund managers are accustomed to, he says.

"They're typically limited to long-only managers, not true hedge fund managers, so they're not getting true exposure to alternative investment managers," says Kindle.

Mutual funds, meanwhile, are less transparent than managed accounts and structural limitations often prevent

typically higher than managed-account fees, and they don't offer the choice of single strategies or multiple-strategy portfolios.

## Layered options

Schwab's deal with AI Exchange comes as the custodian has been adding more alternative solutions to its SMA platform. It has added about 50 this year, for a total of 200, according to David Lindenbaum, vice president of managed accounts for Schwab. The company had \$1.5 billion in alternative investment solutions as of the end of September, with net flows so far this year of \$200 million.

Many of the strategies on Schwab's platform fall in the global tactical bucket or the absolute-return bucket, but they also include option overlay, master limited partnerships and commodities. Many of the strategies use exchange traded funds in order to reach asset classes such as commodities and currency, adds Lindenbaum.

"We're trying to provide the different vehicles for RIAs to invest in this asset class," he says.

A Schwab spokeswoman confirmed that the company expects to add AI Exchange to its platform, but declined to address how unusual the offering will be within that platform. Fidelity's Steve Austin declined to comment other than to say that AI Exchange can not be currently accessed through his company.

---

Please use this print for personal purposes only, like sharing with a few friends or colleagues. For wider distribution, we offer full-service reprints. Contact Frank Noto at 415.246.5006, or read more at [riabiz.com/advertise#reprints](http://riabiz.com/advertise#reprints).

© 2009- 2011 RIABiz LLC. All Rights Reserved.