Grow your wealth *faster* with alternative assets

A Complete Guide to the New Universe of Investment Opportunities

SAMPLE CHAPTER

Travis Miller

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Chapter 1

Where it all started

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Let's start out by taking a look at the recent history of alternative assets and how I got into them.

I can't talk about the history of alternative assets without framing it around the GFC (global financial crisis), which was an investment game changer. So here's a quick refresher before we get into it. As you may well know, the GFC was a severe worldwide economic crisis that occurred from mid 2007 to early 2009. It was the most serious financial crisis since the Great Depression of the 1930s. It was caused by house prices in the United States falling and a rising number of US borrowers being unable to repay their mortgages. As a result, various US banks held trillions of dollars of worthless loans. Because of the linkages in the global financial system, this downturn in the United States spread to the rest of the world, resulting in a deep global recession. Millions of people lost their jobs, and banks incurred large losses and ended up having to rely on government money to avoid bankruptcy.

Before the GFC, alternative asset opportunities for everyday investors in Australia mainly came out of banks as what's

known in the business as 'structured products'. The underlying assets tended to be hedge funds, alternative funds or products combining a deposit with embedded derivatives (a derivative is a contract between at least two parties that derives its value from something else, such as an underlying asset or event outcome). These products were called 'structured' because they tended to have a loan embedded in them, or some other complexity. (We'll dive into structured products in part 2). The aim of the banks in making these products available was to effectively build their loan books by lending money to retail and wholesale investors so they could gain access to these assets. The banks, in turn, collected both interest on the loan and product fees.

Post GFC, a large proportion of these assets underperformed, and it wasn't a great experience for investors because of the loan element. When the market turned down, investors had limited prospects of positive returns from the underlying assets, but were locked into contracts that required them to continue paying interest. Investors lost money and banks suffered reputational damage. No-one was happy. Since then, we haven't really seen banks issue leveraged alternative asset products in Australia.

In the early 2000s property trusts and real property asset investing started to emerge: some listed, some unlisted. The listed property trusts were called REITs (Real Estate Investment Trusts) or diversified property exposures. The unlisted versions were private. For example, five investors would put in $1 million each and then buy the equity in a small shopping centre in, say, Newcastle for $5 million. Property debt specifically became very popular — and still is. Property debt typically involves a private lender, lending to a developer.

Property is one of the key alternative assets that investors invest in today.

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Property debt is such a popular alternative asset that it's become quite mainstream — to the point where I believe it almost shouldn't be classed as an alternative asset anymore.

Since the mid 2010s we've seen the emergence of crowdfunders in the alternatives space. These are entities that aggregate very small amounts of capital to provide angel and seed funding to start-up businesses. These crowdfunding platforms don't necessarily have high-quality, vetted deal flow though, or much investment success of note. They're simply a location where investors can put small amounts into early-stage companies, which all investors know is a highly risky investment to make. There's no reliable promise of returns nor is much obvious due diligence done. Regardless of the quality of investments, they have become an access point for investors looking to gain exposure to (that is, to have the opportunity to invest in) venture capital and private, equity-like investments.

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My venture into alternative assets

When the GFC hit, I was a director at Deutsche Bank Australia. I got to witness changes in the investment banking world from the inside during this volatile time. I was lucky to see opportunities emerge for investing personally during a time that was difficult for so many. These opportunities were in alternative assets, and they were unbelievable. Because virtually all markets were crashing, anyone who wanted to buy could pretty much buy at literally any price. I had some money at the time, so I was lucky that I could be a buyer when most people were selling. These investment opportunities were only available for those with cash, a contrarian view on markets

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and courage to take risk, which means I started my journey into alternative assets at a time when the ride was pretty wild!

I'd been working in banking for about seven years, although it wasn't my original career of choice. When I was at high school, sport was my main thing and studies were an afterthought at best. My final HSC grades were pretty woeful, but it didn't matter to me at the time because I was drafted to play AFL straight out of high school and spent 1992 at the Fitzroy Football Club (now merged into Brisbane Lions) and part of 1993 at Melbourne and Collingwood football clubs, so for a while I was living the dream.

But the dream didn't last. I rode on talent rather than putting in the effort to really do well — even in sport, which I enjoyed. I look back at my younger self and think my head just wasn't quite screwed on yet! I had some growing up to do.

After finishing up with the AFL I drifted around the personal training and gym industry for a while, and gradually woke up to the importance of education. All my mates had already got their degrees and were kicking off their careers while I was still working part-time jobs in gyms and pools. So I enrolled in a Bachelor of Arts in Recreation and Fitness. For the first time, I realised I was reasonably intelligent and I enjoyed studying.

By this time I was managing a gym and running my own personal training business on the side. I realised I had some business smarts, which eventually gave me the idea that I could go into business myself. So after completing my Bachelor of Arts, I went straight into doing a Master of Business Finance at Victoria University.

When I started studying finance I thought, 'Actually, this is pretty cool.' It was challenging. I needed to think and solve

problems, do modelling and regression analyses — things that were really interesting and different. That's when it became fun for me. I'd bumbled through my BA, but I really applied myself when I got into finance.

I completed my Master of Finance at around 24, then started out as a junior e-commerce analyst at the ANZ, helping them build an online capital markets platform, which was well ahead of our times in the early 2000s. (A sign of things to come?) During that first year at ANZ I did a Master of Business Administration (MBA) at Victoria University on the side.

I got lots of great opportunities at ANZ. Throughout my whole career I've had great bosses who were willing to trust and stretch me, for which I'm very grateful. By 2003 I'd got my Chartered Financial Analyst (CFA), which is one of the top qualifications in the industry, and had a new position as Associate Director of Credit Derivatives. I was sitting in the dealing room doing a lot of structured credit and credit analysis, which was really cool. It was pre GFC, the markets were absolutely flying and I was sitting in the hottest area. Banking was an awesome place to work, with lots of problem solving and lots of different trades. I was learning a lot. There were jobs everywhere and people were getting paid really well, so it was a fun time to be involved.

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I was doing well in my job and started getting approached by other investment banks about working for them. In 2006 I accepted an offer for a director role at Deutsche Bank.

The work involved a lot of problem solving, complex modelling and analysis. There were all these inputs or tools to put together to create a product that was investable. It needed to be

packaged nicely so that institutions could simply come along and buy it without needing to solve the problem themselves.

I loved the complexity of putting these products together and the simplicity for the investor once I'd packaged them.

This has been the basis of my work ever since: presenting complex investment opportunities to investors in an understandable form.

Around this time I also did the Financial Risk Manager (FRM®) program, which is an international accreditation with a six-hour exam. I completed this exam primarily for general interest and continued learning, although in hindsight it was very relevant because possibly the most dominant afterthought of the GFC was risk management. Risk management was, and still is, one of the hot topics in the post-mortem of the GFC.

The GFC was primarily a liquidity and credit crisis, so fewer liquid assets — and those exposed to credit, such as alternative assets — were impacted. Everything basically became illiquid, meaning if you owned an asset you couldn't get out (a lesson to be discussed later: liquidity can be your friend or enemy depending on your investment horizons).

Even though the sector was distressed, the GFC created a whole pile of opportunities for investors and for me personally. Credit derivatives lost their popularity, but people and institutions were still looking for investment opportunities and there were a lot of investors with cash to deploy. We helped investors

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find distressed credit opportunities that had a reasonable chance of rebounding and performing. I also began looking into different asset classes that were starting to become more popular, such as real assets and equity derivatives. So the GFC helped me diversify my knowledge and look at different investment options. It was a unique opportunity to learn something new. I moved with the times and pivoted to what was the next opportunity post GFC. I became that guy who had lived through a crisis and come out the other side intact, with lessons learned!

In 2011, I moved from Deutsche Bank to work for UBS Investment Bank as an executive director. I headed up alternative asset distribution across all asset classes in the markets business. My role was to look across all asset classes and identify any opportunity to solve a problem or tailor an assets risk profile, then implement and execute those trades with the investor base. It was a solutions-based role that needed out-of-the-box thinking. We put together trades across equities, rates, fixed income — all sorts of things. I did that for six years, finishing as a managing director — which is the top corporate title at the bank — and I loved it!

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Every time I've moved jobs it's been because I felt like I'd learned all I could in the area where I was working, and I wanted the next challenge. I love opportunities to learn about a new product, run a new business or grow something. By 2016 my work at UBS had become very commoditised, and a bit boring, because there was less problem solving involved. The long-term response to the GFC meant that banks were doing less interesting alternative asset deals. These changes were happening across the whole banking sector at the time.

Banks lost interest in opportunities that required problem solving because they were seen as riskier. They just wanted to do more of the same, simple, repeatable trades. I think it was what the regulator wanted them to do (which was achieved to a degree), but was also a lot less exciting for employees who enjoyed solving complex problems. Once banking moved in that direction they lost a lot of good people.

By this time I had completed my Masters of Business Law at Sydney University. (Yes, I had still been studying this whole time, very part-time though!) It was difficult, but I loved all the tax subjects. That might sound strange, but with everything you do in financial products, you have to consider the tax outcome for the investor. There are different legal structures and different ways of delivering an investment product, which means you need to have a good knowledge of the taxation of unit trusts, bare trusts, other trusts, companies, SMSFs (self-managed super funds) and tax as an individual. You also need to understand the various legal forms of assets exposures, such as debt, equity, hybrid, deferred purchase agreements, contracts and onshore or offshore instruments. To make sure you deliver the investor the best opportunity to have a good outcome from their investment you need to have a thorough knowledge in this, which is why I enjoyed it so much. Tax might sound dry, but when you apply that knowledge to improve investment outcomes, it's very interesting.

So with my Masters of Business Law and a Level 2 CAIA (Chartered Alternative Investment Analyst, another global accreditation) completed and my job no longer satisfying me intellectually, it was time to think of the next opportunity. An ex-client of mine and I had been discussing an interesting idea for a couple of years — it was time to make a move.

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Enter iPartners

That ex-client was Rob Nankivell. We'd been talking about potential opportunities in the marketplace and had come to share the view that the biggest opportunity was in alternative assets. We were seeing great trades that we wanted to invest in ourselves, but the barriers to doing so (access and not enough capital) meant we couldn't. But what if we started a business that solved these barriers and made it possible for individual investors to invest in alternatives?

Rob and I started having regular meetings, along with Norm King (a tech guy) and Chris Reade (a structurer guy who turned up not long after) to discuss how we could put this business in place. We knew the average investor struggled to get access to alternative assets, but thanks to our careers in the institutional world, Rob and I knew what the alternative asset opportunities were and how to find them, so we could be the bridge.

But there was one problem: these opportunities required much larger sums than an average investor has — often anywhere from $5 million to $100 million. How could we give the average investor access to these opportunities? We realised we needed to use the power of many to aggregate large amounts of capital and get a seat at the table with the big guys.

If someone wants to raise $50 million to grow their business, they don't care where the money comes from — they just want it. If they can pick up the phone, call Future Fund and say, 'I've got this great opportunity. You're going to make a heap of money out of it. We need a $50 million loan', and the Future Fund does its due diligence and goes ahead with

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the investment, that's much easier than calling 50 different people and asking each of them for a $1 million loan. It's one conversation rather than 50. This is why capital raisers always go to the lowest hanging fruit, which is the guys and girls with the deepest pockets. (I use 'capital raiser' as a catch-all term for companies or businesses looking for investment — anything from property developers to start-ups.)

And this is why we needed to find a way to have deep pockets, so that we would also start getting those calls. Our solution was to build a technology platform to aggregate average investors. (By the way, yes, our theory has proven correct: we receive those calls with the great opportunities now.)

So we had the idea. Next we needed to get to the nitty gritty job of building it. Our ambition for iPartners was a platform with 20 000 direct investors (we are nearly there at the time of writing this book), which meant we needed a technology platform that makes the business scalable and makes life easy for investors.

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We wanted to make buying alternative assets as easy as buying listed equities (shares), so that people would enjoy investing with us.

We decided to make the minimum investment amount per trade through our platform small enough for investors to build their own diversified portfolio. The minimum investment is $10 000, making it accessible for investors to dip their toes in the water.

The final thing we needed was to find and package interesting trades. We needed a competitive advantage in an area of alternative assets where there's not much competition, so we initially focused largely on doing non-property assets. (This choice in hindsight was a good one as we are now the market leader in this space.) Property assets are very commoditised and are becoming so prevalent that they are increasingly moving away from being alternatives. Coming from an investment banking background, we knew a lot about non-property opportunities, which gave us a point of differentiation from a product perspective (although if the risk-return equation looks good we still offer property assets as part of broader business — our first two trades were actually property ones). This, coupled with our uniqueness from a service perspective, meant we could give investors access to opportunities they couldn't get any other way.

It took us three months of meetings to get to this point of clarity. I had a conversation with my boss at UBS and he agreed on a strategy and exit plan for me. Then the rubber hit the road: Rob and I co-founded iPartners. We built a beta form of our tech platform with Norm King, got access to our first investment products through personal connections, hired lawyers to put the documents in place and wrap the products together, and started building our database of investors. When you launch a trade you want investors to know it's there, so a database is critical.

The starting point for our database was our networks of contacts in the finance industry. In my roles over the years I had built relationships with clients whose jobs it was to invest the firm's money. Many invested their own money as well,

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but as small, individual investors they'd never had access to alternative assets personally, so I contacted them to offer them the opportunity to do so. We were putting together trades that looked just like what they were investing in at an institutional level in their day job, but through us they could invest in them personally. Many jumped at the opportunity. So our initial investors were people we knew, and over time it grew from there.

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Our first trade

The first trade we found, packaged and offered to our database was a property equity transaction. We found the trade through our existing networks. It was an opportunity to participate in a residential land subdivision project alongside the developer by buying equity in the specific project, with expected double-digit return on capital for investors.

We'd just launched the business and our beta technology was ready to go. We had 20 investors on our platform who had all given us money for this trade and provided us with critical feedback about how they loved the tech solution and the investor experience. We were just about to settle, but at the final point, right before the development application had been approved, a rare frog (yep, this is private markets) was found in the dam on the land.

Going ahead with this transaction would have generated revenue, which would have been great to start off our business, but we decided it wasn't an appropriate risk for our investors. (For trades like this we don't typically charge our investors any fees; instead we generate revenue by charging the developer for our service of providing capital.) With the presence of this rare frog, the project was bound to become a drawn-out

process to obtain a final DA (development approval), with significant delays and cost blowouts. There would have been dam remediation and all sorts of complications, all of which would have reduced the returns. We didn't want to put our investors through that. We still had the option to walk away. Doing so was in the investors' best interest, so that's what we did, and we gave the investors their money back. We may have also saved a few frogs!

The investors loved it. They realised they could rely on us to represent their best interests above all else. We could have done the transaction and kept the revenue and it may or may not have been a good transaction, but by giving the money back we developed more credibility than if we'd done the trade. It built trust. Investors realised, 'These guys are real.'

This set the tone for how we run our business. We care a lot about relationships. We know our capital raisers need to get funding as low as possible, and our investors want a nice, risk-adjusted return. We've got to make both parties happy, because we want whatever asset we invest in to perform and be successful for our investors. We also need the capital raisers to make money, because that protects our investors.

Alternative assets and private markets are relationship-based businesses. Unless you build relationships and create win-win outcomes, you're going to struggle.

We don't behave like the big investment banks who say, 'We're the big guys. You do what we say.' We're in the real world with real humans and real businesses. When we're dealing with

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capital raisers and investors, we put ourselves in their shoes, think through their situation and deal with the relationship as required.

I think growing up in a small country town, flunking HSC, playing sport, working at the gym and only slowly making the path into banking has helped me understand people, because it has exposed me to a broader range of people. I count myself lucky because I have great friends — not just in banking, but in construction, media, engineering, smelter factories and on farms. It gives me access to a spectrum of skills, personalities and viewpoints, and a vision of the world that I'm really grateful for.

I also think it helps that I've experienced living on a tight budget. I believe that when you're running the money for investors, you need to know the value of money. When you've lived on a limited budget, you value a dollar. I value a dollar. I wasn't born into comfort or financial ease. So when I run other people's money, I'm more cautious about risking that dollar. This does not mean I don't take risks. It means I ensure I have a very good understanding of the risk-return balance, the downside and how we can get our money back. As I said, a lot of the investors who backed us in the early days of iPartners were friends and colleagues. I knew them all. And, being raised in a country town where you pretty much know everybody means I look at my investors as though they are all friends and colleagues. I want to protect their money. I feel personally responsible for it. When they are investing through iPartners I am typically also investing alongside them with my own capital. It's how we came up with the name actually: 'I partner with you'!

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Our second trade

The second trade Rob and I put together was a senior secured property loan.

What is a senior secured loan?

This type of loan is actually quite similar to a traditional home loan (mortgage). A senior secured loan means the lender is ranked first to get repaid and has an underlying asset as security. If the borrower defaults you've got first right to call on the security. (When you get a home loan, the bank holds a senior secured loan, with your house as security, meaning if you default, they get the house.)

It's also possible to provide a junior loan, but that means you're ranked second in the capital structure (meaning a higher probability of loss) if things go bad. And it's possible to provide an unsecured loan (with an even higher probability of loss), which ranks below the junior loan. This is when you literally have no security. I explain it all in more detail in chapter 6.

About 80 per cent of the credit trades we do today are senior secured investments as they are the position in the capital structure that have the highest probability of a positive outcome for investors. I also have to be very comfortable with the underlying asset, alignment with the borrower and legal documents that are in place to do otherwise. It's always a risk-return discussion.

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For this trade we provided a senior secured loan for a new property estate. The security was a massive piece of land where the developer was planning to build 43 houses. As the senior

secured lender, we initially had the raw land as security. Then, as construction took place, we also had all the improvements on the land. The investment was a good one. It had an 18-month maturity, paying investors north of 10 per cent per annum and their money returned in full.

What was exciting at this point was that we had now worked on a property equity and property debt trade. It has always been the business' ambition to offer investors a diversified pool of alternative assets. We were now on the path and starting to tick those boxes.

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Learn how to get the edge on investing with alternative assets

Are you seeking higher growth than what traditional investment options can offer? In *Grow Your Wealth Faster with Alternative Assets*, Travis Miller, one of Australia's leading alternative asset managers, delivers an eye-opening, jargon-free guide to the lucrative opportunities available in alternative investing. With just a few small changes to your investment strategy, you can reap major benefits and higher returns — *without* taking on more risk.

New financial technologies and investment platforms are making many high-yield alternative investments easily accessible to investors. Inside, you'll learn how to effectively diversify your portfolio with alternative assets like commercial property, infrastructure, private equity, private credit, agriculture, commodities, and more.

Discover:

- What to look for in an alternative asset
- How to assess risk and expected returns
- What traps and pitfalls to avoid
- Where to find stability and growth
- How to navigate fees, finances, and due diligence.

Grow Your Wealth Faster with Alternative Assets unpacks why alternative assets have taken off in the global market and shows how you can seize these new investment opportunities. You'll learn exactly how to build more wealth in less time by exploring this exciting new world of financial gains.

Travis Miller is co-founder and CEO of iPartners, a leading Australian alternative asset marketplace. He has over 20 years' experience in banking involving non-traditional business classes and is passionate about improving access to alternative asset investments.

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