



Building a Defensible Alternatives Program:

What RIAs Need to Have in Place

Buttonwood Due Diligence Services | ALTSeek™

For Independent RIAs | 60-Minute Session

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Today's Session

I The Gap: Having Alternatives vs. Running a Program

II The Governance Foundation

III The Due Diligence Infrastructure

IV Portfolio Integration

V The Regulatory Lens

VI Building the Program: A Roadmap

VII Closing, MAPS Overview & Q&A

ALTSeek and Buttonwood Due Diligence Services

WHO WE ARE

Operating under the **ALTSeek™** and **Buttonwood Due Diligence** brands, we provide a wide range of services to Independent RIAs, Hybrid RIAs, Independent Broker Dealers, Investment Sponsors, Family Offices and E&O Insurance carriers including:

- Managed alternatives governance program services
- Managed alternatives portfolio construction and monitoring services
- Investment and Operational Due Diligence
- Best practice and operational consulting
- Intelligence and Risk management services
- RIA education, training and certification services



ALTSeek
MAPS
MANAGED ALTERNATIVES PROGRAM SERVICES

The Gap Between Using Alternatives and Running an Alternatives Program

Having Alternatives vs. Running an Alternatives Program

HAVING ALTERNATIVES

- ⚠️ A set of investments you're comfortable with
- ⚠️ Relationships with managers you trust
- ⚠️ Informal evaluation based on experience
- ⚠️ Recommendations made on a case-by-case basis
- ⚠️ Works fine - until it doesn't

RUNNING A PROGRAM

- ✅ Documented governance framework & written policies
- ✅ Repeatable due diligence process with audit trail
- ✅ Approved list built on defined criteria
- ✅ Portfolio-level discipline across the client book
- ✅ Ongoing oversight - not just at point of sale

What "Defensible" Actually Means



To a Regulator

Your SEC examiner finds documented, consistent evidence your stated process is being followed



To a Client

When an investment disappoints, you have a clear record of what you knew and the process you followed



To Your E&O Carrier

A documented program signals disciplined risk management - and affects your coverage terms



To Yourself

Genuine confidence that every recommendation is supported by a sound, repeatable process

Two Structural Gaps at the Root of Most Problems



The Infrastructure Problem

- No written policies or procedures for alternatives
- Informal, inconsistent due diligence process
- Approved list without supporting documentation
- No defined governance or approval authority



The Portfolio Problem

- Alternatives treated as add-ons, not integrated holdings
- No allocation framework or concentration discipline
- Thin or missing suitability documentation
- No systematic ongoing monitoring across the client book

Both gaps must be closed. A complete program addresses the infrastructure AND the portfolio.

The Governance Foundation

What has to come first

The Alternatives Investment Policy Framework

A general IPS is not sufficient for a firm with meaningful alternatives exposure.



Eligible Structures

Which alternative investment types your firm will use, and the rationale for those boundaries



Concentration Limits

Maximum exposure at the individual investment, sponsor, and asset class levels



Liquidity Thresholds

What portion of a client's investable assets can be committed to illiquid structures



DD Requirements

The minimum due diligence steps that must be completed before an investment can be recommended








Approved List Criteria






The standards an investment must meet to be eligible for the approved list

The Approved List - What It Actually Is

NOT AN APPROVED LIST

-  Investments you happen to be comfortable with
-  A static collection with no documentation
-  Products your custodian has approved
-  A list built by one person's judgment alone
-  Something you build once and consult occasionally

A GOVERNED APPROVED LIST

-  Output of a documented evaluation against defined criteria
-  Explicitly approved by designated authority
-  Supported by a complete due diligence file
-  Maintained as a living governance document
-  Includes a record of declinations, not just approvals

Approved List Governance: Entries, Watch, and Exits

ENTRY



- Meets minimum evaluation criteria
- Full DD file complete
- Explicit approval documented
- Added to current approved list version

WATCH LIST



- Material change at sponsor/investment
- Distribution suspension or delay
- Regulatory action or adverse disclosure
- Performance divergence from expectations

EXIT



- Watch list review concludes standards not met
- Decision documented with full rationale
- New recommendations cease immediately
- Existing positions evaluated for client action

The Investment Committee Function

Do I need a formal investment committee?

Larger Firms (formal committee required)

Named members, charter, regular meeting cadence, voting procedures, written minutes. Expected by regulators if alternatives AUM is significant.

Smaller Firms / Sole Practitioners

Formal committee may not be practical - but the FUNCTION is still required. A structured review checklist + outside compliance sign-off can fulfill the governance role.

The Goal

Structured deliberation and a documented output - not a conference room full of people.

KEY RESPONSIBILITIES

- ✓ Approve additions to the approved list
- ✓ Conduct quarterly investment reviews
- ✓ Manage watch list and removal decisions
- ✓ Document decisions and voting record
- ✓ Ensure policy framework stays current

Roles, Responsibilities & Accountability

Someone must own the alternatives program. If no one owns it explicitly - no one owns it.



The Program Owner is responsible for: policy documents · approved list maintenance · due diligence file integrity · monitoring cadence · staying current on program investments

The Due Diligence Infrastructure

Building a repeatable, defensible evaluation process

The Difference Between a Review and a Process

A REVIEW



- Happens each time someone submits materials
- Depth and criteria vary by analyst and situation
- Documentation is inconsistent or incomplete
- Quality depends on who executes it
- Defensible only if the right person explains it

A PROCESS



- Defined sequence of steps applied consistently
- Same criteria applied to every investment
- Produces a complete, standardized documentation record
- Quality is consistent regardless of who executes it
- Self-explanatory - no one needs to be in the room to explain it

Five Dimensions of Alternative Investment Program Evaluation

Every alternative investment program your firm evaluates should be assessed across all five dimensions.

1



Sponsor Quality & Organizational Integrity

2



Investment Merit & Strategy Coherence

3



Operational Controls & Infrastructure

4



Capital Raise Viability & Distribution Integrity

5



Structural & Legal Risk

Dimension 1: Sponsor Quality & Organizational Integrity

DIMENSION 1
OF 5

Key Question

Who is running this program - and do they have the experience, track record, and depth to execute it?

What to Evaluate

Principal backgrounds & tenure · prior fund performance · regulatory & litigation history · key person risk

RED FLAGS

Shallow management teams · undisclosed regulatory history · excessive principal compensation structures · frequent management turnover

DATA SOURCES

SEC EDGAR · FINRA BrokerCheck · State regulator databases · Court records & public litigation search · News and business press

Sponsor quality is often the most predictive variable in alternative investment outcomes.

Dimension 2: Investment Merit & Strategy Coherence

DIMENSION 2
OF 5

Key Question

Is the investment thesis sound and specific - and is the strategy appropriate for the current market environment?

What to Evaluate

Strategy description vs. actual portfolio composition · return assumptions & basis · market positioning · competitive differentiation · downside scenario analysis

Watch for

Strategy drift · unrealistic return projections · overreliance on current market conditions · absence of downside analysis

Evaluating strategy quality is distinct from evaluating current performance. Strong recent returns do not validate a sound strategy thesis.

Dimension 3: Operational Controls & Infrastructure

DIMENSION 3
OF 5

Operational failures - not investment failures - drive the majority of the most consequential alternative investment collapses.

1 **Fund Administrator**
Is the administrator independent of the sponsor? Self-administration is a significant red flag.

2 **Auditor**
Who audits the fund? Have there been auditor changes or qualified opinions?

3 **Valuation**
How are assets valued, and is that process independent of sponsor influence?

4 **Custody**
Are investor assets held by an independent, regulated custodian?

5 **Technology & Reporting**
Does the operational infrastructure support accurate, timely reporting to investors?

Dimension 4: Capital Raise Viability & Distribution Integrity

DIMENSION 4
OF 5

WHAT TO EVALUATE

- Current AUM and capital raise trajectory
- Selling agreement structure and distributor relationships
- Compensation paid to selling agents and platforms
- Placement agent disclosures and conflicts
- Dependence on any single distribution channel

RED FLAGS

Excessive distribution compensation · dependence on single dealer · declining raise without explanation · undisclosed selling arrangements

THE REG BI CONNECTION

Elevated distribution compensation creates a conflict of interest that must be understood, managed, and documented as part of your Reg BI analysis for every affected recommendation.

Dimension 5: Structural & Legal Risk

DIMENSION 5
OF 5

PPM Quality



Is the offering document complete, accurate, and internally consistent?

Fee Structures



Are management fees, carried interest, and waterfall provisions appropriate and clearly defined?

Liquidity Terms



Do redemption and liquidity provisions match what's represented in marketing materials?

Investor Rights



Are investor protections adequate? Watch for overly broad sponsor indemnification provisions.

Offering Integrity



Are there material omissions? Do investment guidelines give the sponsor excessive discretion?

The Due Diligence Documentation Record

Every investment that goes through your process must produce a complete documentation record.

EVERY FILE MUST INCLUDE

- ✓ All materials reviewed: PPM, subscription docs, investor presentation, audited financials
- ✓ Analysis performed across all five evaluation dimensions
- ✓ Public records checked and findings documented
- ✓ Questions asked of sponsor and responses received
- ✓ Approval or declination decision with written rationale
- ✓ Approval authorization: who approved it and when

Document Declines Too

A declined investment should be documented as thoroughly as an approval. It demonstrates your process is functioning - that criteria are actually being applied.

Retention Standard

Maintain due diligence records as long as the investment is held, plus a reasonable tail period. SEC books-and-records standard: 5 years from preparation.

Practical Considerations for Resource-Constrained Firms

Structured due diligence doesn't require an institutional research team. It requires a consistent methodology.



Start with Public Sources

SEC EDGAR, FINRA BrokerCheck, state regulators, court records, news. A structured public-source review delivers meaningful signal before you engage the sponsor at all.



The Rapid Desk Review

A structured 2–6 hour initial screen using only public sources. If the investment clears it, advance to full DD. If it doesn't, you've saved significant time and documented a declination.



When to Seek Outside Help

If your firm cannot execute thorough, consistent due diligence internally, either narrow the universe to what you can properly evaluate - or partner with a third-party resource to extend your capacity.





Portfolio Integration

The second half of the program

Why Due Diligence Alone Is Not Enough

Approving an investment doesn't make it appropriate for every client, at every size, at every point in time.

WHAT THE PORTFOLIO PROBLEM LOOKS LIKE IN PRACTICE

-  Clients in alternatives at concentrations that don't reflect their liquidity needs
-  Multiple clients with the same sponsor across 4–5 programs - sponsor concentration no one tracked
-  Clients in illiquid commitments without the financial runway to sustain them through stress
-  Client-level suitability documentation that is thin, inconsistent, or missing

A complete program requires both the infrastructure AND the portfolio discipline. A firm with excellent DD but poor portfolio integration still has a problem.

Model Construction & Allocation Discipline

Allocation Framework



- Target allocations to alternatives by client risk profile / model tier
- Ranges that allow flexibility around the target
- Documented rationale for each tier's target level

Concentration Limits



- Single investment maximum (e.g., no more than X% of alternatives in one investment)
- Sponsor concentration limit (exposure to any one sponsor across multiple programs)
- Asset class concentration (e.g., cap on non-traded REIT exposure)

Client-Level Documentation



- Why this investment for this client - not a generic rationale
- Connection to stated objectives, risk tolerance, liquidity needs, time horizon
- Features of the investment and why they're appropriate for this client specifically

Regulation Best Interest & Alternative Investments

Reg BI creates a documentation obligation most advisors underestimate.

Understanding the Investment

1

Document that you understood the specific features and risks of the investment you recommended

Cost Analysis

2

Document that you considered all costs - fees, loads, firm compensation - and found the recommendation remained in the client's best interest

Alternatives Considered

3

Address reasonably available alternatives and explain why this investment was selected over them

Client-Specific Fit

4

Document financial resources, risk tolerance, liquidity needs, and investment timeline - and connect them to this specific recommendation

"Client expressed interest in income-generating alternatives" is NOT sufficient documentation. The record must reflect a genuine, client-specific analysis.

Ongoing Monitoring at the Portfolio Level

The obligation to monitor doesn't end at the point of recommendation. It's continuous.

Investment-Level Triggers



- Distribution suspension or reduction
- Management change or key person departure
- Adverse regulatory action or litigation
- Material deviation from stated strategy

Client-Level Triggers



- Change in client risk tolerance
- Material change in client liquidity needs
- Change in investment objectives or time horizon
- Significant change in overall financial situation

Calendar-Based Reviews



- Quarterly: full approved list review
- Annual: client-level alternatives position review
- Semi-annual: sponsor watch list assessment
- On demand: triggered by material events

The Regulatory Lens

What examiners actually look for

How SEC Examiners Approach Alternative Investments

When alternatives are present in your practice, examiners arrive with a specific list of requests.

1

Written Policies & Procedures

Your documented process for evaluating, approving, and monitoring alternative investments

2

Approved List + Supporting Files

The list itself, plus the due diligence documentation behind every investment on it

3

Client Sample Files

Complete files for clients with alternatives holdings - including suitability documentation and disclosure records

4

Ongoing Monitoring Evidence

Watch list records, investment committee minutes, periodic review documentation

5

Compliance Testing Records

Evidence that stated policies are actually being tested and followed, not just written

What they expect to find: documented, consistent evidence that your stated process is actually being followed.

Five Common Deficiencies Found in RIA Examinations

1

No Written DD Process

An informal process everyone follows - but it was never documented. From an examiner's perspective, if it isn't written down, it doesn't exist.

2

Unsupported Approved List

The list exists but there's no due diligence file behind it to explain how each investment was evaluated and why it was approved.

3

Inconsistent Application

Policies describe a structured process, but files show some investments received thorough analysis while others received cursory treatment.

4

Missing Suitability Docs

Client files for alternatives holdings don't contain adequate documentation to support the recommendation for that specific client.

5

No Monitoring Record

Initial DD is documented - but no record of any subsequent review activity exists. The monitoring obligation doesn't end at recommendation.

The E&O Insurance Dimension

E&O underwriters are paying significantly more attention to alternatives exposure than they were three to four years ago.

WHAT UNDERWRITERS EVALUATE

- Percentage of AUM in alternative investments
- Types of alternatives used and their complexity profile
- Existence of written policies and procedures
- History of client complaints or claims related to alternatives
- Documentation quality and process maturity

WITH A DOCUMENTED PROGRAM

Demonstrates disciplined risk management · Can improve coverage terms · Strengthens position if a claim is filed

WITHOUT A DOCUMENTED PROGRAM

Undocumented alternatives practice signals undisciplined risk · Absence of documentation amplifies claim exposure · Fewer options in underwriting conversation

Building the Program

A practical roadmap

Assessing Where You Are Today

An honest self-assessment across four dimensions - before you can close gaps, you have to see them clearly.

GOVERNANCE

- Do you have written policies and procedures for your alternatives program?
- Is there a designated owner of the alternatives program at your firm?
- Is your investment review function formally structured?

DUE DILIGENCE

- Do you have a defined, repeatable evaluation process?
- Is the process applied consistently to all investments?
- Are evaluation records complete and accessible?

PORTFOLIO INTEGRATION

- Do you have an allocation framework governing alternatives sizing?
- Are concentration limits defined and monitored?
- Is suitability documentation for existing holdings adequate?

DOCUMENTATION

- Is your DD record complete for all approved investments?
- Is client-level suitability documentation current?
- Is there a record of ongoing monitoring activity?

Build vs. Partner - The Honest Tradeoff

BUILDING INTERNALLY

ADVANTAGES

- ✓ Full control over methodology
- ✓ No third-party dependency
- ✓ Potentially lower ongoing cost at scale

CONSIDERATIONS

- Significant upfront time investment to build
- Requires sustained expertise across alt categories
- Ongoing maintenance burden alongside full advisory practice
- Consistency difficult to sustain without dedicated staff

THIRD-PARTY PARTNERSHIP

ADVANTAGES

- ✓ Methodology, process, and infrastructure provided
- ✓ Developed by specialists, maintained continuously
- ✓ Scales without adding internal headcount
- ✓ Firm retains relationships and fiduciary responsibility

CONSIDERATIONS

- Ongoing cost
- Need to vet partner's methodology and transparency
- Requires integration into your advisory workflow

The Program Maturity Arc

Most independent RIAs are somewhere on this spectrum. The goal is to move intentionally toward the right.

INFORMAL



- Ad hoc evaluations
- No written policies
- List = investments you use
- Uneven documentation
- Works - until it doesn't

DEVELOPING



- Policies being documented
- Process codified but inconsistent
- Approved list becoming governed
- Portfolio discipline improving
- Gaps remain but trajectory is right

MATURE



- Written policies in place and current
- Repeatable DD process, consistent records
- Governed approved list, fully documented
- Systematic portfolio oversight
- Genuine confidence in program integrity

← *Most independent RIAs start here*

This is the destination →

Wrapping Up

The business case - MAPS - Q&A

The Business Case - Beyond Compliance

A defensible alternatives program is not just a compliance asset. It's a competitive one.



Win and Retain UHNW Clients

"We have institutional-quality alternatives infrastructure" is a direct, demonstrable answer to the most common objection an independent RIA faces against wirehouses and MFOs.



Build Client Confidence

When a client asks how you're monitoring their alternatives, a documented quarterly review process is a fundamentally different answer than "I keep track of these things."



Increase Practice Value

A documented alternatives program demonstrates the practice isn't dependent on one person's judgment. That's a materially different story in any acquisition or affiliation conversation.

So What Now?

Next Steps

1

Complete the ALTSeek RIA Self Assessment

Contact Buttonwood for access to the self assessment tool

2

Schedule a conversation

If you'd like to learn more about how to build a defensible Alternatives program at your firm, let's chat - **contact info below**

3

Join us at our next Forum event

RIA-focused, small group discussions with sponsors, investment evaluation workshops, CE credit – Aug 2026 - Torrey Pines, CA

For more information or to schedule a free assessment, contact:

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ALTSeek
MAPS

MANAGED ALTERNATIVES PROGRAM SERVICES

AMS - Alts Management System

Addresses the infrastructure gap:

- Governance framework & written policies
- Sourcing, screening & due diligence process
- Approved list construction & maintenance
- Documentation standards & compliance records

PMS - Portfolio Management System

Addresses the portfolio gap:

- Allocation framework & concentration discipline
- Model portfolio construction & monitoring
- Client-level suitability documentation
- Ongoing oversight & performance tracking



Questions?

*Please submit your questions in the chat.
We'll work through as many as time allows.*



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