

What Lies Beneath the Balance Sheet

Your Clients Are Already Exposed to Illiquidity -
They Just Don't Know It

Stephen Johnston

Director
sjohnston@omnigenceam.com

Matt Barr

Director
mbarr@omnigenceam.com

Barclay Laughland

Director
blaughland@omnigenceam.com

Kerri Furlong

Director
kfurlong@omnigenceam.com

Your Clients Are Already Illiquid

They Just Don't Know It

The most common objection to alternatives is "I don't want my money locked up." But most clients already have the majority of their net worth in assets they can't sell by Friday.

When a client says they want liquidity, what they usually mean is they want the option to access capital quickly if needed. That's a reasonable preference. But it's worth showing them what their balance sheet actually looks like - because the illiquidity is already there, unmanaged and uncompensated.

THE HIDDEN ILLIQUIDITY IN A TYPICAL HNW BALANCE SHEET

Asset	Value	% of Net Worth	Liquidation Horizon	Illiquidity Compensation?
Primary Residence	\$1.5M	30%	3-6 months	No
DB/DC Pension	\$800K	16%	Decades	No
Private Business Equity	\$700K	14%	6-24 months	No
Cottage / Vacation Property	\$500K	10%	3-12 months	No
Advisory Portfolio (liquid)	\$1.5M	30%	1-5 days	N/A
TOTAL NET WORTH	\$5.0M	100%		

Source: Omnigence Asset Management. Illustrative example of a typical Canadian HNW household.

70% of this client's net worth is already illiquid - none of it is earning an illiquidity premium.

THE REFRAME: COMPENSATED VS. UNCOMPENSATED ILLIQUIDITY

The conversation shouldn't be "liquid vs. illiquid." It should be "illiquid for free vs. illiquid for a premium." Home equity locks up capital for months with 5-6% transaction costs and zero yield. A pension locks up capital for decades with no control over timing or allocation. A business ties up capital indefinitely with concentrated, idiosyncratic risk.

Farmland locks up capital too - but with near-zero correlation to equities and demonstrated inflation hedging.

Private equity in the lower middle market is illiquid by design - but generates operational alpha and monthly distributions that a home or pension do not.

Shifting 15-25% of the advisory portfolio into compensated illiquid assets doesn't increase the client's total illiquidity exposure - it improves the quality of the illiquidity they already carry. The risk isn't adding a lock-up. The risk is leaving 70% of net worth locked up for nothing.

Your clients don't have a liquidity problem. They have an uncompensated illiquidity problem.



Toronto Office:
TD Canada Trust Tower, 161 Bay St.
27th Floor, P.O. Box 508
Toronto, ON, M5J 2S1

Calgary Office:
Suite 300, 4954 Richard Road SW
Calgary, AB, T3E 6L1

Montreal Office:
3 Place Ville Marie, Suite 3190
Montreal, QC H3B 2E3
www.omnigenceam.com

DISCLAIMER

Our reports, including this paper, express our opinions which have been based, in part, upon generally available public information and research as well as upon inferences and deductions made through our due diligence, research and analytical process. The information contained in this paper includes information from, or data derived from, public third-party sources including industry publications, reports and research papers. Although this third-party information and data is believed to be reliable, neither Omnigence Asset Management nor its agents (collectively "Omnigence") have independently verified the accuracy, currency or completeness of any of the information and data contained in this paper which is derived from such third party sources and, therefore, there is no assurance or guarantee as to the accuracy or completeness of such included information and data. Omnigence and its agents hereby disclaim any liability whatsoever in respect of any third-party information or data, and the results derived from our utilization of that data in our analysis. While we have a good-faith belief in the accuracy of what we write, all such information is presented "as is," without warranty of any kind, whether express or implied. The use made of the information and conclusions set forth in this paper is solely at the risk of the user of this information. This paper is intended only as general information presented for the convenience of the reader and should not in any way be construed as investment or other advice whatsoever. Omnigence is not registered as an investment dealer or advisor in any jurisdiction and this report does not represent investment advice of any kind. The reader should seek the advice of relevant professionals (including a registered investment professional) before making any investment decisions. The opinions and views expressed in this paper are subject to change or modification without notice, and Omnigence does not undertake to update or supplement this or any other of its reports or papers as a result of a change in opinion stated herein or otherwise.