



EPISODE TRANSCRIPT

Independent Again: The Founding Partners of \$18B+ IEQ Capital on Growth, Culture, and the Luminous Leap

A conversation with Alan Zafran and Eric Harrison, Co-Chief Executive Officers and Founding Partners of IEQ Capital.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Independent Again: The Founding Partners of \$18 Billion Plus IEQ Capital on Growth, Culture, and the Luminous Leap. It's a conversation with Alan Zafran and Eric Harrison, co-chief executive officers and founding partners of IEQ Capital. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

This podcast is available on our website, diamond-consultants.com, as well as Apple Podcasts and other major podcast platforms. If you are not already a subscriber and want to be notified of new show releases, please subscribe right on your favorite podcast platform or on the episode page on our website. For Apple Podcasts users, I'd be grateful if you'd give the show a review. Your input helps us to make the series better and alerts other advisors like you who may find the content to be relevant. While you're at it, if you know others who are considering change or simply looking to learn more about the industry landscape, please feel free to share this episode or the series widely.

It was May of 2008 when one of the biggest breakaways stories to hit the street emerged. A team of top Merrill advisors with some \$2 billion in assets left the wirehouse to launch RIA Luminous Capital. This team of wealth management A-listers included Mark Sear and David Hou, whom I had the privilege of interviewing on this series a few years back, and Robert Skinner, and Alan Zafran. It was a leap that would galvanize the independent space, attracting the attention of wirehouse advisors throughout the industry, peaking their curiosity and demonstrating that there was indeed life outside the big brokerage firms.

Then, history was made in 2012 when the \$5.5 billion Luminous sold to what was then First Republic Bank for an astounding \$125 million. Yet, the story didn't end there. It was 2019 when there would be another entry in the wealth management industry record books. After growing the business to some \$17 billion, the team would leave the bank forming two separate independent firms with Mark and David launching Evoke Capital, and Robert and Alan at the helm of the newly founded IEQ Capital. Eric Harrison, a former private equity firm leader and First Republic veteran who began working with Luminous Partners in 2013, would join them, and together, the three would serve as founding partners and co-CEOs of IEQ. It's an astounding growth story for IEQ which started with some \$8 billion in assets at inception and as of this recording, is managing in the vicinity of \$18 billion.

In this episode, Mindy Diamond welcomes Alan and Eric, two of the three co-CEOs of IEQ, to share their incredible journey. They discuss what life was like making the leap to independence in 2008 at a time when few would consider it. They share their unique perspective on their subsequent sale to First Republic and later departure. The two-time breakaways offer a deep dive into building a business the right way from the start, growing an independent firm the importance of culture, creating an enduring enterprise, and much more. There's lots to discuss, so let's get to it.

Louis Diamond:

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Alan and Eric, thank you so much for joining us today.

Alan Zafran:

Thank you, Louis. It's great to be here.

Louis Diamond:

Very good. Let's jump in. Let's start off with Alan here. Can you walk us through your background and how you became an advisor in the first place? Then, we'll kick it over to Eric.

Alan Zafran:

Sure, Louis. I have two families. I have a family where I'm married with four kids, ages 26, 24, 22, and 20. My other family is what's now IEQ Capital, but it's really 32 years of being in the wealth management business, and I really, really fell into it. What happened was I was in college, and I didn't know what to do with a career in the... I decided I was going to New York and thought, "What the heck? I'll try it, too." Everyone was doing investment banking, and I got sucked in at age 21 to being one of those individuals that was working for over a hundred hours a week as an investment banking associate.

I greatly disliked it, but whenever I had a break, I really liked the fact that you saw the sales traders were having a great time on the trading floor, and they're getting up by 4:00 in the afternoon, East Coast time, and they were reading all about investing. I got fascinated with investing, and I said, "I'm on the wrong side of the business." So I went to business school, and I had a business course. I was fortunate to get a job offer from Goldman Sachs in their private client group in Los Angeles, California, which is where I'm from. So that launched my career into wealth management completely inadvertently, and I haven't looked back. I've been very fortunate to be in what has proven to be a personally and professionally rewarding career.

Louis Diamond:

There you go. Hopefully better return on your time too in wealth management versus the hundred-hour grind of investment banking.

Alan Zafran:

Exactly.

Louis Diamond:

How about you, Eric?

Eric Harrison:

Well, I have a different story, a different background. I grew up in Golden, Colorado, home of Coors Beer, and went to a high school where about 80% of the school went to the factory and 20% went to



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college. So, it was a pretty humble beginning, and I didn't have a clue what I wanted to do. After wandering around in the wilderness for a while, I ended up spending a couple years at Hewlett Packard, and they shaped my investing desires. I went back to business school at UCLA, and then got into venture capital, spent about nine years there. Ultimately, a partner over at Crosspoint, one of the great firms that all the folks retired in the top of the cycle at end of '99, and then co-founded a private equity firm by the name of GI Partners, and was one of the senior partners there.

That's been a very good run. It has probably \$40 billion under management now. I stayed the first eight and a half years or so, and then was lucky enough to get invited into the former company that we had, Luminous Capital, and I was a client of Alan and team, and I was invited to come in and help start the alts business and be the CEO of that enterprise. That was the beginning of my wealth management experience, and it's been a wonderful career. Interestingly, I liked it better than either venture or private equity. It's very fast moving, and it's just been a joy to work in the field, and then with Alan and our partners, just Rob and... Just a great group.

Louis Diamond:

Yeah, it's very interesting. Also, it's fascinating to be able to combine your skillset from the private equity and venture world, and bring that discipline into Luminous, and then First Republic, and then IEQ. Why don't we talk about the move from... well, directed towards Alan, the move from Goldman to Merrill, at the time, Merrill P-Bank, their ultra-high net worth business in 1997? So can you talk a little bit about the motives behind the GSML move and why your team made it?

Alan Zafran:

Yeah. It's quite a long time ago. I started at Goldman Sachs in 1990 and was there for seven years. There were really two primary factors that led us to ultimately leave Goldman Sachs and move to Merrill Lynch. One was a little bit more self-centered in that myself and my partners were part of the youngest cohort in a team full of much older advisors, and the environment there didn't feel very collaborative. It felt like you were competing amongst one another, amongst all the advisors, and it's not always a really welcoming environment when you feel like your competition is sitting five feet from you.

That was a bit unsettling, but the greater driver frankly was, as we were there for a while, myself and several of my partners, my teammates felt that we weren't necessarily as client-centric as we should have been. Back in 1997, we thought it was revolutionary that we could go to Merrill Lynch where there was an array of outside money managers from a variety of prominent buy-side firms, and we thought it was demonstrably better than sitting with offering solely from one firm. So that was the great motivation, a combination of trying to find a more collaborative environment coupled with trying to find a better platform for which clients could invest.

Louis Diamond:



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Yeah. That makes sense, and it's common, I think, for many wirehouse teams. That's where you became with Merrill to feel like that the platform is good enough. You certainly do have open-architecture to an extent, but I think we'll spend a lot of time talking about, this interview, is say more of the true open-architecture that you're able to access in the RIA channel. That's perhaps a good segue to the next question also for Alan talking about the motivations behind launching Luminous Capital, really, right during the financial crisis times out of Merrill Private Wealth. So what happened at the time that motivated you to consider launching the RIA?

Alan Zafran:

There are a number of factors to leading us to leave Merrill Lynch in 2008 and create an independent RIA known as Luminous Capital. If you get down to it again, we're going to start with, first and foremost, albeit Merrill Lynch might have been a superior or wider array of investment alternatives than what Goldman Sachs had offered, as we learned more and more about the investment industry, we recognized we still had limitations with respect to the offerings we could afford to our clients.

Where it became very pronounced are examples where either we wanted to use a superior-performing mutual fund to one that was accepted on the Merrill Lynch platform, and Merrill Lynch would not allow us to do so. I joke it took me 18 years out of business school to become an entrepreneur and realize that a great motivational tool for myself and my colleagues and partners was actually equity ownership. It's one thing to be a paid employee and being distracted by a variety of larger corporate objectives tied to lending, tied to doing canned RoTE financial plans that, frankly, weren't bespoke and customized.

Probably, the last driving factor was my partners and I at the time finally felt that the technology tools and systems that would enable us to be able to run a business effectively, to have databases back then, to be able to provide performance reporting in a transparent and easy-to-understand fashion, we finally felt it was there, and those were, really, the driving factors behind ultimately leaving Merrill Lynch and trying to become, really, an entrepreneur/business owner, which now I look at today and realize it was a fabulous decision, but it was really driven by a lack of contentment with what the larger firms were offering our clients.

Louis Diamond:

I hear you there, and what did the business look like when you transitioned?

Alan Zafran:

Well, when we left Merrill Lynch in 2008, we were managing a little less than \$2 billion in assets under management for probably something on the order of a couple hundred families, perhaps a little less than that. What we learned very quickly is being entrepreneurs resonated with high-net-worth families. They actually love the fact that we are taking calculated business risks and we could really relate with the risks they took in their own respective careers. Conversely, they really appreciated the fact that



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we're business-builders as well as truly being focused on one business taking care of the client. What was really demonstrable was it accelerated our business growth meaningfully. So what we started with was a little less than \$2 billion, grew in four and a half years to just under \$6 billion.

Louis Diamond:

Yeah. You had an incredible business at that time, and your transition predated my time in the industry personally, but I remember coming into learning about the breakaway segment, and Luminous was the case study for how a sophisticated wirehouse team could launch an RIA and give up a lot by leaving deferred compensation, all the support, et cetera, and really become an RIA before you had all these really compelling firms leaving and breaking away. So you were the trendsetters for the breakaway space. So, certainly, a lot of press about that. Anyone wants to take a look. But then, I think what brought Luminous back into the forefront of everyone's memories was the fact that you ended up selling to First Republic for a very large multiple.

Before that, I think another thing that struck me about your move to launch Luminous was you did it at a time before there were platform providers. It was before Dynasty was launched, before Sanctuary, before Live Oak Bank, before, really, the custodians were doing what they're doing now. So you really went at it alone without a lot of the ecosystem that was developed today. So can you talk a little bit about what it was like launching into the Great Unknown, just doing it yourselves, and what motivated you to take that extremely entrepreneurial approach?

Eric Harrison:

Alan, you should take that question as well. I joined about three or four months after you all got started, so you have all the lore of the pre-founding of Luminous.

Alan Zafran:

Louis, I don't think, actually, your listeners might appreciate just how incredibly difficult it was to launch Luminous Capital in 2008. California Labor Law said we cannot work in another business while we were employed with Merrill Lynch, and so that relegated us to doing all sorts of planning for the business prior to literally 6:00 AM Pacific time during weekdays or after 4:00 PM Pacific time on weekdays and weekends. So I can tell you we had countless conference calls with potential custodians, with potential research providers or potential software providers, with real estate agents at early morning hours or late in the evenings while still doing our day job. It took, I'm not exaggerating, 18 months from the time that we concluded we wanted to leave Merrill Lynch to the time that we actually launched Luminous Capital.

I think that's because we built the firm thoughtfully and carefully, and we were exceptionally concerned that we didn't want to do anything that broke acceptable labor laws, and we wanted to ensure that we got all the pieces in place before we launched into an independent firm. I think that's critical to

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understand, how incredibly challenging it is, all the aspects of running a business. If you're going to do it right, it takes methodical thought and a lot of attention to detail in a very careful way. So I would say we worked really hard to put it together, and I think that had to do with why we also had such a successful launch, that we had anticipated potential client concerns.

Imagine, in 2008, you're telling your client, "You've been at Goldman Sachs and Merrill Lynch with me for 10, 15, 18 years, and I want you to take a risk on me. I'm going to launch this company called Luminous Capital. You've never heard of it before. It doesn't have a trillion or \$2 trillion of assets. We might have a couple billion," and trying to get clients comfortable to bet on you, you had to be prepared to leave. So, as one example, we created the "Why?" document, "W-H-Y-?" What we did is we wrote up in summary paragraphs roughly 10 or 12 questions that we anticipated clients would ask, and we already had those questions answered so that we were trying to set the table and the agenda to explain what was transpiring, what motivated us, what potential risks were entailed, but most importantly, what were the benefits for clients of going to an independent objective fiduciary as opposed to working in a suitability standard at a broker/dealer where there are a lot of conflicts of interest entailed in serving their interests. I think that "Why?" document coupled with our thoughtfulness around the move led a lot to our ability to be successful right out of the box.

Louis Diamond:

I think that's amazing advice. We recommend that any advisor, even if they're going from what someone would say is more of a lateral move, from UBS to Morgan Stanley, that they do something similar as well and projecting what's in it for the client. There's a lot that's in it for a team to consider a move, but it's a little bit less obvious for the client. So being really clear and concise with that is, I think, very smart and just helps to really confirm your thinking.

Alan Zafran:

Louis, I'd say what's nice about it is it's got two benefits. On the one hand, you're clearly putting yourself in your client's shoes, and you're being empathetic, and it really forces you to think through what does the client care about. On the other hand, it also forces you as a businessman or woman to think through critically what are the tools, and services, and products, and platforms that you need to really serve your client as a fiduciary. So that exercise works well because it forces you to think through how you're going to be best in class as a fiduciary for your client.

Louis Diamond:

Mm-hmm, and let me ask you, Alan. Just thinking back, and you might not even remember because a long time ago, who was your North Star, or who was your role model or your... Who sparked the idea of going into the RIA channel at that time because you had far fewer, we'll say, role models or idols to look up to than you might today? Certainly, a lot of folks will look at the Luminous launch as that, but then



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who did you look at and say, "You know what? We can do this, and there is a better way because we're seeing X, Y, Z is doing this already?"

Alan Zafran:

Well, first of all, I like the fact you keep referring to me as long time ago. I must be father time here, 32 years in the industry, but it's a combination of a few role models. What I can say is a lot of alumni from Goldman Sachs, if you look over time, have actually rolled out into interesting career paths in the financial services industry and other sectors. So there were a few individuals who had given me some inspiration from their own entrepreneurial steps, but probably, amongst the most influential people, it was probably my father. My father thought I'd rather be a doctor, or a lawyer, or an engineer. He's an engineer and didn't really think that much about financial advisory, but got very excited when he said, "You can actually take the boat on its own journey, and you can lead it where you want with leadership, and teaching others, and being a mentor." He got me very excited about having the courage to take the next step, and so I'd actually say, oddly enough, my father was probably my largest motivational North Star to go over the hump and get to the independent RIA side.

Louis Diamond:

I love it. That's a very good answer. I was thinking like Warren Buffett or someone like that, but your father is the first role model you have, so may as well lean on that.

Alan Zafran:

Thanks, Dad.

Louis Diamond:

Hopefully, you got to share in the later rewards. Again, another good bridge to the next question. So, like I mentioned before, many folks have heard of the rockstar stature of Luminous because of the acquisition. At the time of sale, it was really the first acquisition, first major external hire or transaction that First Republic Investment Management completed. It put it on the radar from a sleepy bank brokerage to the heights that it was before its most recent demise, but it was most importantly proof of concept that a major breakaway team could go roll up their sleeves, do the hard work of building an RIA, but still reap the financial rewards on the other end. So, in other words, how to reconcile not taking a big deal from a Morgan Stanley or a UBS and instead, betting on yourself and building something really special that had enterprise value. So, in 2012, end of 2012, at the time, \$5.9 billion AUM, Luminous sold to First Republic for reported \$125 million. So you don't have to confirm the details of the transaction, but can you talk about the why behind the transaction? Maybe let's start with Eric since you've been quiet for a little while here. This was definitely when you were part of the business. So talking about the why behind the Luminous sale to First Republic, then Alan, if you have anything to add to take the mic from him.



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Eric Harrison:

Louis, it's a very interesting question. We struggled with it. I'll be honest. As the business was progressing, it was doing very well, and it's never obvious when to "sell." We were young people. We weren't ready to retire. There were plenty of benefits of being independent, but we started having conversations about, "Is there a point where you're too big to be able to sell to a financial partner other than one of the major banks?" and we preferred not to go back to one of the major banks because the business models were just different. We didn't want to go right back into the belly of the beast, so to speak.

First Republic presented a very interesting alternative, a hybrid. They were a bank, but they had a nation wealth management presence at the time, and they had never done alternative investments. So the fit was pretty specific. It was that we could move over, and actually launch their alternative investment business, and be roughly 20% of their entire wealth management practice. That meant that we were effectively left alone for the first five years. During those five years, it actually didn't feel tremendously different than being independent. We were given quite a lot of autonomy, and it was a terrific place to be until the bank started bringing in many other teams. It just rapidly changed as it went from, call it, \$20 billion in wealth management to \$200 billion in wealth management, which happened over a, I don't know, five-year period of time.

Alan Zafran:

Louis, yes. Why the transaction? I think there's a couple. There's three other factors. As a practical matter, whereas coming from Goldman Sachs and Merrill Lynch, my partners and I had a very investment-centric focus on the clients. We really lacked elegant solutions with respect to banking, lending, and trust services. So we recognized all things equally probably needed a better mechanism to enable our families to access efficient banking, lending, trust services. Ultimately though, the why came down to, "Could we find a cultural fit?" I can't emphasize this enough for anyone listening. No matter what you do or where you go, if you don't like the people beside you, and you don't enjoy the environment you're in, and you don't think you're working in the same context, then it's a difficult place to be.

What was really fabulous about First Republic, they really were all about the client, and one of the funniest things I remember is as we were entertaining working with them, we had a meeting, and there were four of us in the room, and there were six of them on the other side of the table. They continued to ask questions of us, and we kept pushing back saying, "We don't know. We'll have to get back to you. We're not sure how the clients would think about it." We walked out of that meeting with First Republic thinking, "There's no way they'll get a deal with us because every question they asked, we pushed back and refused to answer."



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What we learned in subsequent conversations with the management of First Republic, they absolutely loved the fact that we were pushing back, trying to figure out what they were proposing would fit with clients, and they knew therefore we'd be a good cultural fit. I think that was what largely led to our ability to actually be lucky enough to be acquired by First Republic Bank, which was a fabulous client-centric environment. That's why we flourished there because we both saw the world the same way. We didn't trust any lending services, but we had a culture that really was all about the client, and that made a world of difference for the better.

Louis Diamond:

Yeah. Did you and the partners have any fear of selling to a bank? You worked for major banks, and banks have a certain connotation, especially in the context of mergers and acquisitions. So did you have any consternation or heartburn about selling to a bank?

Eric Harrison:

There was consternation. One of our partners, I don't know that we need to point out which one, actually voted no. I think the thinking was that he had spent over a decade at a bank and knew that no matter how different First Republic might be as a bank, it was still a bank. It would be subject to a lot of corporate policies that might not be the way that our team would want to manage money. I think it was a fairly challenging set of discussions to get to yes.

The other thing that we probably undervalued at the time that we sold was how much fun it is to be an entrepreneur, to be an owner, to be able to actually hire a team without permission of your boss, and expand services, and invest in technology. All the things that you would do if you actually owned your own business, you really can't do once you're part of any bank. First Republic is as good a bank as there is on the planet, but the fact is that we were owned. Once you're owned, you were subject to all kinds of budgetary and policy constraints, and it becomes, really, a different environment for your soul, your psyche, and I would argue, eventually, for the clients. They lost investment opportunity over time.

Louis Diamond:

Folks are familiar with your story yet again because in 2019, the team once known as Luminous Capital made two simultaneous moves by launching IEQ Capital, and then your once partners, Mark and David, launched Evoke Wealth. We had Mark and David on the show a couple years ago. Curious though to hear, what motivated you all to leave First Republic? I think you've hinted at some of this, but maybe Eric, if there's anything to elaborate on.

Eric Harrison:

The most specific thing, and it was done very open-kimono with respect to our bosses. There was a fundamental tipping point when First Republic became a large bank. At that point, they brought in...



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There was a moment where they had to take a pause and hire, literally, 200 outside compliance officers that cleared a whole floor in San Francisco, made it available solely for new compliance folks, and they brought in a chief compliance officer that was a good person just following the rules, but one of those rules is the Bank Act, and it says, "Each client has access to every investment opportunity offered by the bank if they're qualified."

So, again, we do all qualified purchaser alternative investments. Yet, we were about 90%, 95% of the capacity of each one of these funds, and the bank basically said, "We can't do that. We got to open that up to everybody else in the bank." Yet, we were doing all the work to source these investments, diligence them, negotiate the fund terms, negotiate fee breaks, and we were going to be getting a far less sizable portion of the allocation, and that's the straw that broke the camel's back. So that was literally the moment when it just made sense to think about the next chapter.

Alan Zafran:

Louis, I just want to add. I think to some degree, and this is true for Mark and David at Evoke as well, we here at IEQ Capital, I think were entrepreneurs at heart. In a way, no matter what the bank was capable of doing, and I think they went out of the way to accommodate us as best as they possibly could and as first-rate management team and first-rate organization, it just still was a challenge. The way it manifested, we wanted to create some form of equity compensation amongst our team, and the only mechanism, really, that could get worked out was effectively what worked out to pseudo-equity, the form of bonuses that was ordinary income with quarterly or annual amounts, and it just looked like a bonus. It wasn't really equity ownership in what we were doing.

I think that also just affected us because having had the positive experiences equity owners once before at Luminous Capital, we actually recognized the value of individuals walking around with pride of ownership, both monetarily, but much more importantly, the way they act. So here at IEQ Capital, every individual across the board, including administrative/operational people, everybody owns equity, and it just outright changes mindset, and it changes behavior, and it changes the way in which clients interact with us. I think no matter what we did within the bank, we realized we didn't quite have that same esprit de corps that we were going to get by, once again, being entrepreneurial and equity owners. I think that, in the end, coupled with whatever the challenges were in putting together alternative investments or bank act rules, I think that was really the driving motivational factor to, once again, create another RIA. In this case, IEQ Capital.

Eric Harrison:

Let me just add just a moment to answer. It's a terrific answer. It's purpose. When people have equity, sure, there's ultimately economic remuneration that comes their way eventually when there's some of that, but people feel differently about their job. It is purpose, and purpose also changes work ethic. There's just a very different orientation to the job, especially for young people. This is a job for young



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people, and we here at IEQ have a significant number of people under the age of 30. They want to believe in something, and I think that having a journey that we are on together is remarkably fun, but it's also really important for the stability of a franchise.

Louis Diamond:

Yeah, that makes a ton of sense. It sounds like what you're describing is a feeling of incongruence. We hear that often. That term is used pretty frequently by folks breaking away. Regardless of the merits of the platform and the quality of the people, there sometimes becomes a point where your goals are incongruent with what can be accomplished within a captive environment. Any regrets in selling to First Republic at the time, and then thinking about the brain damage of going and launching the business again as an RIA, any regrets about them as a partner or selling in general?

Alan Zafran:

For me, absolutely none. I think life is a series of learning experiences. I think our experience at First Republic was terrific, and I also think, I know this sounds funny, it bought us time to reflect on what we did well in our first RIA at Luminous Capital and allowed us to recognize what we might want to do differently with our second approach at being an RIA. So fabulous experience, great organization to be there, made great relationships, and bought ourselves time and collect thoughtfulness to think through how to build an even better mousetrap the second time around.

Eric Harrison:

I agree with Alan, but I do have one regret. We mis-underwrote one aspect of First Republic, and it was fairly significant, and we got it dead wrong. We thought that because one in 10 or I think it was all the way up to two in 10, 10 millionaires in California had their deposits at First Republic, but did not have wealth management at First Republic. We thought there'd be a lot of synergy with us arriving, and be able to work with folks that had big deposits, and therefore, presumably, a fair amount of wealth, and convert them to being wealth management clients of the bank. In fact, the policies were different. It's a bank-led organization, and the bankers were the center of the sun. They had the ability to pick their wealth management partner, and you're actually prevented from calling on folks that were in your backyard, that were known to have money, that you would like to prospect, but you had to get permission from the banker that had the depository relationship to be able to solicit their interest. That was rather shocking, and that was not ideal. So that was a regret.

Louis Diamond:

Yeah, that makes sense, and with hindsight, I certainly get that. So what was it like building an RIA this go-around? How were things different? Obviously, you'd done this before, so a little bit less of a learning curve, but what resources, or platforms, or outsourcing solutions were you able to access this go-around



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that were different, or put another way, what have evolved around you in the years that you sold Luminous to First Republic and worked there, and then the launch of the business prior to that?

Alan Zafran:

Louis, I'm going to laugh because you can't get around how hard it is to get this done. So, it's so true. So, if you recall, I told you it took 18 months of weeknights and weekends to build Luminous Capital from 2007 to 2008. It took us, and I'm not exaggerating, 17 months of weeknights and weekends from the moment we decided we were going to leave First Republic early 2008 until we launched at the end of May of 2018. We launched in May of 2019. 17 months. We were even more emphatic because in effect, we had more to lose, and we're going to affect more clients' lives because we were a bigger business, more emphatic about doing the right thing, not breaking any rules or protocols, being very intentional with respect to how we were going to build the business, which custodians we wanted, what research, what software platforms, what alternative investment, accounting mechanisms we wanted to utilize. But also, I'll tell you this time, we actually consciously spent more time upfront thinking through what was going to be our culture, what was going to define who we were going to be going forward.

We actually employed a coach, if you will, someone who specializes on getting the best performance out of employees, and we were very thoughtful with respect to thinking through the kind of environment in which we would allow, particularly the younger employees, not just to be equity owners, but to learn, and grow, and flourish in the new environment. So, again, in the event anyone really wants to become their own independent RIA, the more time you spend in the back-end without cutting corners, the bigger the payoff on the other end, but it is a long journey to get there.

Eric Harrison:

Let me add a couple of things to Alan's answer. I agree entirely with his sentiment. I'll take this more from a private equity perspective. The second time around, I think we invested more thought and more money in legal and in cap table. What I mean by that is we had a business that was worth a fair amount of money while at First Republic. Yet, we decided, which was really against the advice of our legal council, to start by offering everybody a zero pre-money valuation. What that means is the thinking was that because the business was worth a lot of money, we could have given people profits/interests above certain threshold of value on day one, and we thought about it. We said, "Well, but if we do that, it's going to create two tiers of people. It's going to create founders who share dollar-zero, and it's going to create the rest of the team that share later on. Yet, we're all taking this plunge on the same day at the same time."

It didn't feel right, and we thought, "Okay. Let's also figure out, should we be giving 5% to the team? 10%?" We ended up with 25%, and that's a significant number. But particularly, when it's dollar-zero sharing, it made for a level of being in one boat together in a way that was extremely important. There's lots of other issues with respect to should you have vesting on that stock. We concluded do not allow



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the stock to vest, which is probably an unusual decision, but the thinking is we want this business to be sustainable, and then we want to think about generational transformation, which we can get into later, but we thought about this from a 20-year landscape perspective. This is our last journey, and Alan and my last rodeo. I think it's important that we set it up for the benefit of the clients to have stability and for our team to be able to take over client relationships pretty seamlessly.

Louis Diamond:

Very interesting. Yeah. I mean, even though it sounds like maybe you didn't save any time in building IEQ than you did in launching Luminous, that you're able to build a much better business. You had the lessons learned from round one, the business was also much larger and more complex, but that even if you... My guess is you probably could have built it much faster if you didn't think through a lot of the major strategic items that folks sometimes just don't really know to think about or there's so many other competing priorities when thinking about breaking away, that gets lost in the shuffle. But it sounds like your premise was, "Let's build the house the right way," and then that's what's going to help us build the best possible firm and maximize its value.

Alan Zafran:

Louis, these businesses are service businesses. So other than the computers and the phones, it's just people. What we realized the second time around was you got to invest in the people. You got to invest in the culture. If you put together a system that you think will be harmonious and collaborative, it's overwhelmingly positive. Not that we did anything wrong the first time with Luminous, but we wanted to make sure we went out of our way to get buy-in from every individual, top to bottom, from beginning with the same shared vision of a long-lasting client-centric business going forward. Equity is a tremendous motivator, but it's also a way to let everybody realize they're all together, and that is a huge differentiator.

Eric Harrison:

One more item to add to Alan's answer that speaks to this importance of people and culture. At IEQ, we have a quarterly town hall, and that town hall is literally the identical information we present at the board meeting. It is incredibly transparent, and we go department by department by department, and it has maybe three or four purposes. The first is to call out people that are doing really important things that don't necessarily get to have the spotlight shined on them. The second is it reminds everybody that this is a living, breathing organism, and it's growing, and changing, and evolving. You may know your job pretty well, but without these quarterly meetings, you don't really remember just how much everybody else is doing, so it reconfirms that there's a village.

Then, the third thing it does is make people proud. It allows you to show what's happened. We didn't have a DEI committee in our last go-around at Luminous. Here, we're talking about very carefully



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bringing in people that represent diversity and talent from different organizations, not just straight out of school, and I think we're trying to really build a company. It's very different than having an umbrella over a series of franchisees where each producer has their own handful of people that work for them and you share corporate services. It's a very different vision.

Louis Diamond:

Yeah. That's where we'll take the conversation next is talking about both the client and the advisor facing value proposition of IEQ. So can you, just for perspective, share with the audience what did the business look like as far as headcount and assets when you launched IEQ back in 2019?

Alan Zafran:

Sure. When we launched IEQ, we had, at the time, as you're aware, split into two independent businesses. There's Evoke Wealth that went into Los Angeles. The business here in that we initiated predominantly in Northern California with also Los Angeles presence, roughly \$8 billion of billable assets under management for roughly 500 families. What we really were able to do between ourselves and frankly, Evoke as well was because I think we were guarded as good fiduciaries, the vast preponderance of the client relationships that we wish to have come with us, in fact, did so, and so we were very fortunate with that regard.

Eric Harrison:

One more piece to the answer. We had 42 people on day one.

Louis Diamond:

Got it. That's helpful, and then how about today? Because I know a major part of your value proposition and just what makes such an impressive company is your incredible growth, especially organically. So, today, as we're recording in, say, the end of the first quarter of 2023, approximately, what does a business look like?

Alan Zafran:

We have 130 total employees, and that's now one additional office in Newport Beach. We're on the cusp of opening up a couple of others elsewhere in the country. So we're on the dawn of an expansion to other key markets around the country. We've got about a thousand families, some of whom are... These are starter situations where they're maybe one level below a managing director at a private equity firm, or venture capital firm, or real estate fund where they don't have a lot of money today, but they're sitting in the right chair, and they will over time. So that thousand families is probably overstated in terms of the number. They're full-service families by probably close to 50%.



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In terms of the organization, we have 45 people that contribute to the alternative investment research team. So it is, I believe, one of the very biggest that we would see anywhere in the country. We have full head office. So that comes with a legal officer, managing director level estate planning, CFO, president, chief of people, chief of client services, head of business development, and then all of the client-facing partners. We've got about 25 in the middle that are senior level people that actually manage relationships, but did not necessarily bring in those accounts initially.

Eric Harrison:

At this point, we are a little over \$18, 1-8, billion of billable assets under management.

Louis Diamond:

It's absolutely incredible to have grown more than doubling the business at least on AUM basis and almost triple as far as headcount in the short couple years, especially through the pandemic. So I would love to talk about why that is. Let's talk a little bit about the value proposition. I know part of IEQ's value prop to clients and advisors is your tech-forward experience. Especially being in Silicon Valley, I know technology is very important, but what do you mean by this? Because my understanding was most RIAs are using the custodian's technology, and then bolting on at par on Salesforce and somewhat similar components. So how can technology actually be a differentiator for an RIA?

Alan Zafran:

Well, let me take that, Louis. We have the great Dean Horwitz. He's one of many people that are in the infrastructure technology team. We have a remarkable group, but I'm going to credit Dean a lot with being chief architect of technology. So he sat in the advisor chair for about five years he was our first hire at Luminous. Today, he's our president. The thing that is unique about him is that he understands the pain points of an advisor. Yet, really, his core gift is process, procedure, technology, and implementation. He's built a team around him that's quite sizable. We have about 25 people that touch elements of the infrastructure and the tech team including programmers. One of the things that you can look at is just what can you do with technology. Forget defining it. What can you do?

I'll give you three items that I think are quite impressive that we certainly couldn't do at Luminous and today, we can do. You can hit a button and produce a thousand household performance reports. There are a few, a very few that need specific customization, a page inserted, but they're very much auto-generated. We do 15,000 sub-docs a year. We do this with a team of five people. You could not do that without technology. The last is people want an experience. They want to be able to see their performance on their phone, on an iPad, and see it fully integrated in real time through yesterday, liquids and illiquids, done by sub-asset classes, and that all gets done in a seamless way.

We could keep going on with K1 generations. It's a big pain point for advisors, generally. You've got a lot of folks that are in a variety of alternative investments that produces a K1. Chasing the K1s down in the



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last 10 days before taxes are due is just super stressful on the team, so we have actually created a portal whereby these automatically get uploaded, and all of the accountants that represent the households can log into this in a secure way such that they have an ability to download all the K1s without us individually rounding them up, sending them over, and then finding that we're missing one, or two, or three, and having to do it again. So these are the various things that have been done. These are among many, many things, and Dean and team are updating this technology, literally, every quarter. We have a big budget for investing in technology.

Hey, Louis, just sometimes it doesn't take more than an iPhone and a smile. So what I mean by that is when you have one core purpose to provide thoughtful investment advice to families consistent with the broader estate plans, and tax situations, and income needs, and risk tolerance, and all those parameters, why wouldn't you enable an advisor to generate a 3 to 5-minute video clip as often as they wish, typically quarterly, but it could be whenever a seminal event happens, and as long as it is compliance-approved, you enable that advisor immediately send out that video to all the clients they touch, all the prospective clients they touch, all the centers of influence, CPAs, and estate planners, and real estate brokers, and divorce attorneys, and anybody else that they generate business from.

So, again, thinking as an owner-operator, why wouldn't I want to enable my client-facing personnel to realtime convey important investment themes, ideas, strategies that impact their clients' lives when it's timely? When you're at a large firm, you're probably blocked by a lot of these bureaucratic issues. Whereas here, if it's actually in the clients' best interest, why wouldn't you want to give clients more touchpoints? By virtue of doing this, you actually eliminate a lot of unnecessary traffic back and forth, you eliminate the need for the RoTE mechanical quarterly meeting, and you get much more engaged strategic conversations when they're needed. Otherwise, you free up the advisors' time to do what they do best, give thoughtful advice, find new investments, or find new prospective clients. So everything that Dean Horwitz built and even just more broadly, an iPhone and a smile will get you a long way as long as you recognize what your core business is, and you build the business to do the job as a fiduciary advisor. It's that simple.

Eric Harrison:

I want to add just one more point to Alan's summary. With respect to technology, there are many things that can touch a client and help a client, and they're not always obvious. We never figured this out under the Luminous days, and I think many other RIAs probably don't do what I'm about to say, but I think it's very valuable. So imagine the firm that does offer alternative investments, which we do, and imagine over time, a client might end up with half a dozen of them in their portfolio. They'll often get confused or vague on which investment represented what strategy, and they make a commitment. They're very focused at the time of the investment decision, but it gets vaguer and vaguer, and just fades into just a portfolio summary of numbers over time.



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What we've done is break each individual investment into storyboards. So, along the journey of being invested in a fund, call it a multifamily apartment manager, maybe they have 35 buildings. Let's imagine they sell a couple of buildings in year three. We'll actually put a little story out that shows the picture of the couple buildings, then reminds people when they were invested in, reminds people what the exit was and gives people a little summary of what was the value add along the way. That's an example of where technology really supports to the benefit of clients, the investment experience.

Louis Diamond:

Yeah. I would say so. It seems almost like everyone has access to maybe, say, the major building blocks of a tech stack, the CRM, the performance reporting, the financial planning tool, but you really took a walk in the client's shoes and said, "What is it that I would want to know as a client?" and then being advisors yourselves as well, "What can we do to take the friction away from us being as efficient and effective as possible?" So that makes sense, and I think that's where you said 25 folks in your scale coming in to build upon what's available to customize the technology experience to your specific client base.

Alan Zafran:

Well said.

Louis Diamond:

Let's talk a little bit about the private investments. I know that's a major part of the value proposition. You mentioned an example. Let's talk about that. I know you talk about having a network that gives IEQ clients access to exclusive privates. Can you just elaborate a little bit more on this and maybe some examples?

Alan Zafran:

Well, sure. Given I'm the old guy here, 32 years in the business for me, 23 years for my co-CEO Rob Skinner, and 15 years for my co-CEO Eric in addition to his private equity and venture capital background, that buys a lot of relationships with a number of private equity, venture capital, real estate, and credit managers. That's the start of the process. The reality is it's much deeper than that. So what happens is by virtue of investing large dollar amounts in funds, let's go back to that apartment fund, we generally don't want to invest in a vehicle, unless our clients collectively can put probably at least \$100 million into an alternative investment vehicle like a real estate fund. But in order to do so, we're not going to take the rack rate terms on fees. We might not accept the fact that there's four key men for the fund to blow up. We might say there's only one key man. We might even dictate certain limitations in the way way in which the manager invests.



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But when that gets done, we also want to see it on the LP advisory committee. So because we're one of the three of the largest investors in strategy, we will have separate conversations with those other two or three institutional investors, and we'll say... I'll start off by saying, "Whoa, what do you think about this apartment manager?" and we get their opinion. The next question is, "Well, who are the other apartment managers across the country you like, and do you think we should be talking to them?" and we'll get an introduction. Then, we'll say, "Well, in addition to apartment managers, what other real estate sectors you like? What do you like, and who are the managers like, and why?" Then, we'll get an introduction to those managers.

Then, we'll say, "Gosh, in addition to real estate, are there other asset classes you like: GP stakes, floating rate credit, self-storage units, secondaries, private equity, whatever it is?" We are inundated between those LP advisory committee relationship-driven referrals, and the fact that we have over a hundred client families where the underlying family comes, the money was created by a GP of a private equity, venture capital, real estate, or credit firm. We're inundated with investment opportunities. Our challenge isn't defining the deal flow. Our challenge is figuring out which strategies, which management teams are chasing the opportunity with a proper amount of money targeting a highly attractive, inefficient asset class. That's our challenge. The networking opportunities is far from our challenge.

Louis Diamond:

How is that different than when you're at Merrill, or Goldman, or even at First Republic? I mean, all those firms have very large alternative investment platforms. Obviously, they're major institutions and also have large networks. So how is it different?

Alan Zafran:

The biggest differentiator is we think about it this way. When we want to go after an opportunity, even if there's... It's really driven by what's the theme we think we want to invest in. When we actually look at with whom we want to place capital, the number one factor is the quality and experience of the management team. The second issue is the opportunity, the asset class, but the third and importantly is the amount of dollars oriented and dedicated towards that asset class. The challenge at the larger firms is they generally can only go into very large pools of capital because they need to make that fund accessible across the entirety of their national sales organization. So they tend to chase exceptionally large pools of capital to go after private equity or real estate.

You can find excellent institutional caliber investment managers with big four accountants and very experienced legal teams with proper custodianships and compliance, but the dollars targeting the opportunity set are much smaller and therefore, we think highly more attractive and said differently. If I'm going to focus \$300 million towards investing in apartment buildings in the Pacific Northwest, I think that's more effective than trying to target \$3 billion doing exactly the same thing. So the art is to find



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exceptional teams pursuing a thoughtful strategy, but with the proper amount of dollars targeting that asset class. That's the differentiator.

Louis Diamond:

Of course, no one wants to fight on, "Well, we're the lowest fee." There has to be more value. So, in your case, other than the private investments, which seems to be a real specialty, what other services is IEQ providing its clients outside of investments?

Alan Zafran:

Well, I'm glad you asked because people think we are nothing but an alt shop, and it's actually not the case at all. You've got a family office that is quite significant. It's got all of the elements of what you'd expect in full family office with the exception of bill pay, which we don't do in-house, but which we partner with outside. That means we do the financial planning, we do the estate planning, we do liquidity analysis, which is often a big issue for private equity and venture capital folks. We do all the normal unwinding of that and coming up with strategies on reinvestment and unwinding thoughtfully within an estate plan, single stock positions that are highly appreciated. So that's typically an issue with all the tech C-suite folks.

Louis Diamond:

Wow, that's pretty fascinating. That's something you can really touch and feel rather than a fund. That seems pretty exciting for your clients. So I'd love to just talk about how there's three co-CEOs. I've heard of two. I don't think I've seen three before. How does it work in practice, and does it actually work? How do you split the responsibilities?

Alan Zafran:

Well, if this was a video recording instead of an audio, you'd get it. I'm sitting here in a blazer and a suit like I'm on TV. Eric's got the loudest shirt I think I've ever seen and the funniest shoes I've ever seen, and his socks are a sight for sore eyes. Anyone who knows us knows that we're three entirely different personalities, and that's got a lot of benefits, occasional challenges, but they're always overcome because we like, and respect, and challenge each other in a constructive way. Really, I think it's checks and balances. Being in a partnership is incredibly difficult. You have to be emotionally wed to it. You have to believe your co-CEO or partner is going to be equally invested. But if you actually have longevity of relationships... So, in our case, I've known Rob for 23 years. I've actually known Eric for 31 years. I've only worked with him for 15. You just have a lot of foundation from which to trust one another where the benefit is twofold.

Believe me when I say this, Rob and Eric will take me places I never would've gone on my own, but also will, on occasion, check the two of them. So I think understanding each other's personalities, gently or



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not so gently pushing one another, but staying true to the same vision, making this a real legacy business that we hope will grow for generations, and deliver world-class, client-centric services is exactly where we're all centered. So we have modestly different ways of getting there. We check and balance each other, but I think the benefit is, in the end, it's a much better organization, it's more robust, and there's greater opportunities for all kinds of personalities to work happily here.

Eric Harrison:

Louis, I was just going to add. I have a different perspective. I'm not disagreeing with Alan here, but just a different perspective. I've spent my entire career working inside of partnerships, and having three CEOs is... You just change the title, and it all come together and makes sense. You really have managing partners in a partnership. So the three of us are the managing partners in a partnership. While it is a company and runs like a company, it's not unlike any of the large private equity firms. They'll often have more than one person that sits in that management company and overseeing the development of the firm.

In our case, we divide up naturally. If you think about the various components of growth and requirement for this business, our next chapter is going to be looking externally, bringing on advisory teams, acquiring RIAs, expanding geographically to key markets. That's a big job for one person that is at a senior level to oversee just that. Then, there's always the important CEO role of keeping the trains on time, and looking internally, and making sure that people are properly compensated, that they are continuing to be challenged by their jobs, and you add to them when they're not, and all the elements of just running the operations of the business. Then, there's a third that is really overseeing investments and making sure that everything we put on the platform is very well-vetted and that the approach to underwriting any new investment is done with great care. I can't imagine one person overseeing all of that. It would be really challenging.

Louis Diamond:

So then, how do you make decisions? Maybe let's use an example that will spearhead the next segment.

Eric Harrison:

Louis, this is simple. Louis, it's two out of three have to vote yes. We often have spirited disagreements. We often vote against each other. It is rarely for two votes in a row, two people out of the three agreeing against the third person. It is a mosh pit, and I think that's the way that it should be. It is healthy, it is spirited, but we all end up disagreeing. But at the end of the day, we honor the vote.

Louis Diamond:

I like it. So it sounds like it might be easier to have three than two. So maybe the next evolution is to have five co-CEOs.



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Eric Harrison:

Louis, that depends if one of the other two vote with me. If they're not, then three is great.

Louis Diamond:

There we go. Hey, I'd love to talk about your major private equity infusion or transaction that was announced in the very beginning of 2023. So it was announced that IEQ took on an investment of an undisclosed amount and for an undisclosed percentage of the business from major private equity sponsor, Stone Point. They're one of the early backers of Focus Financial and are real powerhouse in the space. So can you talk a little bit about why you decided to raise capital at this point in time?

Eric Harrison:

Let me take that, Louis, just because I came out of the private equity background, and we all, obviously, were very collaborative in getting this to the finish line. It was about a six-month journey, and it was at the right time of our evolution. If you think of this in software development terms, 1.0 is leaving and getting the former clients to come to the new platform, IEQ. 2.0 is ensuring that all of the brand recognition with the fund managers has been re-established such that we can get fee breaks, we can get access, we can provide the investment experience that the clients want. I'd say at the same, time you're scaling the business. You're putting in the rest of the infrastructure that you may not have fully got baked in the first 18 months.

Then, 3.0 is ensuring that you have set up the partnership to have generational transition. That means hiring the full head office, which for us, was a very significant lift of senior people that were not part of the core team that came over, and we're now on 4.0, which is, "Okay. You've built the chassis. Now, you're ready to add on advisors that are growth-minded, that like having a low-friction platform to utilize that can just get business done, and has great investment options on the platform." So that is the next chapter, and so when you think about what that takes, it's going to take opening offices around the country. It is going to take some dollars as you know. We will compete with the bank bid of three times upfront and maybe even a little bit more than that to buy books and bring them on board. So without a balance sheet, you just really can't do a heck of a lot in the next chapter of growth.

Alan Zafran:

Louis, I just want to add, there are a couple other motivational factors. First of all, Eric, and Rob, and I, the three co-CEOs, got tired of being a personal bank for the employees. The cost of living, particularly in California, is exceptionally high, and we have a number of high-achieving, exceptionally talented young professionals from the mid-20s to the early 40s who frankly couldn't afford a home, and we extended over a couple years, I think, over 10 different personal loans to the point where it was we were going to be regulated as a bank ourselves apparently. That was a motivation.



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Secondly, it's great to talk about being an equity owner. It actually is meaningful when there's actually some dollar amount attributable to it. Not only did it make it real and a little bit self-interested, it actually ties our most important employees even to the firm more because they recognize they've got a good thing.

Then, lastly and importantly, having a sophisticated financier like Stone Point Capital forces us to be better, forces us to be disciplined, forces us to adapt best practices that we can learn from them, from their experiences with other service providers. So we don't pretend we know everything. Far from it. This is a place where we encourage learning, and we ourselves want to continue to evolving and getting better. Working with a expert, Stone Point, in the financial services industry, they can keep us aware of best practices real time, only ensures that we will be better at what we do in the future.

Louis Diamond:

That's such a good answer. Similar to your earlier comment about creating a Why? document when you started Luminous Capital, it seems like you came up with a Why? document for yourselves for why taking on external capital. Of course, you could have sold the whole business, made a bunch of money, probably a hundred different funds could have bid for your time and attention, but it was about finding the right partner to help you accomplish the right things. One more question, just the investment, and then I want to wrap up with just maybe having you elaborate on your advisor-facing value proposition. So private equity that the knock on it is that there's going to be an exit. It's pretty much a sure thing that over a relatively short time period, the fund will seek liquidity, and the business will be sold, or there'll be some other type of event. How do you talk to advisors talking about joining you? How do you think about that yourselves that we took on capital, and now they're going to look for an exit? How do we reconcile keeping control of the business?

Eric Harrison:

That's a great question. It's actually the elephant in the room question. I'm glad you asked it. So Alan, and I, and Rob have... There's no daylight between us in how we look at the business. We want this to be set up for generational transition to the folks here at IEQ that are 25 years old. So it's got to handle one, or two, or three iterations for that to occur, and so we don't want this to be a one-and-done, make money for the people at the top, and leave all of our younger folks stranded without having equity in a business that they get to continue to control. So one of the reasons bringing Stone Point is all they do is invest in businesses that are people-based and recurring revenue business models. What they handle is this transition. It's actually why we picked them. If you think about the natural evolution, you grow, you'd sell to somebody. Well, we don't want to do that. We want to grow and actually keep independent. There's now new technology in these GP continuity vehicles where we're inside of a young fund at Stone Point.



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We can stay in that for the next X number of years, seven, eight years, and then you simply roll to another fund that will be either at Stone Point, or it will be at another private equity firm, but you keep yourself in the hands of private equity, and it continues to ensure best practices, good board governance. Yet, you re-incentivize all the people that are working with you to continue working hard because the whole concept of private equity is to ensure that there's an incentive package for the people that do the work. So it will mean that we will have a requirement to roll a portion of our equity into the new company. It will mean that we probably have to create a new incentive pool on exiting from one vehicle to another vehicle. You have to do an equity refresh. So the point is this kind of business is better done outside of banks. Therefore, it's logical to continue to build the business we have into the future. We want this to be our family office, really, for the rest of our lives.

Louis Diamond:

I like it. So selling some equity today wasn't the first step in seeding control. It's the opposite, and it might be counterintuitive that instead of being forced to sell the business to a strategic buyer who'd buy the whole thing, this enables you to build a bigger business where then you can sell tranches along the way, but ultimately, still keep the core of what makes the business special.

Alan Zafran:

Well said. I mean, listen, the example here is creative planning. This is backed by General Atlantic, and that's a giant business, far larger than us, similar space, and has been run outside of a bank for many, many years, and probably will be for many, many years in the future.

Louis Diamond:

Great example. So let's wrap it here just in the interest of time. You mentioned that part of the reason for taking on a capital partner was to really spearhead the advisor acquisition or advisor recruitment strategy. So what's the advisor-facing value proposition? Put another way, why would an advisor opt to sell or partner with IEQ versus doing something on their own or joining one of your competitors?

Alan Zafran:

Well, advisors have to think through where they want to work. Are they happy working in a suitability standard at a broker deal or a big firm that's got a variety of either goals that aren't fully in alignment with wealth management, or regulatory impediments, or other ancillary services and objectives that distract them from their core job, or maybe they want to go into a hybrid model, which is some combination of broker/dealer and RIA, or maybe they'd really like to be a fiduciary RIA with one objective, being in wealth management, which is what we are at IEQ Capital?

It's funny. When we started this business, Louis, out of First Republic in 2019, again spending those 17 months, we were really, with intentionality, building this business to be a client-centric practice for us.



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We didn't even envision, honestly, consider acquiring or partnering with other advisors. It turns out we built a pretty good business, which we say jokingly built by advisors, run by advisors for advisors. We, the CEOs, still have direct relationships and are trying to grow our respective client relationships while at the same time, trying to be mentors, and allow others to come over, and likewise, grow their business. I think this is a great place to work if you want to be at a fiduciary where you have one core business and you don't want to spend the 17 or 18 months it takes for you to independently build your business.

Louis Diamond:

Sounds compelling to me.

So I would say most advisors that are looking to transition are doing so because they're looking to grow or in some capacity, looking to take their business to the next level. Can we dig in a bit into how IEQ can help someone grow faster than they could on their own?

Eric Harrison:

Absolutely. Again, coming out of private equity, I look at this business which I was not originally from until, really, 2008 when I joined Luminous. I look at it as a business model, and I was a little bit surprised at how this business works throughout the whole industry. It doesn't matter whether you're in a bank or you're in an RIA, the vast majority, and I mean, vast, vast majority of firms that I've seen have a similar model of putting a little umbrella over a series of franchisees and giving shared services, shared access, shared CFO reporting, shared compliance, reporting for client assets, et cetera. But essentially, you're on your own, and you'd have an advisor at the top of a pyramid who gets probably 80% of the total economics given to the team, and then you have relatively junior people that share 20%. That's the model.

Well, if you think about that, as they build a book, you end up with clients wanting to call one person on that team, the advisor. So as you get to some number of households, 50, 60, 70, you're out of time. You never really invested in your people to make them competent enough to where your client was equally happy talking to people below the advisor. So what we've tried to do here is actually create a company where we solve that problem. So when advisory teams come over, they get their life back. The reporting and all of the interactions that used to take a lot of time... Just opening a client household account in many banks takes a month. We open 99% in one day, one calendar day. So if you can do all the normal business functions quickly and without just a hassle, you end up with a very different experience for the advisor.

We have a 10-person business development team that helps advisors do all the basic research around who would be logical prospects for them given their current client network and relationship network. Well, that just saves them loads of time. So it's these kinds of kernels of value that I think you're not



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going to find inside of big banks because big banks have more of a competitive system, and many RIAs just don't have the resources to invest in supporting everybody that joins.

Alan Zafran:

Eric, if I can just elaborate, and you touched on all this, I think it's three simple things: software and systems, dedicated business development effort, and a culture of collaboration. So what I mean by that is we have built up the systems such that we free up a lot of people's time. We have clean, easy, thoughtful reporting. We've talked about how we persistently will allow our advisors to communicate with their underlying clients as frequently as they want as long as it's compliant in a way that mitigates a lot of the typical means by which it bogs down an advisor's time.

Secondly, as Eric alluded to, we actually have currently eight full-time people dedicated to business development. They help support advisors identify relationships, spiderwebs of networks of other key influencers, and actually hand to the advisors recommendations.

Then, lastly, and arguably, most importantly, this is a culture of collaboration, not competition. An example. One of our advisors is talking to a significant family office. They have a very large concentrated stock position, and the advisor sent an email to me saying, "Gosh, I'm going to face this opportunity. Have you done this before, or what might you do?" Not only did I say, "I might do the following," I copied nine other advisors here, three of whom have already sent back examples of similar responses to an inquiry like that. I'll be joining the advisor at the meeting. I have no economic incentive, whatsoever to revenue share in any way. I'm an equity owner.

If that advisor is able to successfully convert that family office to a new client, I benefit, and all those other nine advisors who replied benefit, and everybody at this firm benefits because we're all equity owners. The moment you change the culture is the moment you create a growth environment for an advisor. So between better systems, dedicated business development people, and a collaborative effort where people aren't trying to take away what you're generating, but actually augment it, that's what leads to growth.

Louis Diamond:

Love it. Very clear. Eric and Alan, really appreciate you spending so much time with us. I think I have another probably two hours to go and asking you guys questions. Maybe we'll continue offline or get an update going, but it was fascinating just to hear your journey, your pit stops from Goldman to Merrill to Luminous to First Republic to now, IEQ, and really excited in the future to talk about IEQ 6.0. You're at 5.0 now, but just to continue watching you develop.

Alan Zafran:

Thank you, Louis. Appreciate it.



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Mindy Diamond:

It's stories like these from trailblazers who forged new paths and continue to make their mark on the industry that are most illustrative, but it's their core concepts around growth, culture, and building a business for advisors by advisors that serve as a resounding takeaway.

I thank you for listening, and I encourage you to visit our website, diamond-consultants.com, and click on the Tools and Resources link for valuable content. You'll also find a link to subscribe for regular updates to the series, and if you're not a recipient of our weekly email, Perspectives for Advisors, click on the Articles link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full-on exploration requires. You can feel free to email or call me if you have specific questions. I can be reached at 973-476-8578, which is my cell, or my email, mdiamond@diamond-consultants.com.

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