

What are Alternative Investments?



DEFINING ALTERNATIVE INVESTMENTS

Alternative investments are generally defined as anything other than a traditional stock or bond. They are investments not traded on an exchange or in the public markets. You may have heard them referred to as the private markets.

THE PRIMARY ASSET CLASSES

The primary asset classes are private equity, private credit, and real assets. These asset classes are separate from the actual investment structures, types, or vehicles and should be thought of as broader investment categories.



PRIVATE EQUITY

Private equity investments offer the potential for return and involve financing provided to non-public companies to facilitate positive change and/or maximize business growth.



PRIVATE CREDIT

Private credit investments offer the potential for income and involve fixed income instruments that are privately negotiated.



REAL ASSETS

Real assets offer the potential for diversification and inflation protection and involve tangible, physical assets whose value is derived from their physical use (e.g., real estate, natural resources, and infrastructure). They may also be a source of return or income generation.

INVESTMENT STRATEGY EXAMPLE

HEDGE FUNDS



- Hedge funds represent a diverse group of strategies, each serving a different role in client portfolios.
- Hedge funds offer greater flexibility in the number of underlying investments (equity, fixed income, commodities, currencies, options, and futures), and the managers have the ability to be long and short segments of the market.



BENEFITS

- Alternative sources of return, income, and diversification.
- Generally less correlated to traditional markets, which may mean they can experience less volatility and lower the overall risk profile of a portfolio.
- Historically only available to institutional investors, but now more accessible given product innovation and regulatory changes.



KEY RISK CONSIDERATIONS

Key risk considerations may include, but are not limited to, the following:

- **Transparency:** Alternative investments may not offer the same level of transparency as traditional investments, which are required to provide frequent and full disclosures.
- **Liquidity:** Alternative investments should be considered longer term investments. Depending upon the strategy, investors may be subject to a lockup period which will prevent them from redeeming their capital for an extended time (e.g., 5–10 years).
- **Fees:** Alternative investment fees are generally higher than those associated with traditional investments.
- **Leverage:** Alternative investment strategies may use some form of leverage, which offers the potential for higher returns, but also increases the downside risk.
- **Concentration:** Alternative investment strategies may be highly concentrated in a few funds or holdings.

Please contact your financial professional or a fund manager to learn more.

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