

**WEALTHCHANNEL**

# **Alternative Investments Made Simple**

**Alts Expo**

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WealthChannel Co-Founder

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# We Are WealthChannel



**Jimmy Atkinson**



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# What Is An Alternative Investment?

- Any investment aside from the traditional investments of publicly traded stocks, bonds, and cash.
- Generally illiquid.
- Often referred to as “private investments.”

# The Benefits Of Alternative Investments

- Portfolio Diversification
- Tax Benefits
- Enhanced Returns

# Portfolio Diversification

Access to non-public asset classes, including private real estate, private equity, private credit, and hedge funds.

“Diversification is the only free lunch in investing.” — Harry M. Markowitz



# Tax Benefits Of Alternatives

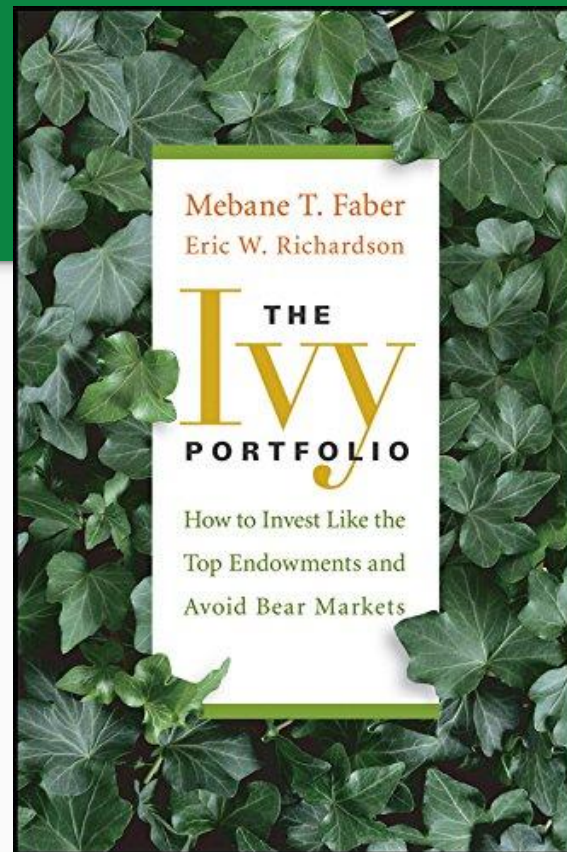
- Tax benefits inherent to certain alternative asset classes (oil & gas IDC and depletion, real estate depreciation, etc.)
- Tax credit programs such as HTC, renewable energy credits, etc.
- Tax-advantaged vehicles such as DSTs, REITs, and Opportunity Zones.



# Enhanced Returns

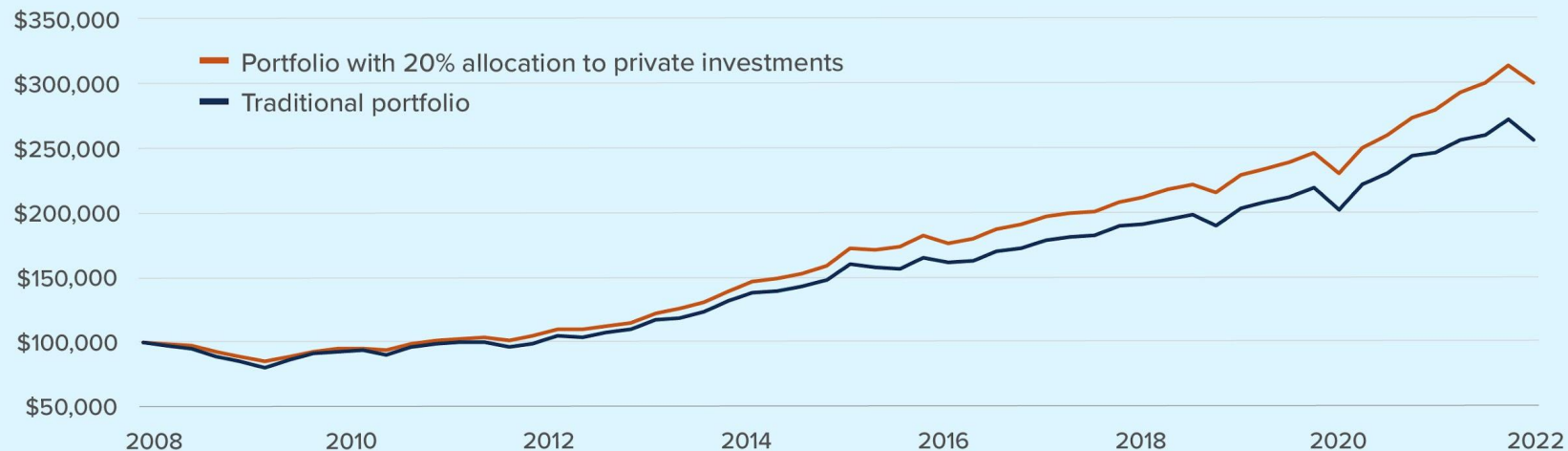
Two possible sources of enhanced returns:

- Within an asset class, illiquidity premium made famous by David Swensen and the Yale Endowment Fund.
- Within an overall portfolio, less portfolio volatility can lead to higher risk-adjusted returns for the overall portfolio.





## The power of private assets: a 20% allocation may enhance returns<sup>6</sup>



	1 year	3 years	5 years	10 years	SI <sup>7</sup>
Portfolio with 20% allocation to private investments	7.4%	9.4%	8.7%	10.6%	8.0%
Traditional portfolio	4.0%	8.0%	7.5%	9.3%	6.8%
<b>Excess return</b>	<b>3.5%</b>	<b>1.4%</b>	<b>1.2%</b>	<b>1.3%</b>	<b>1.2%</b>

# Major Alternative Investment Asset Classes

- Private Real Estate
- Private Equity
- Private Credit
- Hedge Funds
- Infrastructure & Natural Resources
- Speculative
- Liquid Alts \*

# The Periodic Table Of Alts

- Infrastructure & Natural Resources
- Real Estate
- Speculative
- Private Equity
- Private Credit
- Hedge Funds

							<b>Eh</b> Equity Hedge	<b>Co</b> Collectibles
						<b>Di</b> Direct Lending	<b>Cs</b> Credit Strategy	<b>Pr</b> Precious Metals
<b>If</b> Infrastructure					<b>Bu</b> Buyout Strategy	<b>Ab</b> Asset Backed	<b>Ed</b> Event Driven	<b>Cy</b> Crypto-Currency
<b>Ag</b> Agriculture	<b>I</b> Industrial	<b>M</b> Multifamily	<b>O</b> Office	<b>R</b> Retail	<b>Gr</b> Growth Strategy	<b>Sd</b> Subord. Debt	<b>Ms</b> Multi-Strategy	<b>Lq</b> Liquid Alts
<b>E</b> Energy	<b>Ho</b> Hotel & Hospitality	<b>Mu</b> Mixed Use	<b>St</b> Self Storage	<b>Hc</b> Health Care	<b>Vc</b> Venture Capital	<b>Ss</b> Distressed / Special Sit.	<b>Ma</b> Macro Strategy	<b>Ff</b> Fund of Funds

Product Structures

Tax Advantaged				Intermittent Liquidity		
<b>Oz</b> Qual. Opp. Funds	<b>Dt</b> 1031 DSTs	<b>Rt</b> Private REITs	<b>Bd</b> Non-Traded BDCs	<b>Nv</b> NAV REITs	<b>Iv</b> Interval Funds	<b>To</b> Tender Offer Funds

*Less Liquid*

*More Liquid*

# Private Equity

Equity investments in companies that are not traded on the public markets. (Can be compared to stocks.)

Strategies:

- Leveraged Buyout
- Growth
- Venture Capital



# Private Credit

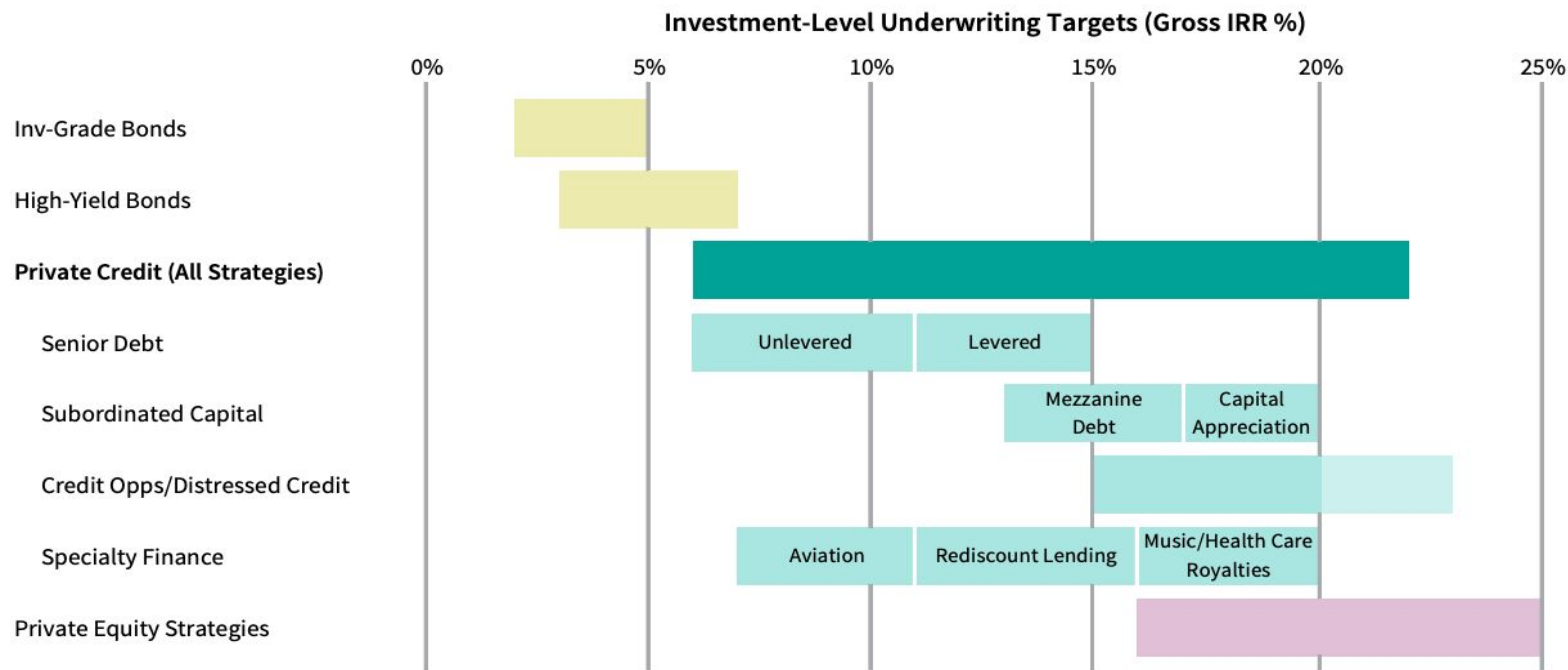
Debt investments that are not traded on the public markets. (Can be compared to bonds.)

Strategies:

- Direct Lending
- Asset-Backed
- Subordinated Debt
- Distressed/Special Situations



**FIGURE 1 RETURN SPECTRUM: PRIVATE CREDIT VS LIQUID CREDIT AND PRIVATE EQUITY STRATEGIES**



Source: Cambridge Associates LLC.

Note: Returns for investment-grade and high-yield bonds represent arithmetic return assumptions in equilibrium.

# Hedge Funds

Hedge funds pool investors' money and invest the money in an effort to make a positive return. Hedge funds may invest in traditional investments, but with alternative strategies.

Strategies:

- Equity Hedge
- Credit
- Event-Driven
- Multi-Strategy
- Macro
- Fund of Funds



**HFR**  
HEDGE FUND RESEARCH

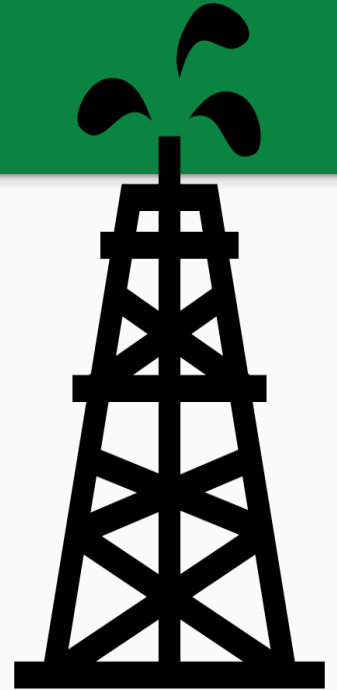
# Infrastructure & Natural Resources

- Infrastructure

- Energy infrastructure
- Telecommunications
- Power
- Water & Waste
- Transportation

- Natural Resources

- Energy exploration & production
- Agriculture
- Timber
- Metals & Mining operations





# Private Real Estate

## Major Sectors:

- Multifamily/Residential
- Office
- Industrial/Warehouse
- Retail

## Investment Strategies:

- Core
- Core Plus
- Value Add
- Opportunistic/Development

# Tax Advantaged Real Estate Investments

- Section 1031 Exchanges
- Delaware Statutory Trusts (1031 DSTs)
- Opportunity Zones
- Private & Non-Traded REITs

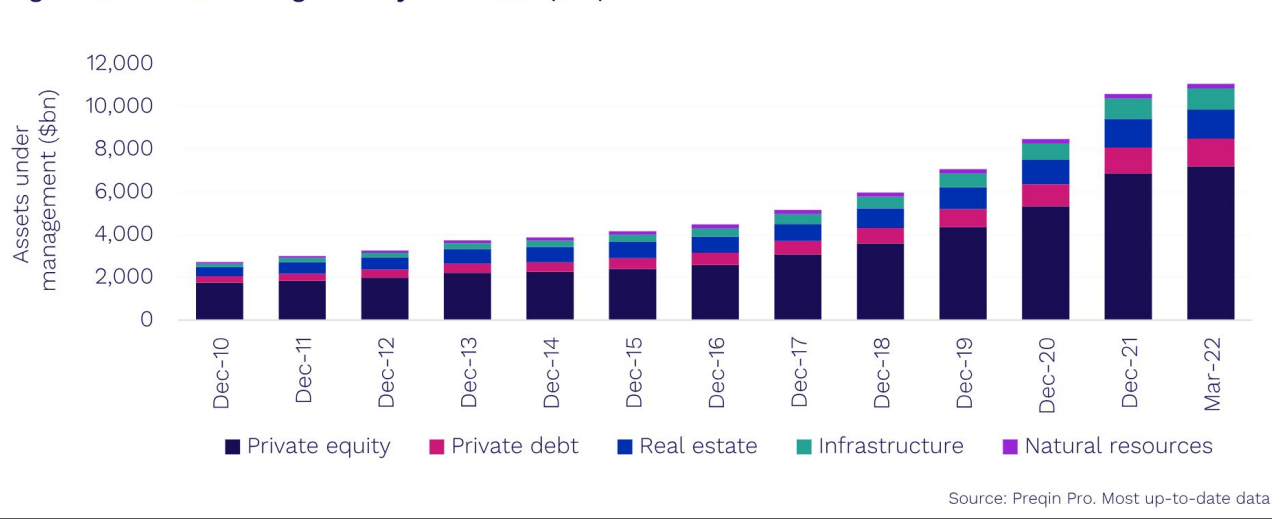
# Trends In Alternative Investments

- Growth of the overall alts market
  - Institutional
  - Broker-Dealers & Advisors
  - Direct 506(c) & Crowdfunding
- Democratization
- Increasing portfolio allocation to alts
  - For non-institutional investors: this is a result of democratization
- Challenge: the education gap

# Alt Industry Growth

Capital invested in private markets has nearly tripled in the last 10 years, from \$4.5 trillion in 2012 to \$12.4 trillion by year end 2022.

Fig. 1: Assets under management by asset class (\$bn)



Sources: Preqin & iCapital

<https://icapital.com/insights/practice-management/2023-icapital-financial-advisor-survey-alternative-investments-closer-to-core/>

# Democratization

- But... only roughly \$1 trillion is held by retail investors.
- The JOBS Act of 2012 directed the SEC to lift the ban on general solicitation for offerings conducted under Rule 506(c).
- Private placement offerings could now be offered directly to High Net Worth, accredited investors.

# Rethinking Portfolios

- Institutional investors often allocate 30-50% to alts.
- Retail investors have only 2% of their portfolios in alternatives assets, according to McKinsey.<sup>1</sup>
- Retail allocation to alts could grow to 3-5% by 2025 (McKinsey), and to 5-10% within the next 5-7 years (Hamilton Lane).<sup>2</sup>

<sup>1</sup>Source: <https://www.mckinsey.com/industries/financial-services/our-insights/us-wealth-management-a-growth-agenda-for-the-coming-decade>

<sup>2</sup>Source: <https://www.barrons.com/articles/private-markets-going-mass-market-9890f980>

# Where To Learn More



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