



## BEYOND TRADITION: EXPLORING THE POWER OF ALTERNATIVE INVESTMENTS

In today's dynamic investment environment, traditional asset classes such as stocks, bonds and cash may not fully meet the diverse needs of investors. As a result, more individuals and institutions are turning to alternative investments to discover new sources of potential returns and diversify their portfolios. Alternative investments go beyond conventional financial instruments; mainly comprising private capital, real assets and hedge funds. These alternatives offer distinct characteristics and the potential for higher yields, particularly during low-interest rate periods. By exploring alternative investments, investors can tap into unique opportunities that can enhance their returns and broaden their investment strategies.

### Investing in Alternative Assets: A Guide for Investors

Investors can access alternative investments through various avenues, including fund investing, co-investing and direct investing.

#### Fund Investing:

This is an ideal starting point for inexperienced investors with limited resources. Investors contribute capital to a fund, which then handles the process of identifying, selecting and making investments on their behalf. Fund investors typically have little control over the underlying investment decisions.

#### Co-Investing:

Once investors get more comfortable with investing, they often acquire exposure through co-investing. Through co-investing, investors can make indirect investments in assets through the fund while also having direct exposure to the same assets thanks to co-investment rights. This enables investors to participate in specific deals alongside the fund, expanding their involvement.

## Direct-Investing:

Direct investment in alternative assets is often reserved for larger, sophisticated investors, with little to no involvement of intermediaries. This approach provides investors with greater control, flexibility and the opportunity to leverage their expertise for potentially higher returns.

## Features of Alternative Investments

Alternative investments are distinguished by several key features that make them attractive to investors seeking unique opportunities. They include:

- Specialization by investment managers
- Relatively low correlation of returns with traditional assets
- Less regulation and disclosure requirements compared to traditional investments
- Limited historical risk and return data
- Specific legal and tax considerations
- Higher fees, often including performance or incentive fees
- Significant initial capital outlay required including due diligence costs.

## Exploring Alternative Investment Asset Classes

Including an alternative asset in your investment portfolio can reduce volatility of returns. Let's explore several of these asset classes to understand their unique characteristics and potential benefits:

- **Infrastructure:** Infrastructure investments involve financing and developing critical systems such as roads, bridges, airports and utilities. These long-term, tangible assets often provide stable cash flows and act as a hedge against inflation, making them appealing to risk-averse investors seeking steady returns.
- **Private Equity and Venture Capital:** Private equity involves investments in unlisted companies, aiming to acquire significant ownership stakes. Venture capital, on the other hand, focuses on early-stage startups with high growth potential. Both asset classes offer the chance for substantial returns but come with higher risk due to their illiquid nature, high leverage and perceived short term life cycles.
- **Real Estate:** Real estate investments encompass both physical properties and Real Estate Investment Trusts (REITs). Owning physical properties can generate rental income and potential appreciation over time, while REITs allow investors to buy fractional shares in a diversified portfolio of real estate assets, providing liquidity and passive income opportunities.
- **Derivatives:** These are financial contracts that derive their value from underlying assets such as stocks, commodities or currencies. Examples include options and futures contracts. While derivatives offer potential for hedging and speculation, they can be complex and carry high risk due to their leverage and sensitivity to market fluctuations.

- **Hedge Funds:** Hedge funds pool capital from accredited investors to employ various strategies in financial markets with the goal of achieving positive returns regardless of market conditions. These funds can utilize long and short positions, leverage and derivatives to manage risk and seek attractive returns.
- **Commodities:** Commodities are physical goods like gold, oil, agricultural products and metals, traded on exchanges. Investors often include commodities in their portfolios to hedge against inflation and diversify risk, as commodity prices tend to have a low correlation with traditional asset class.
- **Structured Products:** Structured products are complex financial instruments that combine features of traditional and alternative asset classes to offer specific risk-return profiles tailored to investors' needs. They can provide exposure to different underlying assets while incorporating features like principal protection or enhanced returns.

## Unveiling the Power of Alternative Investments

- **Diversification:** Alternative investments have low correlation with traditional assets like stocks and bonds, reducing overall portfolio risk by spreading investments across different asset classes.
- **Enhanced Returns:** Some alternative investments, such as private equity and hedge funds, have the potential to deliver higher returns compared to conventional assets over the long term.
- **Inflation Hedge:** Assets like real estate and commodities tend to perform well during high inflationary periods, providing a hedge against rising prices.
- **Steady Income:** Investments in infrastructure and real estate, including REITs, often generate stable cash flows, offering a reliable income stream for investors.
- **Access to Unique Opportunities:** Alternative assets allow investors access opportunities not available in public markets, such as early-stage startups in venture capital or specialized strategies in hedge funds.
- **Portfolio Protection:** Hedging techniques used in some alternative strategies can protect a portfolio during market downturns or periods of increased volatility.
- **Tailored Risk Exposure:** Structured products offer customized risk-return profiles, allowing investors to tailor their exposure based on their risk tolerance and investment goals.
- **Innovative Investments:** Alternative asset classes often involve innovative and dynamic investment approaches, offering investors exposure to cutting-edge technologies and industries.

## Navigating the Challenges in Alternative Investments

- **Lack of Liquidity:** Many alternative investments can be illiquid, making it challenging to access funds quickly in times of need.
- **Manager Selection Risk:** Investing in alternative funds requires careful evaluation of fund managers and their track records. Choosing the right managers is critical since their expertise and decision-making significantly impacts success of the investment.
- **Higher fees and longer investment horizons :** These factors may require investors to carefully evaluate potential returns against costs before committing to extended periods and realizing the benefits.

## Trends in Alternative Investments

- **Digital commodities:** The rise of cryptocurrencies and blockchain technology sparked interest in digital assets. Investors explored opportunities in cryptocurrencies like Bitcoin and Ethereum, as well as blockchain-focused investment funds and companies.
- **Real Assets:** Investors showed growing interest in tangible assets like real estate, infrastructure, farmland, and timberland. These investments provided potential inflation protection and income streams.
- **Sustainable and ESG Investing:** Environmental, Social and Governance (ESG) criteria became a significant consideration for investors. The focus shifted towards investment in companies that demonstrated strong sustainability practices and responsible corporate governance.

## SUMMARY

Alternative investments offer investors a way to diversify their portfolios and explore different opportunities beyond traditional investments. These investments offer access to niche markets and strategies, providing potential for uncorrelated returns and risk mitigation. By incorporating alternative assets, portfolios can become more resilient and adaptable to market volatility. While complexities exist, alternative investments have become integral to institutional asset allocations. Alternative investments are expected to continue shaping investment strategies and portfolio allocations, driving diversification and enhancing risk-adjusted returns.

ACTUARIAL SERVICES (EA) LTD,

1113 Kayahwe Rd, Off Galana Rd, Kilimani,

P. O. Box 10472 – 00100, Nairobi, GPO Kenya.

Tel. +254 202 710 028 || Cell: +254 111 037 100 / +254 708 710 028 / +254 785 710 028

Email: [info@actserv-africa.com](mailto:info@actserv-africa.com) || Website: [www.actserv.co.ke](http://www.actserv.co.ke)



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