

The potential for the inclusion of alternative asset classes

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Alternative investments afford investors the opportunity to access different sources of return and to manage risk better. Traditional investments – equities, fixed income and listed property – collectively still account for the majority of global wealth. Around 88% of the global investable market is comprised of traditional investments, with the remaining 12% allocated to alternative investments (estimated to increase to 25% by 2025). However, we've seen a doubling in size of alternative investments since 2004. By combining alternatives with traditional investments, investors open themselves up to a much wider investment landscape.

Why use alternative investments?

According to a 2019 report by the All Party Parliamentary Group, the average return of traditional assets is expected to decline in the order of around 4% over the next decade. We therefore believe that adding alternatives to a portfolio will significantly improve the return profile.

Alternative investments can add greater diversification and therefore greater portfolio construction benefits, provide yield enhancement or higher levels of income, inflation hedging, and enhanced performance – driven by capital growth.

The main alternative asset classes are:

- Private equity (enhanced performance)
- Infrastructure (inflation hedging)
- Unlisted credit / private debt (yield enhancement)
- Unlisted property

Benefits of alternative investments

As an asset class, infrastructure offers the following benefits:

- Stable and predictable returns

- Provides current income
- Low volatility
- Low correlation with other asset classes
- Partially inflation-protected
- Less exposed to economic cycles

How do alternative investments change the performance of a portfolio?

Alternative investments offer two main benefits to portfolio construction, being diversification and return enhancement.

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