



# Understanding Alternative Investments

The Potential Impact of Non-Traditional Investments on Your Portfolio

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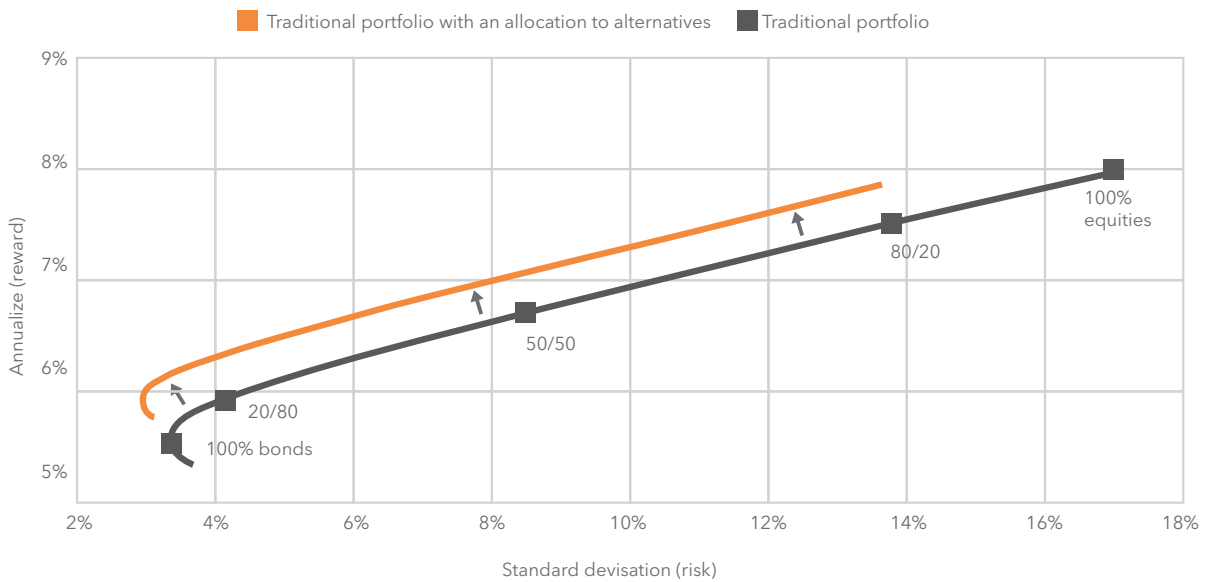
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## Understanding Alternative Investments

Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of the investments' complex nature, lack of regulation, and degree of risk. Many alternative investments have high **minimum investments** and fee structures, especially when compared to mutual funds and **exchange-traded funds** (ETFs). These investments also have less opportunity to publish verifiable performance data and advertise to potential investors. Although alternative assets may have high initial minimums and upfront investment fees, transaction costs are typically lower than those of conventional assets due to lower levels of turnover.

### Traditional vs. Non-Traditional Investments

How adding alternative investments can impact a portfolio's risk and return



**Traditional:**  
Stocks, Bonds, and Cash

- Non-Traditional:**
- Antiques
  - Real Estate / Public vs. Private REITs (Blackstone)
  - Private Equity
  - Venture Capital
  - Hedge Funds/ Distress Opportunities (Oaktree)
  - Art

Sources: Bloomberg, FS Investments. For illustrative purposes only. The graph depicts annualized returns and volatility of a theoretical portfolio of stocks and bonds and 20% allocation to a diversified portfolio of alternative investments for the 20-year period between 3/31/1996 and 12/31/2015. Stocks are represented by the S&P 500, bonds are represented by the Barclays U.S. Aggregate Bond Total Return Index and the alternative investment portfolio is equally weighted between real estate, private equity, managed futures and senior secured loans based on the indices in the figure. Actual results will vary depending on security selection and investment time frame. Past performance is not guarantee of future results.

## What Is an Alternative Investment?

An alternative investment is a financial asset that is not necessarily described in conventional investment categories such as stocks, bonds, and cash. Alternative investments can include private equity or venture capital, hedge funds, managed futures, art and antiques, commodities, and derivatives contracts. Real estate is also often classified as an alternative investment.

### Non-Traditional or Alternative Investments

Fund Type	Description	Target Returns		(Lockups)
		Annual Return <sup>1</sup>	Multiple Investment <sup>1</sup>	Average Duration <sup>1</sup>
Private Equity	Invest into private companies with an aim to profit from growing the value of the business through a controlling stage e.g., Burger King, Boots Pharmacy.	15% - 25%+	2.0x - 2.5x+	5 - 10 years
Venture Capital	Invest into early-stage, emerging growth companies to profit from growing an idea/ start-up company into a large and successful company e.g., Uber Airbnb, WhatsApp	15% - 30%+	2.0x - 3.0x+	5 - 10 years
Private Debt	Invest into various private debt instruments/loads to deliver superior risk adjusted returns vs. savings / bonds.	5% - 15%+	1.4x - 2.0x+	1 - 80 years
Hedge Funds	Funds that invest money in anything that they believe will make a profit - so they try to find profitable returns across all types of market conditions	2% - 15%+	NA <sup>2</sup>	1 month - 3 years
Real Estate Funds	Make equity or debt investments into stable cash flow generative properties or riskier property developments	15% - 25%+	1.5x - 2.5x+	5 - 10 years

1. The annual returns, multiple of investment, and average duration for the various fund types is only for illustrative purposes and is based on an estimated returns range for most funds within a certain asset class. Actual returns of funds may vary based on various factors.
2. The range of multiple of investment for hedge funds depends on the investor's holding period of the fund.

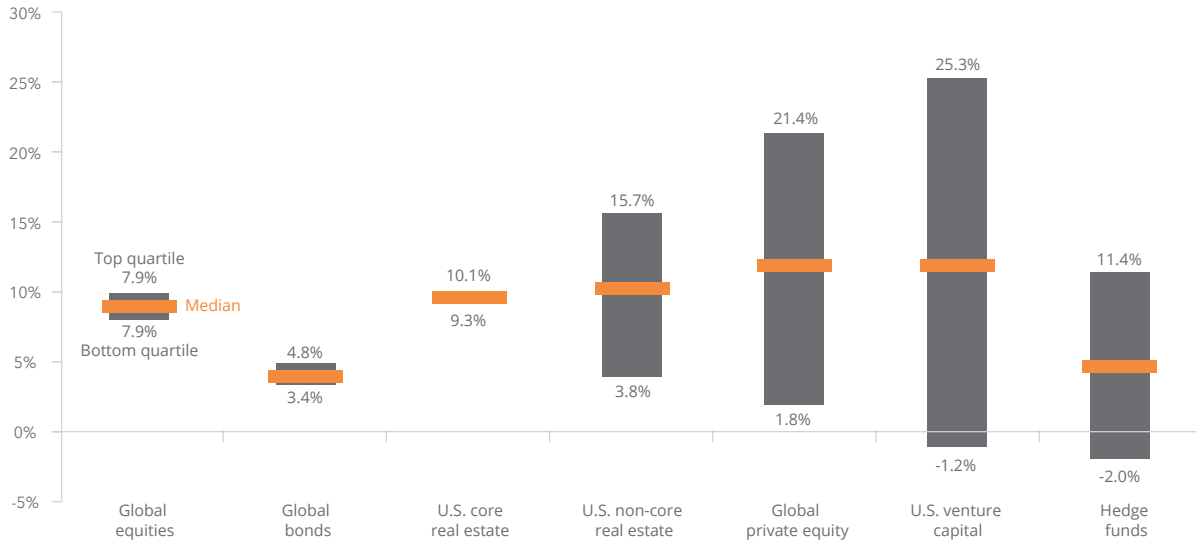
## BakerAvenue Provides Access to Leading Alternative Investment Managers

<b>Hedge Funds</b>	<b>Private Credit / Equity</b>	<b>Real Estate</b>	<b>Venture Capital / Seed</b>
			
			
			
			
			



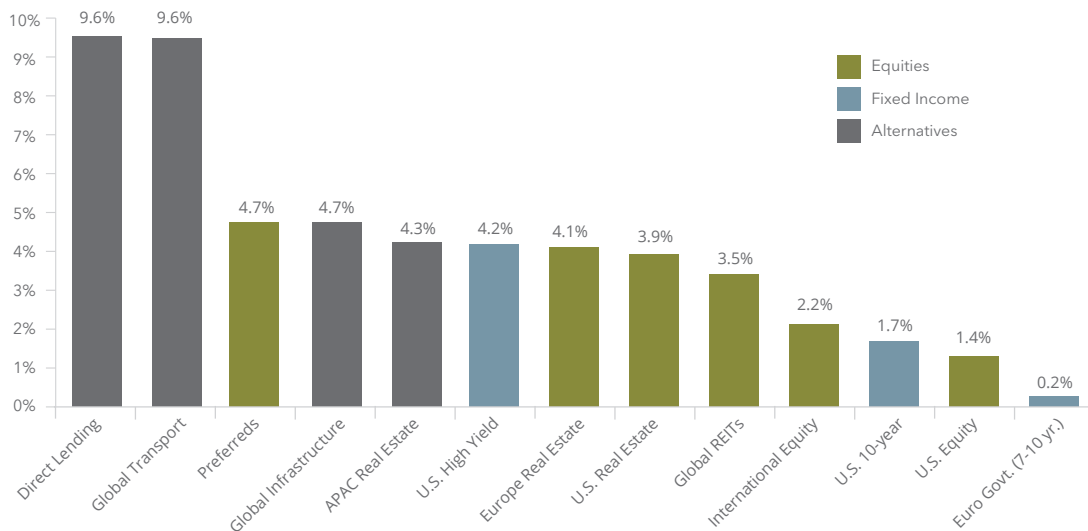
## Public and Private Manager Dispersion

Based on a returns over a 10-year window



Source: JP Morgan: Lipper, NCREIF, Cambridge Associates, HFRI, J.P. Morgan Asset Management. Global equities (large cap) and global bonds dispersion are based on the world large stock and world bond categories, respectively. \*Manager dispersion is based on the annual returns for global equities, global bonds, and U.S. core real estate over a 10-year period ending 1Q 2021. Hedge fund returns are based on annual returns from Feb. 2011 –Jan. 2021. U.S. non-core real estate, global private equity and U.S. venture capital are represented by the 10-year horizon internal rate of return (IRR) ending 4Q 2020. Data is based on availability as of May 31, 2021.

## Asset Class Yields: Percent



Source: JP Morgan: BAML, Barclays, Bloomberg, Clarkson, Cliffwater, Drewry Maritime Consultants, Federal Reserve, FTSE, MSCI, NCREIF, FactSet, J.P. Morgan Asset Management. Yields are as of 3/31/2021, except Direct Lending, Global Infrastructure, and U.S., Europe, and APAC Real Estate, which are as of 12/31/2020. Global Transport: Levered yields for transport assets calculated as the difference between charter rates (rental income), operating expenses, debt amortization and interest expenses, as a percentage of equity value. Yields for each of the sub-vessel types are calculated and respective weightings are applied to arrive at the current levered yields for Global Transportation; Preferreds: BAML Hybrid Preferred Securities; Direct Lending: Cliffwater Direct Lending Index; U.S. High Yield: Bloomberg US Aggregate Corporate High Yield; Global Infrastructure: MSCI Global Infrastructure Asset Index-Low Risk; U.S. Real Estate: MSCI Global Property Fund Index –North America; Global REITs: FTSE NAREIT Global REITs; International Equity: MSCI AC World ex-U.S.; U.S. 10-year: 10-year U.S. Treasury yield; U.S. Equity: MSCI USA, Europe Real Estate: Market weighted-avg. of MSCI Global Property Fund Indices –U.K. & Cont. Europe; Asia Pacific (APAC) core real estate: MSCI Global Property Fund Index –Asia-Pacific. Euro Govt. (7-10 yr.): Bloomberg Barclays Euro Aggregate Government –Treasury (7-10Y). Data is based on availability as of May 31, 2021.

## Are Alternative Investments Right for You?

Read the fine print. Become familiar with the due diligence processes, risks, fee structures, lock-up provisions, and illiquid nature of alternative investments.

### Pros:

- Counterweight to conventional assets
- Portfolio diversification
- Inflation hedge
- Potential for higher returns

### Cons:

- Difficult to value
- Illiquid
- Fewer regulatory requirements
- Highrisk

- **You need to be an “Accredited Investor”** - SEC definition: A person who has an individual net worth, or joint net worth with the person’s spouse, exceeding \$1 million at the time of purchase (excluding the value of the primary residence); or a person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years, and a reasonable expectation of the same income level in the current year.
- Understand some key terms and view additional [commonly used investment terms](#):
- **High-water mark** - High-water mark ensures that a fund only takes performance-related fees on new profits. For example, assume a \$1,000,000 investment is made and that the fund declines by 20% in year 1, leaving \$800,000 in the fund. In year 2, the fund returns 25%, bringing the investment value back to \$1,000,000. If the fund employs a high-water mark, it will not take incentive fees on the return in year 2 since the investment has never really grown, i.e., the fund did not make any new profits. The fund will only take incentive fees if the investment grows above the level of \$1,000,000.
- **Hurdle rate** – The rate at which a hedge is allowed to collect performance fees. If a hedge fund sets a 5% hurdle rate, for example, it will only collect incentive fees during periods when returns are higher than this amount.
- **Liquidity** - The ease with which an investment product/fund can be sold/redeemed without impacting its price. Hedge funds typically offer quarterly or annual liquidity, meaning that they allow investors to redeem their shares that often.
- **Offshore funds** – Vehicles structured for foundation or tax-deferred assets to avoid UBIT(Unrelated Business Income Tax) vs. **Onshore Funds** – Vehicles structured for taxable assets.
- **Performance fee** - A fee paid to a fund manager for providing returns on an investment, often by reference to a benchmark or Hurdle rate. This fee is based on a percentage of net new profits and is earned by the hedge fund manager for the period concerned. It may be paid annually or quarterly but accrues monthly in the fund valuation. (Typically, 20% of the fund’s profits, 50% for high-performing funds).
- **Redemption** - Liquidation of shares or interests in an investment fund.

## Understanding the Risk Spectrum

Alternative Investment Solutions Tailored to Client’s Risk and Return Objectives



Alternative investments are speculative and include a high degree of risk. Past results are not indicative of future performance. Alternative investments are suitable only for Accredited Investors who can assume the risk of losing their entire investment.

## Attention to the Due Diligence Process

Our Due Diligence Process



## Manager Selection Process: The “4 P’s”

As asset managers, we are uniquely positioned to vet managers

People	Process	Philosophy	Performance
<ul style="list-style-type: none"> <li>• Reputation</li> <li>• Sufficient staffing and resources</li> <li>• Full team analysis: tenure, cohesiveness</li> <li>• Succession Issues</li> <li>• Aligned incentives to clients</li> <li>• Compensation and carried interest distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to source deals in a competitive environment</li> <li>• Idea generation</li> <li>• Idea vetting</li> <li>• Process to reduce losses and protecting capital</li> <li>• Review of Private Placement Memorandum (PPM)</li> </ul>	<ul style="list-style-type: none"> <li>• Review strategy and outlook</li> <li>• Timeliness of investment strategy</li> <li>• Compelling philosophy</li> <li>• Competitive landscape</li> </ul>	<ul style="list-style-type: none"> <li>• Benchmark &amp; track record analysis</li> <li>• Attribution analysis</li> <li>• Attractive returns through different economic cycles</li> <li>• Consistency in execution</li> <li>• Relative performance to funds in same vintage year &amp; strategy</li> </ul>

To determine if alternative investments are right for you, please contact a BakerAvenue expert who can discuss your options and provide a comprehensive view of your overall wealth management needs.

## Integrated Wealth Management Strategies

Our goal is to ensure that you are on track to accomplish your goals. Whatever life transition you are experiencing, our commitment is to deliver a customized, long-term solution for you.

Investment Mngemet	Tax Planning	Lifestyle & Retirement Planning	Estate Planning	Lending & Finance	Risk Management	Philanthropy & Impact
<ul style="list-style-type: none"> <li>• Design &amp; implement personalized investment strategy</li> <li>• Manage risk to protect capital in high-risk markets</li> <li>• Create tailored asset allocations</li> <li>• Rebalance portfolios proactively and regularly</li> <li>• Manage &amp; diversify concentrated stock positions</li> </ul>	<ul style="list-style-type: none"> <li>• Review tax returns</li> <li>• Maximize contributions to tax-deferred accounts</li> <li>• Maximize tax benefit of charitable donations</li> <li>• Determine tax-efficient ways to distribute assets</li> <li>• Collaborate with your CPA</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct retirement cash flow analysis</li> <li>• Stress-test your plan for weaknesses</li> <li>• Analyze Roth IRA conversions</li> <li>• Strategize Social Security optimization</li> <li>• Navigate payout options for pension or deferred comp</li> </ul>	<ul style="list-style-type: none"> <li>• Review current estate plan and make changes as required</li> <li>• Eliminate problems and costs associated with probate</li> <li>• Strategize for tax-efficient transfer of wealth</li> <li>• Evaluate and recommend estate planning options</li> <li>• Referral to our preferred estate attorneys</li> </ul>	<ul style="list-style-type: none"> <li>• Preferred margin lending</li> <li>• Access to private banking solutions</li> <li>• First mortgage and refinance solutions</li> <li>• Pledged asset lending</li> <li>• Art &amp; collectables lending</li> <li>• Fully Paid Lending: opportunities to lend your shares and receive payment</li> </ul>	<ul style="list-style-type: none"> <li>• Review existing policies</li> <li>• Collaborate with insurance agents</li> <li>• Evaluate life and disability insurance needs</li> <li>• Design solutions for asset protection and income replacement</li> <li>• Online vault for secure document storage</li> </ul>	<ul style="list-style-type: none"> <li>• Review current philanthropic portfolio and/or interests</li> <li>• Educate on best practices for high-impact philanthropic investments</li> <li>• Strategize short- and long-term social impact strategies</li> <li>• Design and implement a tailored, high-impact philanthropic giving plan</li> </ul>

## Helping You Embrace Life's Transitions.

Since 2004, Baker Avenue has guided clients through personal and professional life transitions. Our firm provides comprehensive wealth management and investment expertise for high-net-worth individuals, families, trusts, foundations and endowments. Driven by our purpose, we strive to make a positive impact on society alongside financial return. We're headquartered in San Francisco with offices in New York, Dallas, Houston, Seattle, San Diego, Sun Valley, and Naples.

For more information, please [contact us](#) or visit us at [bakerave.com](http://bakerave.com).

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