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AN INTRODUCTION TO ALTERNATIVE INVESTMENTS

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TOPICS COVERED

What are alternative investments?



The term "alternative investment" is broad and could refer to an investment asset class or an investment style. In fact, the term often refers to anything outside the traditional world of publicly traded stocks, bonds, and cash. This primer starts there, with some examples of what falls under the alternatives umbrella, and then lays the groundwork for why this asset class has become central to the portfolios of many investors.

Why invest in alternatives?



The case for alternatives is not simply about chasing returns, though historical data is compelling. Alternatives may be used to build portfolios that could be more resilient, more diversified, and exposed to a broader set of opportunities than public markets alone can offer. We examine the potential advantages that draw institutional and individual investors alike to this space, including illiquidity premium and inflation protection to access to companies and assets not traded on a public stock exchanges.

How to invest in alternatives?



Believing alternatives belong in a portfolio is one thing. Knowing how to access them responsibly is another. This section covers the practical side including: what to look for in a manager, how to think about liquidity and time horizon before committing capital, and why the advisor relationship may matter more in private markets than almost anywhere else. The goal is to provide tools to evaluate your options with confidence rather than navigate a complex landscape alone.



WHAT ARE ALTERNATIVE INVESTMENTS?

The term "alternative investment" is, by its own definition, a little counterintuitive. Rather than describing what something is, it describes what something is not. At its most basic, an alternative investment is simply any investment that falls outside the three traditional categories of stocks, bonds, and cash.

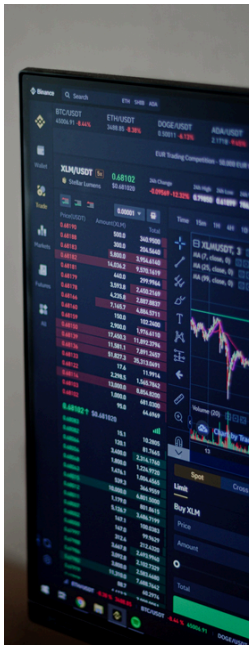
So what does that actually include? The best way to answer that question is through examples, several of which are highlighted on the following page. As those examples illustrate, an investment can earn the "alternative" label in two different ways: based on what is being invested in, such as a privately-held company, a piece of real estate, or a work of art, or based on the strategy used to invest, such as taking hedged positions in traditional stocks or bonds in a manner that aims to limit or “hedge” downside risk.

What alternatives share with traditional investments, however, is the fundamental goal. Whether the asset is a public stock or a private loan, investors are attempting to grow their capital by acquiring something they expect to pay them a cash return or to increase in value. There are no guarantees in either case. But by broadening the investment universe beyond public markets, investors may open the door to a wider range of potential outcomes, including higher returns, reduced volatility, and protection against inflation, all of which will be explored in the sections that follow.

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While alternative investment strategies vary widely, a few characteristics appear consistently across them. Understanding these traits will help clarify the nature of this asset class and set the stage for why alternatives may deserve a place in your portfolio.



The first is the role of active management. Alternative strategies typically involve actively managing investments to drive value creation, rather than simply buying and holding an index passively. This raises an important practical question: do you have the expertise to execute these strategies well on your own, or is it better to allocate to experienced managers who do this full time? Not all managers are equal, and identifying those with truly differentiated capabilities and a proven track record is one of the most important challenges an alternatives investor must overcome.

The second is illiquidity and valuation. Many alternative strategies focus on assets that do not carry a transparent daily price the way a publicly-traded stock does. While this adds complexity, it might also create opportunity. Less liquid markets can be less efficient, and inefficient markets could reward investors who have the skill and patience to capitalize on mispricings. The illiquidity that deters many investors is precisely what creates the potential opportunity for those willing and able to take a longer-term view of their capital.

The third is the regulatory environment. Many alternative investment strategies operate in lightly-regulated or entirely unregulated spaces, which means the burden of evaluating risk falls more heavily on the investor. It is important to understand the risks inherent in any given strategy and assess honestly whether they are appropriate for your specific investment goals, time horizon, and overall financial situation.

PRIVATE EQUITY (Buyout/LBO, Growth, Venture)



Private equity involves investing in companies that typically are not publicly traded, across three distinct strategies. Buyout acquires large or controlling stakes in mature businesses with the goal of improving operations and selling at a higher valuation. Growth equity backs companies that have proven their model and are scaling rapidly. Venture capital invests at the earliest stages, backing founders before meaningful revenue exists. Across all three, value is created actively, and the absence of public market pricing means skilled managers seek opportunities that broader markets have not yet recognized

REAL ASSETS (Real Estate, Infrastructure, Commodities, etc.)



Real assets are physical investments whose value derives from their utility in the real world. Real estate spans commercial properties, multifamily housing, data centers, and industrial facilities, generating returns through rental income and appreciation with inflation-linked lease structures. Infrastructure covers the essential systems economies depend on: power grids, utilities, airports, and telecommunications networks, typically operating under long-term contracts that produce predictable, stable cash flows. Together, real assets may provide income and inflation protection.

PRIVATE CREDIT (Direct Lending and Asset Based Finance)



Private credit is lending that takes place outside of public bond markets and traditional banks. Direct lending provides loans to middle-market companies at floating rates, typically in senior secured positions that give lenders a priority claim on assets in the event of default. Asset-based finance, or ABF, backs loans against specific pools of hard assets such as equipment leases, consumer loan portfolios, and trade receivables rather than general corporate creditworthiness. Together, these strategies offer income-driven returns with structural downside protection.

HEDGED STRATEGIES



Hedged strategies (or Hedge Funds) invest across asset classes including public stocks and bonds) but do so with an aim of offsetting market risk. For example, a long/short hedged strategy seeks to buy expected outperformers while shorting (or betting against) expected underperformers. Event-driven strategies seek to exploit price dislocations around mergers, spin-offs, and restructurings. Global macro strategies trade across currencies, rates, and commodities based on macroeconomic analysis. The defining characteristic is lower correlation to traditional asset classes, potentially making hedged strategies a portfolio stabilizer.

DIGITAL ASSETS (Bitcoin, Crypto)



Digital assets are a broad and evolving category of investable asset that is built on blockchain technology, encompassing cryptocurrencies like Bitcoin and Ethereum, tokenized real-world assets, and decentralized finance protocols. Investors are drawn to the potential for outsized returns and low correlation to traditional asset classes. However, regulatory frameworks remain unsettled, volatility is significant, and the technology continues to evolve rapidly. Digital assets, if used at all, may be best approached as a small, allocation within a broader alternatives portfolio rather than a core holding.

COLLECTIBLES & OTHER (Art, Etc.)



Collectibles place value on objects that are scarce, culturally significant, or widely desired. Fine art is the most institutionalized corner of this category, supported by established a auction infrastructure and a growing ecosystem of art-focused funds. Beyond art, the universe spans vintage wine, classic automobiles, rare watches, and sports memorabilia. Value is driven by scarcity and cultural demand rather than cash flows, returns can be significant over long periods, but liquidity is limited.

WHY INVEST IN ALTERNATIVES?

Expand Scope of Investments



Public stocks and bonds represents a small fraction of the investable universe. In equity invesing, many companies operate as private businesses, decreasing the number of companies trading on public exchanges. And that gap has been growing for decades. The number of publicly listed companies in the U.S. has actually fallen by nearly 50% since its peak in the late 1990s, while the private market has expanded dramatically. Companies are simply staying private longer.

Seek Higher Returns



Many investors allocate to alternative investments seeking to generate returns that are higher than those in traditional investments. Nothing is guaranteed. But past performance of many alternative strategies is compelling and encourages the trade-offs that come with investing in alternatives. Historically, alternative investments have offered investors a chance to earn higher returns in exchange for being willing to invest over extended periods of time or in exchange for other tradeoffs in risk.

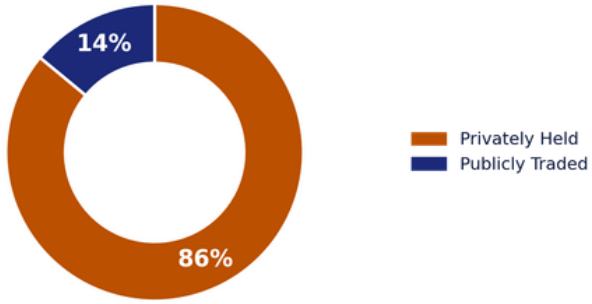
Seek Portfolio Diversification



Many alternative investment strategies have low correlation with traditional investments. As a result, adding these investment strategies to a portfolio to compliment the traditional investments could create a smoother investment experience and potentially less significant drawdowns when markets have large declines.

Many investors do not realize that "traditional investments" such as publicly-traded stocks and bonds only represent a small percentage of the total investment universe. This is understandable since CNBC, newspapers, etc. almost exclusively focus on the stock and bond markets. However, approximately 86% of companies with over $250 million in revenue are privately held (1).

Companies with >$250M in Revenue: Public vs. Private



The number of publicly-traded companies has decreased from around 8,000 to around 4,000 between 1996 and 2024. Also of note, the average company age at IPO has increased from 6 years in 2000 to 14 years in 2024 (1). Even companies that go public are staying private for longer, and many investors are missing meaningful opportunities to invest in these companies before they go public.

Notable Companies: Valuation at IPO

Company	IPO Year	Valuation at IPO
Snowflake	2020	$33B
Airbnb	2020	$47B
Uber	2019	$75.5B
Facebook (Meta)	2012	$104B
Alibaba	2014	$168B
SpaceX	2026	$2.3T
Anthropic	Pending*	$965B*
OpenAI	Pending*	$852B-$1T*

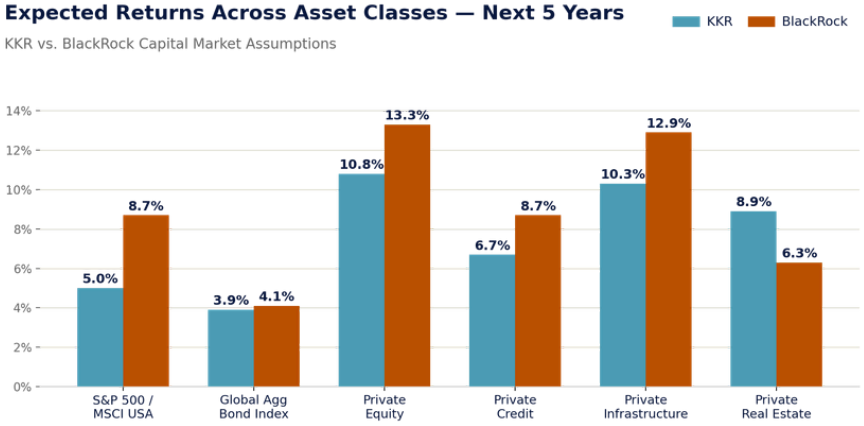
SOURCES
Sources: Forbes, CNBC, Bloomberg, Snowflake & Airbnb press releases (see notes). Figures rounded. valuation at initial offer price (SpaceX shown at post-IPO market cap).

NOTE ON PENDING IPOs
Anthropic and OpenAI have not completed an IPO. Figures reflect the most recent private funding round valuation (Anthropic: $965B, Series H, May 2026; OpenAI: $852B, March 2026) and, for OpenAI, reported IPO valuation targets as of July 2026. These are estimates, not confirmed offering prices, and are subject to change.

Alternative investment strategies have the potential to deliver higher investment returns. Because of this, many institutional and individual investors alike have chosen to allocate more capital to alternative strategies.

Expected Returns Across Asset Classes — Next 5 Years

KKR vs. BlackRock Capital Market Assumptions



(1) Source: Blackstone according to their internal research

Sources: KKR Capital Market Assumptions; BlackRock Investment Institute, May 2026 (data as of 3/31/2026).
Private Credit shown using BlackRock's unlevered direct lending assumption. Category definitions and methodologies differ by provider.
For illustrative purposes only. Past performance is not indicative of future results.

WHY INVEST IN ALTERNATIVES?

Illiquidity Premium



Private market strategies span a wide range of liquidity windows, from funds with monthly redemptions to those that lock up capital for several years. That stability of capital frees managers from quarterly earnings pressure, allowing genuine focus on building a business over a multi-year horizon. In exchange for accepting that lock-up, investors aim to earn a meaningful return premium over liquid equivalents. The longer the commitment and the less liquid the asset, the greater the premium investors should demand. This relationship between illiquidity and return potential is one of the most consistent and widely accepted principles in institutional investing, and it underpins why many of the world's largest endowments, pension funds, and sovereign wealth funds have steadily increased their allocations to private markets over decades.

Complexity Premium



Certain alternative strategies benefit from being highly complex and requiring deep expertise to execute. This naturally reduces competition. Fewer qualified investors competing for the same opportunity could lead to better pricing and stronger returns for those who can navigate it. Examples include life sciences and drug development, where scientific expertise is required alongside financial analysis, quantitative and algorithmic strategies which demand significant technical infrastructure, and restructurings and turnarounds which require operational and legal sophistication most investors simply do not have. The difficulty of the work is precisely what creates the potential for attractive investment performance.

Active Value Creation



Unlike public equity investing, where shareholders are largely passive, private equity managers sit on boards, replace management teams, and shape long-term strategy without the distraction of quarterly earnings calls. Value is created through three primary levers: lowering expenses through operational efficiency, driving organic revenue growth by expanding into new markets, and pursuing add-on acquisitions that build scale and competitive positioning. Because private equity managers are active participants rather than passive observers, returns are not simply captured from market movements. They are built, company by company, through deliberate and measurable operational improvements over the life of each investment.

Alternative investments don't just offer different assets; they could offer a fundamentally different source of return. While public market returns are driven almost entirely by market beta (the broad rise and fall of indices which are largely dictated by macroeconomic forces), private market returns are driven by factors that may exist independently of what the stock market does on any given day (read more about these factors on the next page).

Beyond the potential for higher returns, alternatives could play a critical role in building a more resilient portfolio. One of the most important principles in investing is that not all assets move in the same direction at the same time. This is where the fundamental idea of diversification becomes important. Nobel Prize winning economist Harry Markowitz is quoted saying, "Diversification is the only free lunch in investing."

Historically, people would use a combination of stocks and bonds to achieve their diversification, but, between 2022 and 2025 stocks and bonds had a positive correlation 73% of the time. If the two assets you use for diversification are moving together, you lose the primary risk mitigation benefits of diversifying. Adding alternitives to a portfolio could help increase your risk mitigation.

Every investment, regardless of label, is simply a claim on future cash flows. A public stock is a claim on a company's future earnings. A corporate bond is a claim on its future interest payments. A piece of real estate is a claim on future rent. A private loan is a claim on future principal and interest. Warren Buffett has long emphasized this principle: the value of any asset is nothing more than the present value of what it will produce over its lifetime. What makes alternative investments distinct is not that they operate on different principles, but that they access cash flows through private, possibly less efficient markets where patient, skilled capital may be rewarded more generously than in the public arena. The three premiums described here, illiquidity, complexity, and active value creation, are the mechanisms through which that reward may be earned.

These three premiums rarely operate on their own. A private equity buyout tends to capture all three at once. Investors lock up capital for years, which is the illiquidity premium. The manager needs sector-specific underwriting skill to navigate a less efficient market, which is the complexity premium. Then that manager has to actually grow the business operationally instead of waiting for the market to re-rate it, which is active value creation. Layered together, these three factors help explain why private equity has historically outperformed public markets over long holding periods.

Because these returns depend on skill and access rather than simply tracking an index, the gap between strong and weak managers is far wider in alternatives than in public markets. A good stock picker might beat a mediocre one by a few percentage points a year. In private equity and other alternative strategies, the difference between a top-performing manager and a bottom-performing one can be several multiples wide. Picking the right asset class is only half the decision. Picking the right manager within that asset class often matters even more.

HOW TO INVEST IN ALTERNATIVES?

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Evaluate suitability



Alternative investments are not appropriate for every investor. They may require a longer time horizon, a higher tolerance for illiquidity, and a higher minimum net wealth profile. Before allocating to these investments, it is important to assess your overall financial picture: income, existing assets, tax situation, and long-term goals. Most alternative funds are available only to accredited investors or qualified purchasers, thresholds that exist to safeguard investors.

Evaluate needs for liquidity



Unlike public securities, many alternative investments do not offer daily access to your capial. Private equity may hold capital for seven to ten years, and private credit funds may offer only quarterly redemption windows at best. Before committing, it is critical to map out your liquidity needs across near, medium, and long-term horizons and ensure that only capital you genuinely do not need in the short run is committed to illiquid strategies.

Perform proper due diligence

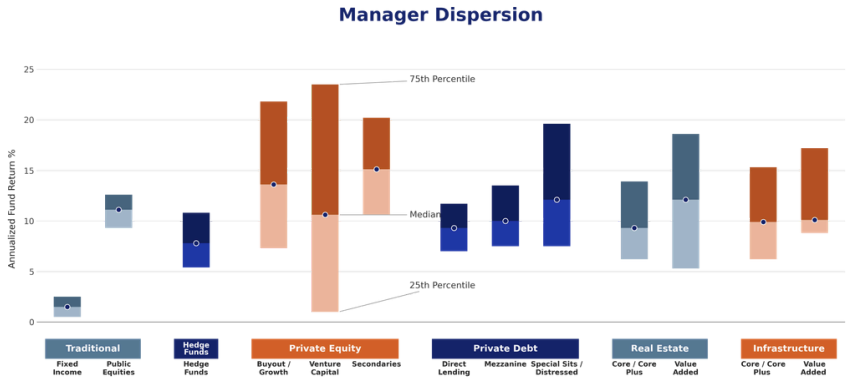


The dispersion of returns between top and bottom-quartile managers in private markets is dramatically wider than in public markets, making manager selection one of the most consequential decisions an alternatives investor makes. Proper due diligence involves vetting track records across full market cycles, assessing team stability, evaluating internal risk controls, and stress-testing alignment of interest between the manager and their investors.

Investing in alternative assets is fundamentally different from buying a stock or a bond. There is no exchange, no ticker, and no instant liquidity. Getting it right requires a process, one built around understanding the investor as much as the investment.

The first question is liquidity. Unlike public securities that you can buy or sell any day the markets are open, many alternative investments do not offer daily access to your capital. Before allocating to alternatives, it is critical to map out your liquidity needs near-term, medium-term, and long-term, and ensure that only capital you genuinely do not need in the short run is committed to illiquid strategies. A well-constructed alternatives portfolio always preserves a meaningful liquidity buffer.

The second question is due diligence. The dispersion of returns between top-quartile and bottom-quartile managers in private markets is dramatically wider than in public markets, meaning manager selection is one of the most consequential decisions an alternatives investor makes. The graph below inspired from CIAA emphasizes this dispersion across every major alternatives category, from private equity buyout to infrastructure, showing how important it is to select the correct managers in alternative markets. Choosing the right manager is not a secondary consideration. It is perhaps the most critical decision.



The asset classes covered in this primer, including private equity, private credit, real assets, hedged strategies, digital assets, and collectibles, each offer a distinct return profile, risk characteristic, and role within a broader portfolio. None of them is a substitute for the others, and the most resilient portfolios tend to draw from several categories rather than concentrating in one. The goal is not simply to add alternatives to a portfolio. It is to build a portfolio that is more durable, more diversified, and better positioned to generate wealth across every market environment.

Given the complexity involved, the breadth of manager relationships required, and the depth of due diligence that separates good outcomes from poor ones, most investors find that navigating private markets alone is neither practical nor optimal. The investors who have historically done this best, endowments, pension funds, sovereign wealth funds, have done so with dedicated teams whose entire focus is finding, evaluating, and monitoring the best opportunities the private markets have to offer. For individual investors seeking that same level of access and expertise, the most important decision may not be which asset class to invest in. It may be who you choose to guide you there.

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