CAPITAL CYCLE
INTELLIGENCE

THE CCI ROSETTA STONE SERIES



HOW CCI READS MARKETS

A FRAMEWORK FOR UNDERSTANDING THE FORCES BEHIND PRICE

Translating the forces that shape markets
into a language investors can understand and apply.

ALTERNATIVE ASSETS

A CCI Foundation for Understanding, Researching and Allocating Beyond Traditional Public Markets

PART I

UNDERSTANDING ALTERNATIVE ASSETS

The CCI Rosetta Stone Series—translating private markets, specialist strategies, illiquidity and manager-dependent returns into a language investors can understand and apply.

WELCOME

Alternative assets are difficult to define because the word *alternative* does not describe what an investment is.

It describes what the investment is not.

It usually means an asset, strategy or ownership structure that sits outside conventional publicly traded equities, fixed income and cash.

That definition creates an unusually broad category.

Alternative assets can include:

- Private equity
- Venture capital
- Private credit
- Hedge funds
- Infrastructure
- Royalties
- Intellectual property
- Insurance-linked securities
- Litigation finance
- Collectibles
- Art
- Wine
- Specialist real assets
- Complex or absolute-return strategies

Some classifications also include property, commodities, precious metals and digital assets.

Within the CCI Rosetta Stone Series, those asset classes possess their own dedicated foundations. They will therefore not be treated as though they are merely subcategories of “alternatives.”

This document instead focuses on the investments and strategies that remain outside those dedicated frameworks.

The category’s breadth creates a foundational problem.

A venture-capital fund financing early-stage technology companies has little in common with a music-royalty portfolio.

A private-credit fund does not possess the same return engine as a hedge fund.

An insurance-linked security does not respond to the same risks as a collectible.

Infrastructure equity can produce long-duration contractual income while litigation finance depends on legal outcomes whose timing is deeply uncertain.

Calling each of them an alternative asset does not make them economically similar.

At CCI, we therefore refuse to begin with the label.

We ask:

- What exactly do you own?
- What legal claim does the investment provide?
- Which underlying asset, business, contract or event generates the return?
- Who controls the capital?
- What decisions must the manager make?
- How much leverage exists?
- How is the investment valued?
- When can the member access the capital?
- Who provides liquidity?
- Which fees and expenses stand between gross and net return?
- What must occur before cash reaches the investor?
- What could permanently impair the capital?
- What purpose could the exposure perform within the portfolio?

Alternatives are often presented as solutions to the limitations of traditional markets.

They may offer:

- Access to private businesses
- Specialist sources of income
- Manager skill
- Less conventional return drivers
- Potential diversification
- Exposure to complex or inefficient markets
- A longer investment horizon
- Greater control over assets or companies

Those characteristics can be valuable.

They can also conceal:

- Illiquidity
- Leverage
- Subjective valuations
- Limited disclosure
- Manager dependence
- Complex fees
- Conflicts of interest
- Restricted exit rights
- Concentrated risk
- Uncertain cash-flow timing

The SEC's investor guidance notes that private-equity investments commonly involve long holding periods, restricted withdrawals, high investment minimums and conflicts that must be understood through the fund's governing documents. Investor.gov

The lack of a daily quoted price can make an alternative asset appear stable.

That appearance may reflect:

- Genuine independence from public markets
- Long-duration capital
- Infrequent valuation
- Manager discretion
- Limited transaction evidence
- Delayed recognition of deterioration

These explanations are not equivalent.

Alternative assets therefore require us to distinguish between three forms of difference:

1. **A different underlying asset**
2. **A different investment strategy**
3. **A different ownership or liquidity structure**

An investment can be alternative because of one, two or all three.

This document will help you separate those dimensions before reconnecting them through the CCI framework.

The objective is not to convince you that alternative assets are inherently superior or necessary.

It is to help you determine:

- Which opportunity is genuinely distinct
- What economic exposure it creates
- Whether the illiquidity is being compensated
- Whether the manager can create value after fees
- Whether the legal and operational structure protects the investor
- How the investment behaves under stress
- Whether the exposure improves the complete portfolio

Before deciding whether an alternative investment deserves your capital, we must first understand what makes it alternative.

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1. WHAT IS AN ALTERNATIVE ASSET?

An alternative asset is an investment whose underlying exposure, strategy, trading market or ownership structure differs materially from conventional listed equities, publicly traded bonds and cash.

This definition is deliberately broad.

The label can apply because the investment is:

- Privately owned
- Infrequently traded
- Difficult to value
- Contractually illiquid
- Manager-driven
- Highly specialised
- Exposed to an unusual economic event
- Implemented through leverage, short selling or derivatives
- Unavailable through ordinary public markets

Alternative by Asset

Some investments involve underlying assets not commonly found in traditional portfolios.

Examples include:

- Royalties
- Intellectual property
- Legal claims
- Collectibles
- Insurance risk
- Specialist infrastructure
- Agricultural or biological assets not captured elsewhere

Their return engines arise from the underlying asset or contract.

Alternative by Market

A familiar economic exposure can become alternative because it is owned privately.

A private business remains an equity investment economically.

A privately negotiated corporate loan remains a credit investment.

The market structure changes:

- Disclosure
- Liquidity
- Valuation
- Governance
- Negotiating power
- Investor access

The underlying economic risk does not disappear.

Alternative by Strategy

A fund may trade familiar public securities through an alternative strategy.

Examples include:

- Long–short equity
- Global macro
- Event-driven
- Relative value
- Merger arbitrage
- Market-neutral
- Systematic trend
- Convertible arbitrage
- Distressed investing

The securities may be traditional.

The return process is not.

Alternative by Structure

An investment may become alternative because it is held through:

- A closed-end private fund
- A limited partnership
- A trust
- A special-purpose vehicle
- A co-investment
- A feeder fund
- A semi-liquid vehicle
- An interval or tender-offer structure

The structure determines how the member enters, receives information, pays fees and eventually exits.

The Label Is Not a Risk Classification

The word *alternative* does not tell you whether an investment is:

- Defensive
- Aggressive
- Diversifying
- Income-producing
- Leveraged
- Liquid
- Speculative
- Suitable

Those characteristics must be discovered through research.

The CCI Definition

At CCI, we treat an alternative investment as:

A non-traditional asset, strategy or ownership structure whose return and risk must be traced to its underlying economic engine rather than inferred from the alternative label.

2. BEGIN WITH THE ECONOMIC EXPOSURE

Alternative investments often possess unfamiliar names and elaborate structures.

The analysis becomes clearer when we ask what familiar economic risk sits underneath them.

Private Equity Is Still Equity

Private equity represents ownership in businesses.

Its return ultimately depends on:

- Revenue
- Margins
- Cash flow
- Growth
- Debt
- Valuation
- Capital allocation
- Exit

Private ownership can provide greater control and a longer operating horizon.

It does not transform a weak business into a strong one.

Private Credit Is Still Credit

Private credit represents a contractual claim against a borrower.

Its outcome depends on:

- Capacity to pay
- Willingness to pay
- Seniority
- Security
- Covenants
- Maturity
- Refinancing
- Recovery
- Price

Private negotiation can improve protections.

It does not eliminate default risk.

Infrastructure Is Still an Operating Asset

Infrastructure may provide essential services through:

- Transport
- Energy
- Utilities
- Communications
- Social facilities

Its return may depend on:

- Usage
- Regulation
- Contract
- Inflation linkage
- Availability
- Operating performance
- Debt

The word *essential* does not guarantee an acceptable purchase price.

Hedge Funds Are Strategies

A hedge fund is not one asset class.

It is a private investment vehicle that may pursue a wide range of strategies.

Investor.gov notes that hedge funds can use leverage, short selling, derivatives and other flexible techniques unavailable or more restricted in conventional funds. Investor.gov

The risk depends on what the manager actually does.

Royalties Are Contractual Claims

A royalty may provide a right to receive payments linked to:

- Revenue
- Production
- Usage
- Licensing
- Intellectual property

The investor must assess:

- The underlying asset
- Payment formula

- Counterparty
- Duration
- Legal enforceability
- Concentration
- Technological change

Collectibles Depend on Future Preference

Art, wine, watches and other collectibles may derive value from:

- Scarcity
- Provenance
- Condition
- Cultural significance
- Fashion
- Buyer wealth
- Future demand

They generally do not produce cash flow merely through ownership.

Their return depends heavily on resale value after costs.

Insurance-Linked Investments Transfer Event Risk

Some investments earn premiums in exchange for accepting specified insurance risks.

Returns may depend on:

- Event occurrence
- Contract definition
- Loss measurement
- Model accuracy
- Capital structure
- Correlation between events

Low historical correlation does not mean low absolute risk.

The CCI Look-Through Principle

Every alternative investment should be translated into a familiar economic language: ownership, lending, contract, trading strategy, operating asset or resale dependence.

Complexity should be reduced before it is rewarded.

3. THE MAIN ALTERNATIVE-ASSET FAMILIES

Alternative assets can be organised into broad families.

The categories provide a starting point.

They do not replace analysis of the individual investment.

Private Equity

Private equity funds invest in privately held businesses.

Strategies may include:

- Buyouts
- Growth equity
- Turnarounds
- Distressed control
- Industry consolidation
- Minority investments

The manager may seek to improve value through:

- Revenue growth
- Operational efficiency
- Management change
- Acquisitions
- Debt reduction
- Strategic repositioning
- Sale or listing

Private-equity funds commonly use closed-end structures and long holding periods because portfolio companies can take years to transform and sell.

Venture Capital

Venture capital finances early-stage or rapidly growing businesses.

Returns may depend on:

- Product adoption
- Market size
- Technology

- Management
- Follow-on funding
- Competitive advantage
- Exit opportunities

Many investments may fail.

A small number of exceptional outcomes can drive the fund's overall return.

This creates a return distribution unlike that of a conventional diversified equity portfolio.

Private Credit

Private credit may include:

- Direct lending
- Senior secured lending
- Unitranche loans
- Mezzanine finance
- Asset-backed lending
- Distressed debt
- Special situations
- Venture debt
- Real-estate debt

Private credit often offers floating-rate income and negotiated documentation.

It may also involve:

- Fragile borrowers
- Limited secondary markets
- Subjective valuation
- Leverage
- Payment-in-kind interest
- Refinancing dependence

The IMF has highlighted borrower vulnerability, liquidity mismatch, leverage, valuation and opacity as important areas requiring attention within private credit. International Monetary Fund

Hedge Funds and Absolute-Return Strategies

Strategies may include:

- Long–short equity
- Global macro
- Relative value
- Event-driven
- Distressed
- Arbitrage
- Systematic trend
- Multi-strategy

- Volatility trading

Return depends on:

- Manager skill
- Market opportunity
- Gross exposure
- Net exposure
- Leverage
- Short positions
- Derivatives
- Risk management
- Financing
- Execution

Two hedge funds can have almost nothing in common beyond their legal category.

Infrastructure

Infrastructure may include:

- Airports
- Ports
- Toll roads
- Rail
- Utilities
- Energy networks
- Telecommunications towers
- Fibre networks
- Social infrastructure

Its revenue may be:

- Regulated
- Contracted
- Usage-based
- Availability-based
- Market-linked

Infrastructure can possess property-like, equity-like, bond-like and inflation-sensitive characteristics simultaneously.

Natural-Capital and Environmental Assets

These may include exposure to:

- Forestry
- Water
- Carbon-related rights
- Conservation
- Ecosystem services

- Sustainable land use

Their economics can depend on:

- Biological growth
- Commodity prices
- Regulation
- Verification
- Land
- Climate
- Measurement
- Market design

Royalties and Intellectual Property

These may include rights connected to:

- Music
- Film
- Publishing
- Patents
- Pharmaceuticals
- Brands
- Franchise systems
- Mineral production

Income may be attractive when rights are durable and diversified.

It may decline through:

- Changing consumer preference
- Technological disruption
- Patent expiry
- Legal dispute
- Platform concentration
- Counterparty failure

Insurance-Linked Securities

These investments may transfer risks such as:

- Hurricanes
- Earthquakes
- Mortality
- Longevity
- Other insured events

The investor earns compensation for accepting specified event risk.

The apparent independence from financial markets can disappear when multiple risks or liquidity needs occur together.

Litigation Finance

Litigation finance provides capital connected to legal claims.

Returns may depend on:

- Case outcome
- Settlement
- Damages
- Legal costs
- Jurisdiction
- Enforcement
- Duration

The timing and outcome can be highly uncertain.

Collectibles

Collectibles may include:

- Art
- Wine
- Watches
- Coins
- Classic vehicles
- Memorabilia
- Rare objects

The investor must examine:

- Authenticity
- Provenance
- Condition
- Storage
- Insurance
- Market depth
- Dealer incentives
- Transaction costs
- Buyer concentration

Scarcity without durable demand does not create investment value.

Specialist Finance

Other alternatives may include:

- Trade finance
- Receivables
- Equipment leasing
- Aircraft finance

- Shipping finance
- Consumer-credit pools
- Music and media finance
- Structured settlements

Each must be traced to the asset, borrower or cash flow generating repayment.

4. PRIVATE MARKETS AND PUBLIC MARKETS

Private and public markets can finance similar economic activity.

They differ in how ownership, information, valuation and liquidity are organised.

Public Markets

Public securities generally provide:

- Exchange trading
- Observable prices
- Regular disclosure
- Broader investor access
- Greater standardisation
- Established market infrastructure

Those features do not eliminate risk.

They make some risks easier to observe and trade.

Private Markets

Private markets may provide:

- Negotiated terms
- Greater control
- Access to unlisted opportunities
- Longer investment horizons
- Custom financing
- Reduced short-term market pressure

They may also involve:

- Limited disclosure
- Restricted transfer
- Infrequent valuation
- Manager discretion
- Complex structures
- High fees
- Concentration
- Long capital commitments

Private Does Not Mean Uncorrelated

A private company is exposed to:

- The economy
- Interest rates
- Credit
- Competition
- Technology
- Customer demand
- Valuation

Its price may not be quoted every day.

Its economics still change.

Public Market Comparisons

A private investment should be compared with relevant public alternatives.

Ask:

- Is the underlying asset genuinely different?
- Is the return higher after fees?
- How much leverage explains the difference?
- How much value comes from illiquidity?
- Is public-market volatility merely being hidden through appraisal?
- What return would the member require for the longer commitment?

Information Advantage

Private ownership can provide:

- Direct access to management
- Detailed operational data
- Board representation
- Contractual protections
- Negotiated reporting

This advantage exists only when the investor or manager possesses the skill and authority to use it.

Control

Control may allow an owner to:

- Change management
- Allocate capital
- Sell assets
- Adjust strategy
- Improve operations

- Determine exit timing

Minority investors may not possess those rights.

They should not pay as though they do.

Price Discovery

Private valuations may be based on:

- Models
- Comparable companies
- Recent financing
- Appraisals
- Manager assumptions
- Third-party opinions

A private price can remain unchanged while comparable public values move materially.

The difference may represent:

- Genuine long-term value
- Temporary public-market dislocation
- Stale valuation
- Optimistic assumptions
- Lack of transaction evidence

The CCI Private-Market Principle

Private ownership can change control, information and time. It does not repeal economic risk.

5. OWNERSHIP STRUCTURES AND THE FUND LIFECYCLE

Many alternative investments are accessed through pooled vehicles.

The structure determines how capital enters, operates and eventually returns.

General Partner and Limited Partners

In a typical private fund:

- The general partner or manager controls investment decisions.
- Limited partners contribute capital.
- The fund invests according to a defined mandate.
- Cash is distributed as investments are realised.

Limited liability does not mean limited investment risk.

Capital Commitment

An investor may commit a stated amount without paying it all immediately.

The manager calls capital as opportunities arise.

The member must retain sufficient liquidity to satisfy those calls.

Failure to fund may result in:

- Penalties
- Loss of rights
- Forced sale
- Dilution
- Default under the fund agreement

Investment Period

During the investment period, the manager sources and acquires assets.

The member may experience:

- Capital calls
- Fees

- Limited distributions
- Negative early reported return

The capital has not yet completed its investment cycle.

Harvesting Period

As investments mature, the manager may:

- Sell companies
- Refinance assets
- Distribute income
- Return capital
- Extend holdings
- Transfer assets to another vehicle

The timing remains partly within the manager's control.

Fund Term

A fund may have an expected term of:

- Several years
- A decade
- Longer

Extensions may be permitted.

An expected maturity is not the same as a guaranteed return date.

Investor.gov notes that private-equity fund horizons commonly extend to ten years or more and may require investors to wait several years before returns are realised. Investor.gov

Closed-End Funds

Closed-end private funds commonly prevent routine redemption.

This can align long-term capital with illiquid assets.

It also removes investor control over exit timing.

Open-End and Semi-Liquid Vehicles

Some alternative vehicles offer periodic redemption.

The member should examine:

- Notice periods
- Redemption limits
- Gates

- Queues
- Suspension rights
- Valuation timing
- Asset liquidity
- Cash buffers

A vehicle offering liquidity does not guarantee that the underlying assets are liquid.

Special-Purpose Vehicles

An SPV may hold:

- One company
- One loan
- One property
- One legal claim
- A concentrated group of assets

SPVs can provide focused access.

They can also create severe concentration and additional fees.

Co-Investments

A co-investment allows an investor to invest alongside a fund in a particular asset.

Potential benefits may include:

- Lower fees
- Greater asset visibility
- Targeted exposure

Risks may include:

- Concentration
- Limited diligence time
- Adverse selection
- Dependence on the lead manager
- Different exit rights

Continuation Vehicles

A manager may transfer assets from an older fund into a new vehicle.

This can provide additional time for value creation.

It can also create conflicts because the manager may influence both sides of the transaction.

The CCI Lifecycle Question

CCI asks:

When is capital committed, when is it invested, who controls it, under what conditions can it be returned, and what happens if the expected exit does not occur?

Time is part of the investment contract.

6. HOW ALTERNATIVE-ASSET RETURNS ARE CREATED

Alternative returns can arise from several sources.

They should be separated before the investment is evaluated.

Income

Income may come from:

- Interest
- Rent
- Royalties
- Licence fees
- Insurance premiums
- Contractual payments
- Operating cash flow
- Distributions

The member should determine whether income is:

- Cash
- Accrued
- Payment-in-kind
- Recurring
- Variable
- Dependent on refinancing
- Produced by asset sales

A distribution is not automatically investment income.

It may include return of capital.

Business Growth

Private equity and venture capital may benefit from:

- Revenue growth
- Margin improvement
- Market expansion
- Product adoption
- Operational efficiency
- Acquisitions

Growth creates value only when it eventually produces distributable cash flow or a credible exit price.

Operational Improvement

A controlling owner may create value through:

- Management change
- Better procurement
- Pricing
- Digitalisation
- Cost reduction
- Asset sales
- Working-capital improvement
- Strategic focus

The manager should distinguish value created operationally from value produced by leverage or rising market multiples.

Leverage

Borrowing can increase the return on investor equity.

It can also magnify loss and reduce strategic flexibility.

Private-equity returns, infrastructure returns and hedge-fund returns may all be influenced by leverage at different layers.

Multiple Expansion

An asset can be acquired at one valuation multiple and sold at a higher one.

This can create strong returns without equivalent operating improvement.

A thesis dependent on multiple expansion requires a future buyer willing to pay more.

Illiquidity Premium

Investors may require additional expected return for committing capital to an asset that cannot be readily sold.

Whether that premium is actually earned depends on:

- Purchase price
- Competition
- Manager skill
- Fees
- Exit conditions
- The member’s ability to remain invested

Illiquidity does not create return automatically.

It creates a requirement for return.

Complexity Premium

Specialist assets may offer attractive terms because fewer investors can analyse them.

Complexity can create opportunity.

It can also conceal risk.

The member should be compensated for complexity rather than impressed by it.

Manager Skill

Some strategies depend heavily on:

- Selection
- Timing
- Structuring
- Negotiation
- Operations
- Hedging
- Risk management
- Exit

Manager skill must be assessed after:

- Fees
- Leverage
- Market exposure
- Luck
- Valuation assumptions

Repricing

An illiquid or distressed asset may be acquired below its estimated economic value.

Return may arise when:

- Liquidity improves
- Uncertainty resolves
- Forced selling ends
- Cash flow stabilises
- The asset becomes eligible for a broader buyer base

Total Net Return

A simplified relationship is:

Net return = underlying asset return + operational value created + structural advantage – financing – fees – expenses – losses

The member receives the net result.

The manager’s gross presentation is not the investment outcome.

7. ILLIQUIDITY, LOCK-UPS AND THE PRICE OF TIME

Illiquidity is one of the defining characteristics of many alternatives.

It can be useful.

It can also be dangerous.

Asset Illiquidity

An underlying investment may take time to sell because it is:

- Private
- Unique
- Complex
- Concentrated
- Difficult to value
- Dependent on specialist buyers
- Legally restricted

Vehicle Illiquidity

The underlying assets may be tradable while the fund restricts investor withdrawals.

Restrictions may include:

- Lock-ups
- Notice periods
- Gates
- Queues
- Suspension rights
- Manager discretion

Market Illiquidity

Liquidity may disappear during stress when:

- Buyers withdraw
- Financing tightens
- Valuation becomes uncertain
- Correlations rise

- Margin calls increase
- Investors seek cash simultaneously

The price available during stress matters more than normal trading conditions.

Illiquidity Can Improve Alignment

Long-term capital can allow managers to:

- Avoid forced selling
- Complete operational plans
- Restructure businesses
- Finance long-duration assets
- Invest through volatility

The advantage belongs to the portfolio only when the member does not need the capital earlier.

Illiquidity Can Hide Deterioration

An untraded asset may retain its reported value while:

- Earnings decline
- Comparable valuations fall
- Credit weakens
- Exit markets close
- Required returns rise

Low reported volatility can reflect delayed measurement rather than low risk.

Liquidity Mismatch

A vehicle creates liquidity mismatch when it offers investors more frequent access than its underlying assets can support.

During stress, the fund may respond through:

- Gates
- Suspensions
- Asset sales
- Borrowing
- Delayed payments
- Redemption queues

Secondary Markets

Some private fund interests can be sold in secondary markets.

The sale may involve:

- Manager consent

- Limited buyers
- Long negotiation
- Legal cost
- Substantial discount
- Information disadvantage

The existence of a secondary market does not make the investment liquid.

Capital-Call Liquidity

Commitments create future obligations.

The member should reserve sufficient liquidity for capital calls under difficult market conditions—not only normal conditions.

Calls may occur when listed assets have already fallen and portfolio liquidity is most valuable.

The CCI Illiquidity Principle

Illiquidity is acceptable only when the member can surrender control of the capital for the required period and the prospective return compensates for that surrender.

If the investor may need the capital, the premium is irrelevant.

8. VALUATION WITHOUT CONTINUOUS PRICE DISCOVERY

Many alternative assets lack an observable daily market price.

Their valuation may require judgement.

Valuation Methods

Depending on the asset, valuation may use:

- Comparable public companies
- Comparable transactions
- Discounted cash flow
- Appraisal
- Recent financing
- Net asset value
- Modelled loss
- Estimated recovery
- Broker quotes
- Manager judgement

Each method contains assumptions.

Stale Valuation

A valuation can become stale when it fails to incorporate changing:

- Interest rates
- Public-market multiples
- Credit spreads
- Earnings
- Liquidity
- Risk
- Exit conditions

A stable mark does not prove stable value.

Model Risk

A model may be technically correct while producing a misleading result because its assumptions are weak.

Relevant assumptions may include:

- Growth
- Margins
- Discount rate
- Default
- Recovery
- Exit multiple
- Timing
- Volatility
- Correlation
- Event frequency

Manager-Valued Assets

Conflicts can arise when the manager influences valuations used to calculate:

- Performance
- Fees
- Redemptions
- Fundraising
- Collateral
- Track record

Independent valuation can reduce conflict.

It does not eliminate uncertainty.

Recent Financing

A recent capital raising may provide valuation evidence.

It may still contain:

- Preferential rights
- Liquidation preferences
- Guarantees
- Structured terms
- Insider support
- A small transaction size

The headline valuation may not represent the economic value of ordinary ownership.

Appraisal Smoothing

Periodic appraisal can reduce measured volatility.

This may make reported risk statistics appear favourable.

The underlying economics remain exposed to markets, rates and operating performance.

Realised and Unrealised Return

Unrealised return reflects estimated change in value.

Realised return reflects cash received through:

- Sale
- Repayment
- Distribution
- Refinancing
- Maturity

A fund can report attractive unrealised performance for years without proving that investments can be exited at those values.

Internal Rate of Return

Internal rate of return is sensitive to the timing of cash flows.

Early distributions can increase the reported IRR even when the total wealth created is less impressive.

The member should also examine:

- Multiple of invested capital
- Distributions to paid-in capital
- Residual value
- Total value
- Net return
- Public-market comparison

The CCI Valuation Question

CCI asks:

Who determines the value, using which assumptions, how independently, how often—and what evidence demonstrates that the investment could be realised near that value?

A valuation is an estimate.

Liquidity converts the estimate into evidence.

9. MANAGERS, INCENTIVES, FEES AND CONFLICTS

Many alternatives are manager-dependent investments.

The member is selecting both an opportunity and a decision-maker.

Manager Skill

Relevant skill may include:

- Sourcing
- Underwriting
- Negotiation
- Structuring
- Operations
- Risk management
- Workout
- Exit
- Capital allocation

A strong historical market can make many managers appear skilled.

Performance should be decomposed.

Track Record

Ask whether the track record is:

- Complete
- Verified
- Net of fees
- Realised or unrealised
- Produced by the current team
- Relevant to the proposed strategy
- Achieved with similar leverage
- Repeated across cycles

Team Stability

A fund's brand does not make decisions.

People do.

Examine:

- Decision-makers
- Turnover
- Succession
- Ownership
- Incentives
- Operating partners
- Key-person provisions

Management Fees

Management fees may be charged on:

- Committed capital
- Invested capital
- Net asset value
- Gross assets

The basis materially affects cost.

Performance Fees and Carried Interest

Managers may receive a share of investment profits.

The calculation can depend on:

- Hurdle rate
- High-water mark
- Catch-up
- Realisation
- Fund-level or deal-level performance
- Clawback
- Loss carry forward

Other Fees

Additional fees may include:

- Transaction
- Monitoring
- Arrangement
- Administration
- Valuation
- Legal
- Consulting
- Financing
- Broken-deal expenses

- Director fees

The member should determine who receives each fee and whether it offsets the management fee.

Conflicts of Interest

Conflicts may arise through:

- Allocation between funds
- Related-party services
- Cross-fund transactions
- Continuation vehicles
- Co-investments
- Valuation
- Expense allocation
- Personal investments
- Fundraising
- Preferential terms

Disclosure does not necessarily remove a conflict.

It tells the member the conflict exists.

Manager Commitment

A meaningful personal investment by the manager may improve alignment.

Its significance depends on:

- Size relative to personal wealth
- Financing
- Withdrawal rights
- Whether the investment carries equal terms
- Fee income received elsewhere

Asset Gathering

A manager may benefit from raising more capital even when the opportunity set is limited.

Excessive fund growth can:

- Weaken selectivity
- Encourage larger deals
- Reduce prospective returns
- Expand staff and infrastructure
- Increase pressure to invest

The CCI Manager Principle

In manager-dependent alternatives, the member is underwriting the manager's judgement, incentives, integrity and capacity—not merely the stated strategy.

10. COMPLEXITY, LEVERAGE AND LAYERED RISK

Alternative assets can contain risk at several levels simultaneously.

The member must look through every layer.

Asset-Level Risk

The underlying asset may face:

- Business failure
- Default
- Event risk
- Obsolescence
- Legal uncertainty
- Operating loss
- Demand change

Portfolio-Company Leverage

A private-equity-owned business may borrow to:

- Finance acquisition
- Pay distributions
- Fund growth
- Complete acquisitions

Leverage can improve equity returns.

It can also weaken resilience.

Fund-Level Leverage

The fund itself may borrow through:

- Subscription facilities
- Net-asset-value loans
- Margin
- Repo
- Derivatives
- Credit lines

This creates another layer above the asset.

Investor-Level Leverage

An investor may borrow to fund:

- Commitments
- Capital calls
- Fund interests
- Personal allocation

Loss can therefore be magnified across several layers.

Embedded Leverage

Derivatives, short positions and structured products can create economic exposure exceeding the capital invested.

Reported net exposure may conceal large gross positions.

Subscription Facilities

A fund may borrow against investor commitments before calling capital.

This can:

- Simplify administration
- Accelerate transactions
- Delay capital calls

It can also:

- Increase costs
- Alter reported IRR
- Create lender claims
- Concentrate later capital calls

Net-Asset-Value Financing

A fund may borrow against the value of existing portfolio assets.

This can provide:

- Liquidity
- Follow-on capital
- Time
- Distributions

It may also transfer risk across the portfolio and place stronger assets behind weaker ones.

Short Selling

A short position may lose more than the initial capital allocated if the price rises substantially.

It also introduces:

- Borrow availability
- Financing cost
- Recall
- Squeeze
- Collateral
- Timing risk

Derivatives

Derivatives may be used for:

- Hedging
- Leverage
- Relative value
- Event exposure
- Portfolio construction

They introduce:

- Counterparty risk
- Margin
- Basis
- Path dependency
- Liquidity
- Model risk

Operational Complexity

Alternative structures may depend on:

- Administrators
- Custodians
- Prime brokers
- Valuation agents
- Lawyers
- Insurers
- Special-purpose vehicles
- Offshore entities

The return chain is only as reliable as the controls surrounding it.

Complexity Must Earn Its Place

Complexity may provide access to attractive inefficiency.

It can also make an ordinary exposure expensive and difficult to understand.

The member should ask:

What investment advantage requires this complexity?

If the same economic exposure can be obtained more simply, cheaply and transparently, complexity has not earned its place.

The Foundational CCI Distinction

Before interpreting an alternative investment, identify four layers:

1. **The underlying economic asset or event**
2. **The strategy used to generate return**
3. **The legal and ownership structure**
4. **The manager controlling the capital**

Each layer can create value.

Each layer can create failure.

A PRINCIPLE TO CARRY INTO PART II

You now understand the foundations of alternative assets.

They are not one asset class.

They are a collection of:

- Private-market investments
- Specialist assets
- Complex strategies
- Contractual claims
- Manager-controlled structures

Their apparent differences from public markets may arise through:

- Genuine return diversification
- Greater control
- Negotiated terms
- Illiquidity
- Infrequent valuation
- Leverage
- Manager discretion
- Limited disclosure

Those characteristics must be separated.

A private asset is not automatically less risky because its price changes less frequently.

A long lock-up does not automatically create an illiquidity premium.

A specialist manager does not automatically create skill-based return.

And a complex structure does not transform an ordinary equity or credit exposure into a new economic asset.

To interpret alternatives through the CCI framework, we must now ask:

How do liquidity, growth, credit, market regimes, manager behaviour and the capital cycle shape alternative-asset opportunity—and when does apparent diversification conceal familiar risk?

That is the work of **Part II — How CCI Interprets Alternative Assets**.

ALTERNATIVE ASSETS

PART II

HOW CCI INTERPRETS ALTERNATIVE ASSETS

A framework for understanding how liquidity, growth, credit, manager behaviour and the capital cycle shape private markets and specialist strategies.

HOW CCI INTERPRETS ALTERNATIVE ASSETS

Alternative assets do not possess one common economic habitat.

Private equity can struggle while a trend-following strategy performs strongly.

Private credit can continue reporting stable values while the financial condition of its borrowers deteriorates.

Venture-capital valuations can remain unchanged even after listed technology companies have fallen sharply.

An insurance-linked strategy can produce losses during an event that has little direct effect on conventional financial markets.

A distressed-debt manager can find the greatest opportunity during the same environment that damages most other investors.

These outcomes are not contradictions.

They reflect different assets, claims, strategies and structures responding to different forces.

At CCI, we do not begin with assumptions such as:

- Private markets are less volatile.
- Alternative assets are uncorrelated.
- Illiquidity produces higher returns.
- Hedge funds protect portfolios.
- Private equity always outperforms public equity.
- Private credit is safer because lenders negotiate directly.
- Infrastructure is defensive because its services are essential.
- Specialist managers possess an information advantage.
- Collectibles preserve value because they are scarce.

Each statement can be true under particular conditions.

None should be treated as a permanent characteristic.

We begin with the system.

We examine:

- Liquidity
- Growth
- Credit
- Interest rates

- Market volatility
- Public-market valuations
- Financing conditions
- Exit markets
- Manager incentives
- Fundraising
- Leverage
- Capacity
- The capital cycle

We then ask:

- What underlying risk drives the investment?
- How does the structure alter that risk?
- Which return comes from market exposure?
- Which return depends on manager skill?
- Which risk is merely being reported slowly?
- What must occur before the investor receives cash?
- What happens when liquidity becomes scarce?

11. LIQUIDITY, GROWTH AND CREDIT

Alternative assets sit directly inside CCI's Three-Pillar framework.

The pillars influence:

- Underlying assets
- Financing
- Transactions
- Valuation
- Fundraising
- Investor liquidity
- Exit opportunities

Liquidity

Improving liquidity can:

- Increase investor risk appetite
- Lower financing costs
- Support asset valuations
- Strengthen fundraising
- Improve exit markets
- Increase merger and acquisition activity
- Encourage leverage
- Reduce compensation for complexity and illiquidity

Tightening liquidity can:

- Increase financing costs
- Reduce transaction activity
- Close public listing markets
- Delay realisations
- Restrict refinancing
- expose fragile strategies
- create forced sellers
- widen discounts in secondary markets

Alternative assets may respond with a lag because valuations and transactions occur infrequently.

The economic effect can begin long before it appears in reported performance.

Growth

Growth affects alternative investments through their underlying economic exposures.

Stronger growth may support:

- Company revenue
- Borrower cash flow
- Infrastructure usage
- royalty income
- Asset sales
- Credit performance
- Investor confidence

Weakening growth may create:

- Falling revenue
- Lower margins
- Rising defaults
- Delayed exits
- Lower recovery
- Reduced fundraising
- Greater demand for restructuring capital

Some strategies may benefit from dispersion, volatility or distress.

The alternative label alone does not reveal the direction of sensitivity.

Credit

Credit is central to many alternatives.

It finances:

- Leveraged buyouts
- Private companies
- Infrastructure
- Special situations
- Fund-level facilities
- Portfolio acquisitions
- Investor commitments

Credit can support current returns while increasing future fragility.

A private-equity transaction financed with debt is simultaneously:

- An equity investment
- A credit-dependent capital structure
- A future refinancing requirement

Divergence Between the Pillars

Liquidity, growth and credit do not always move together.

Examples include:

- Liquidity improves while company earnings remain weak.
- Growth remains resilient while leveraged borrowers face refinancing pressure.
- Bank credit contracts while private credit expands.
- Public markets recover while private transaction activity remains subdued.
- Fundraising remains strong after prospective returns have deteriorated.
- Financial volatility increases while insurance-linked assets remain governed by physical events.

Divergence helps explain why alternative strategies can perform differently even when they share the same broad label.

Sequence Matters

Consider a tightening cycle:

1. Public-market required returns rise.
2. Listed valuations fall.
3. Private valuations initially remain stable.
4. Transaction activity declines.
5. Exit opportunities narrow.
6. Financing becomes more expensive.
7. Portfolio-company cash flow weakens.
8. Debt-service pressure rises.
9. Managers extend holding periods.
10. Valuations eventually adjust.
11. Distressed opportunities emerge.
12. New capital receives stronger terms.

The same environment can damage one vintage while creating opportunity for the next.

The CCI Three-Pillar Question

CCI asks:

- Which pillar drives the underlying asset?
- Which pillar drives the financing?
- Which pillar determines the exit?
- How quickly will the effect appear in reported valuations?
- Is current strength financing future excess?
- Is present weakness creating future opportunity?

Alternative assets do not sit outside the economic system.

Their structures merely alter how and when the system reaches the investor.

12. ILLIQUIDITY AND THE LIQUIDITY CYCLE

Illiquidity is often presented as a source of additional return.

It is better understood as a condition that may deserve compensation.

The Illiquidity Premium

An investor may require a higher expected return for accepting:

- Long lock-ups
- Uncertain distributions
- Limited transferability
- Expensive exits
- Capital calls
- Restricted information
- Manager control over timing

Whether that premium is earned depends on the price paid.

When too much capital competes for illiquid assets, expected returns can fall even while the lock-up remains.

Illiquidity Is Not Scarcity

An asset can be difficult to sell because it is:

- Unique
- Specialised
- Restricted
- Poorly documented
- Unattractive
- Overvalued
- Dependent on a narrow buyer base

Difficulty selling does not itself make the asset valuable.

Patient Capital

Long-duration capital can create an advantage when it allows the manager to:

- Invest through volatility
- Complete operational change
- Restructure liabilities
- Hold assets through temporary dislocation
- Avoid forced sales
- Fund long development periods

The advantage requires both:

- A genuinely long-term opportunity
- An investor who can tolerate the commitment

The Liquidity Paradox

Many investors seek alternative assets for diversification.

During market stress, they may also require liquidity to:

- Meet obligations
- Rebalance
- Fund capital calls
- Cover margin
- Support other investments

The alternative investment may be least accessible precisely when portfolio liquidity is most valuable.

The Denominator Effect

Suppose public equities fall sharply while a private fund's reported value changes little.

The private allocation becomes a larger percentage of the portfolio.

The investor may then be:

- Overallocated to private markets
- Unable to rebalance
- Facing future capital calls
- Forced to sell liquid assets instead

The stable reported value can increase portfolio-management difficulty.

Gates and Suspensions

Semi-liquid vehicles may limit withdrawals through:

- Gates
- Queues
- Notice periods
- Delayed payment
- Suspension
- Manager discretion

These mechanisms may protect remaining investors from forced selling.

They also demonstrate that the promised liquidity was conditional.

Secondary-Market Discounts

A member seeking to sell a private fund interest may face a discount reflecting:

- Uncertainty
- Limited information
- Future capital calls
- Manager consent
- Buyer return requirements
- Market stress
- Asset quality
- Time

The discount is the price of obtaining liquidity before the manager's planned exit.

Liquidity Budgets

A portfolio should treat illiquidity as a limited resource.

The member should calculate:

- Existing illiquid holdings
- Unfunded commitments
- Expected distributions
- Near-term spending needs
- Potential margin requirements
- Emergency liquidity
- Market-stress scenarios

The CCI Liquidity Principle

Illiquidity should be allocated deliberately, measured across the complete portfolio and compensated through prospective net return.

A member should never discover the portfolio's true lock-up during a crisis.

13. VALUATION LAG, SMOOTHING AND THE APPEARANCE OF STABILITY

Alternative assets can appear less volatile because they are not continuously traded.

That appearance requires interpretation.

Economic Value Changes Continuously

A private asset may not receive a daily quotation.

Its economics still change as:

- Revenue changes
- Interest rates move
- Comparable valuations change
- Credit spreads widen
- Competition evolves
- Exit markets open or close

The absence of a new valuation does not freeze economic reality.

Valuation Lag

Private valuations may adjust after public markets because they rely on:

- Quarterly reporting
- Comparable transactions
- Manager models
- Third-party appraisal
- Audited financial information
- Recent funding rounds

Lag can make the alternative appear resilient during the initial stage of a downturn.

Smoothing

Valuations may move gradually because appraisers or managers adjust assumptions incrementally.

This can reduce measured:

- Volatility
- Correlation
- Drawdown

The investment may therefore appear more diversifying than its underlying economics justify.

Public-Market Evidence

Public markets can provide timely—but noisy—evidence.

A listed comparable may fall because of:

- Changing fundamentals
- Liquidity
- Positioning
- Forced selling
- Risk aversion

The private asset should not automatically copy the public price.

Nor should it ignore it.

Transaction Evidence

A transaction creates evidence of what a buyer will pay.

But private transactions may include:

- Special terms
- Preferred rights
- Seller financing
- Earn-outs
- Guarantees
- Strategic premiums
- Distress

The headline price must be adjusted for structure.

Reported Volatility Is Not Complete Risk

An investor ultimately cares about:

- Loss of purchasing power
- Permanent capital impairment
- Inability to access capital
- Failure to meet obligations
- Opportunity cost

A smooth valuation path does not protect against those outcomes.

Realised Return Provides Stronger Evidence

Cash received through:

- Sale
- Repayment
- Distribution
- Maturity

provides stronger evidence than an unrealised estimate.

Even realised returns should be examined for:

- Recapitalisation
- Borrowed distributions
- Transfer between related funds
- Partial sale
- Remaining contingent liabilities

Public-Market Equivalent

Private-market performance can be compared with what the same cash flows might have earned in an appropriate public benchmark.

This comparison helps determine whether the investor was compensated for:

- Illiquidity
- Fees
- Complexity
- Manager dependence

The CCI Stability Question

CCI asks:

Is the investment genuinely stable, or is instability merely being measured slowly?

Measurement should never be mistaken for economics.

14. LEVERAGE, FINANCING AND THE TRANSMISSION OF STRESS

Alternative investments can contain leverage at several levels.

That layering can make the true exposure difficult to observe.

Asset-Level Leverage

An underlying company or project may borrow.

Its resilience depends on:

- Cash flow
- Interest expense
- Maturity
- Covenants
- Currency
- Refinancing
- Asset value

Fund-Level Leverage

The fund may also borrow through:

- Subscription facilities
- Net-asset-value loans
- Margin
- Repo
- Derivatives
- Revolving facilities

Fund-level leverage can transmit weakness from one asset to others.

Strategy Leverage

A hedge fund may create large gross exposure through:

- Long and short positions
- Futures
- Options
- Swaps
- Financing

A low net market exposure can coexist with substantial gross leverage.

Investor-Level Leverage

The investor may borrow to fund:

- Commitments
- Capital calls
- The fund interest
- Other portfolio obligations

Each layer increases the importance of liquidity and timing.

Leverage and Reported Return

Leverage can make a modest asset return appear like exceptional manager performance.

Performance should be decomposed into:

- Underlying market return
- Operating improvement
- Leverage
- Multiple change
- Fees

Refinancing Risk

A long-term asset can be undermined by short-term financing.

Private companies, infrastructure projects and private-credit borrowers may depend on future lenders.

Refinancing becomes difficult when:

- Earnings weaken
- Interest rates rise
- Asset values fall
- Covenants tighten
- Credit markets close

Payment-in-Kind Interest

Some loans allow interest to be added to the outstanding principal rather than paid in cash.

This can preserve borrower liquidity.

It can also make reported income appear healthy while repayment risk grows.

The lender has earned accounting income—not received cash.

Dividend Recapitalisation

A portfolio company may borrow to fund a distribution to its owners.

This returns capital early and may increase the fund's reported IRR.

It also increases company leverage and can weaken future resilience.

Subscription-Line Effects

Borrowing before calling investor capital can shorten the period used in the IRR calculation.

The underlying asset's economic value is unchanged.

The timing of measured investor cash flow has changed.

Margin and Collateral

Strategies using derivatives or financed positions may face calls for cash or collateral when prices move.

A long-term view cannot survive if short-term liquidity fails.

The CCI Leverage Principle

Leverage should be measured at the asset, fund, strategy and investor levels—and then considered together.

Risk does not disappear because it is distributed across entities.

15. ALPHA, BETA AND THE SOURCE OF RETURN

Alternative managers often describe their objective as generating alpha.

The member must determine what truly produced the return.

Beta

Beta is return associated with systematic market exposure.

Examples include:

- Equity markets
- Credit
- Duration
- Currency
- Commodity prices
- Volatility
- Liquidity
- Size
- Value
- Momentum

A complex strategy may package familiar beta inside an expensive structure.

Alternative Beta

Some strategies provide systematic exposure to less conventional risk premiums, including:

- Trend
- Carry
- Value spreads
- Merger risk
- Volatility
- Illiquidity
- Complexity

These returns may be useful.

They are not necessarily unique manager skill.

Alpha

Alpha is return beyond what can reasonably be explained by systematic exposure, leverage and luck.

Potential sources include:

- Superior selection
- Information
- Negotiation
- Structuring
- Operations
- Risk management
- Timing
- Access
- Execution

Hidden Beta

A strategy may appear uncorrelated during ordinary periods while possessing hidden exposure to:

- Liquidity
- Credit
- Volatility
- Crowding
- Leverage
- Short-option risk

These exposures can become visible during stress.

Short-Volatility Returns

Some strategies collect frequent small gains while accepting rare large losses.

The track record may appear stable until the adverse event occurs.

The member should ask:

What risk is the strategy being paid to absorb?

Manager Skill Versus Market Tailwind

Private-equity returns may benefit from:

- Falling interest rates
- Expanding valuation multiples
- Abundant leverage
- Strong public markets

Private-credit returns may benefit from:

- Low defaults
- Easy refinancing
- Stable valuations

A favourable environment should not be mistaken entirely for manager skill.

Persistence

Past performance may persist when based on:

- Repeatable process
- Scarce access
- Organisational strength
- Genuine operational capability
- Disciplined capacity

It may not persist when based on:

- One exceptional investment
- One market regime
- Key people who have left
- Leverage
- Multiple expansion
- Luck
- An opportunity that attracted too much capital

Net Alpha

The investor receives performance after:

- Management fees
- Performance fees
- Fund expenses
- Financing
- Transaction costs
- Tax
- Liquidity cost

The relevant question is not whether the manager creates gross alpha.

It is whether sufficient alpha reaches the member.

The CCI Return-Source Question

CCI asks:

- What market exposures explain the return?
- How much leverage was required?
- What loss profile accompanies it?
- Which portion depends on manager decisions?

- Is the advantage repeatable?
- How much remains after all costs?

Complexity does not prove alpha.

16. MANAGER SELECTION, CAPACITY AND ORGANISATIONAL EDGE

Alternative investing often requires the member to select a manager before the individual assets are known.

The manager becomes part of the investment thesis.

Strategy Clarity

The manager should explain:

- Where opportunities arise
- Why they exist
- How they are sourced
- What creates return
- What creates loss
- When the strategy struggles
- What limits capacity

A strategy that cannot be explained clearly may not be understood—even by those selling it.

Sourcing

Access can create value when opportunities are:

- Proprietary
- Relationship-driven
- Small
- Complex
- Time-sensitive
- Operationally demanding

The member should distinguish genuine sourcing advantage from ordinary participation in competitive auctions.

Underwriting

Strong underwriting requires:

- Evidence
- Scenario analysis

- Valuation discipline
- Downside assessment
- Legal review
- Structural protection
- Willingness to reject deals

The number of investments declined can be as revealing as the number completed.

Operational Capability

For control-oriented investing, assess whether the manager can:

- Recruit leadership
- Improve operations
- Allocate capital
- Integrate acquisitions
- Manage crises
- Govern companies
- Execute exits

Financial engineering cannot permanently substitute for operational value creation.

Risk Management

Risk management should cover:

- Position size
- Concentration
- Leverage
- Liquidity
- Counterparties
- Correlation
- Operational controls
- Valuation
- Scenario stress

A sophisticated return strategy without a sophisticated survival process is incomplete.

Capacity

A strategy can become less attractive as assets under management grow.

Capacity may be limited by:

- Number of opportunities
- Market liquidity
- Deal size
- Specialist staff
- Operational resources
- Ability to exit

- Counterparty limits

A manager should be willing to protect return quality by limiting capital.

Team and Culture

Examine:

- Decision-making
- Challenge
- Turnover
- Succession
- Ownership
- Incentives
- Key-person dependence
- Treatment of mistakes
- Communication during weak periods

Culture is most visible when performance deteriorates.

Alignment

Assess:

- Manager investment
- Fee structure
- Performance hurdles
- Clawbacks
- High-water marks
- Fund-level versus deal-level incentive
- Distribution policy
- Related-party transactions

Transparency

A strong manager should provide appropriate visibility into:

- Assets
- Risk
- Valuation
- Performance
- Leverage
- Fees
- Conflicts
- Material events

Complexity can justify detailed explanation.

It should not justify opacity.

The CCI Manager Question

CCI asks:

What durable organisational advantage allows this manager to generate an acceptable net return without assuming risks the member cannot observe or tolerate?

A famous brand is not an investment process.

17. THE CAPITAL CYCLE IN ALTERNATIVE ASSETS

The capital cycle operates within alternatives through fundraising, asset competition, financing, capacity and manager behaviour.

Opportunity

Attractive opportunity may emerge when:

- Capital is scarce
- Forced sellers exist
- Banks retreat
- Public markets are closed
- Assets require specialist work
- Complexity discourages competition
- Credit terms favour investors
- Weak managers exit
- Valuations reset

Scarcity of capital can improve:

- Purchase price
- Covenants
- Security
- Control
- Expected return

Strong Returns Attract Capital

Successful strategies attract:

- New funds
- Larger funds
- New managers
- Retail vehicles
- Bank financing
- Consultant attention
- Media enthusiasm

Capital helps resolve the shortage.

It can eventually weaken the opportunity.

Fundraising Versus Deployment

A manager may raise more capital than the strategy can deploy at attractive returns.

Pressure to invest may produce:

- Lower underwriting standards
- Larger transactions
- Higher purchase prices
- Greater leverage
- Weaker protections
- Style drift
- Longer holding periods

Fee-Capital Cycle

The economics of asset management can encourage fund growth even when investment economics deteriorate.

Management fees rise with assets under management.

Investor returns depend on the quality of opportunities—not the size of the platform.

Private-Equity Excess

Excess may appear through:

- High entry multiples
- Aggressive leverage
- Weak covenants
- Overly optimistic exits
- Auction competition
- Dividend recapitalisations
- Fund size growth
- Proliferation of managers

Private-Credit Excess

Excess may appear through:

- Narrow spreads
- Higher leverage
- Weaker documentation
- Payment-in-kind structures
- Fragile borrowers
- EBITDA adjustments
- Delayed recognition of stress
- Reduced recovery protection

Hedge-Fund Crowding

Successful strategies may attract imitators.

Crowding can:

- Compress return
- Increase correlation
- Create crowded exits
- amplify deleveraging
- Weaken liquidity

Collectible Excess

Strong prices may attract:

- New buyers
- Dealer inventory
- Fractional platforms
- Speculation
- New supply claims
- Fraud
- Lower-quality objects

Scarcity of the category does not prevent excess within the market.

Contraction

When returns disappoint:

- Fundraising slows
- Investors seek liquidity
- Weak managers close
- Asset sales increase
- Discounts widen
- Financing withdraws
- Terms improve for new capital

Existing investors may suffer.

New investors may receive a stronger opportunity set.

Renewal

Renewal begins when:

- Valuations reset
- Weak assets are restructured
- Leverage declines
- Investors demand transparency

- Fees become more competitive
- Capital concentrates with capable managers
- New funds begin with stronger terms

Vintage Matters

The year in which capital is committed can materially affect return.

A fund raised during abundant liquidity may buy expensive assets.

A fund raised during scarcity may invest on stronger terms.

But vintage alone is not destiny.

Deployment pace, manager discipline and exit timing still matter.

The CCI Alternative Capital-Cycle Principle

When capital becomes abundant, the alternative label remains scarce while the opportunity beneath it may not.

Investor enthusiasm can eliminate the premium it seeks to capture.

18. NATURAL HABITATS ACROSS MARKET REGIMES

Different alternative strategies possess different natural habitats.

No alternative allocation performs reliably in every environment.

Improving Liquidity and Accelerating Growth

This environment can support:

- Private-equity operations
- Venture funding
- Exit markets
- Credit performance
- Infrastructure usage
- Fundraising
- Asset valuations

The risk is that favourable conditions encourage:

- Higher entry prices
- More leverage
- Weaker discipline
- Excessive capacity

Improving Liquidity and Weak Growth

Lower financing costs and stronger public markets may support valuations before underlying operations recover.

Strategies benefiting from repricing may perform well.

Private credit can remain vulnerable if borrowers require genuine earnings recovery rather than refinancing alone.

Strong Growth and Rising Rates

Operating performance may remain healthy while financing becomes more expensive.

The outcome depends on:

- Leverage
- Pricing power
- Debt maturity
- Floating-rate exposure
- Entry valuation

Infrastructure with inflation-linked revenue may respond differently from highly leveraged private equity.

Inflationary Expansion

Potential beneficiaries may include assets with:

- Inflation-linked contracts
- Pricing power
- Short-duration income resets
- Real-asset exposure

Potential losers may include:

- Long-duration fixed payments
- Highly leveraged companies
- Businesses without pricing power
- Assets requiring heavy capital expenditure

Stagflation

Weak growth and persistent inflation can challenge:

- Leveraged businesses
- Credit
- Fixed contractual income
- Consumer-dependent assets

Macro strategies, trend-following or event-specific investments may perform differently if their processes capture the regime correctly.

Recession and Credit Contraction

Existing investments may face:

- Falling earnings
- Default
- Refinancing pressure
- Lower valuations
- Delayed exits
- Reduced distributions

Opportunity may improve for:

- Distressed debt
- Restructuring
- Special situations
- Secondary purchases
- New private lending
- Turnaround capital

Financial-Market Volatility

Some strategies may benefit from:

- Dispersion
- Trend
- Relative-value dislocation
- Event repricing

Others may be damaged by:

- Margin calls
- Crowded exits
- Short squeezes
- Financing withdrawal
- Correlation spikes

Deflationary Shock

A demand for cash can pressure:

- Leveraged strategies
- Private companies
- credit-sensitive assets
- Semi-liquid vehicles
- Collectible markets

Long-duration locked capital may avoid forced sales.

That advantage disappears if the underlying assets cannot survive.

Geopolitical Fragmentation

This may support:

- Infrastructure resilience
- Defence-linked investment
- Trade finance
- Supply-chain restructuring
- Domestic productive capacity

It may damage:

- Cross-border exits
- Foreign ownership
- Currency exposure
- Assets dependent on global integration

Catastrophic or Physical Events

Insurance-linked strategies may be governed by:

- Natural disasters
- Mortality
- Physical damage
- Contract triggers

These may remain independent of the financial cycle.

But losses can coincide with broader stress, and models may underestimate changing event frequency or correlation.

Early Recovery

As conditions stabilise:

- Public markets recover
- Financing returns
- Transaction volumes improve
- Distressed assets reprice
- Private valuations begin adjusting
- Exit pathways reopen

Managers who invested during scarcity may begin realising value.

The Initiating Shock Matters

A private-credit loss caused by recession differs from one caused by fraud.

A private-equity valuation decline caused by higher discount rates differs from one caused by permanent business deterioration.

A hedge-fund loss caused by market direction differs from one caused by failed liquidity management.

CCI identifies the mechanism before projecting recovery.

19. VALUATION, EXPECTATIONS AND PERMANENT IMPAIRMENT

Alternative-asset valuation requires both asset-level analysis and structural scepticism.

What Does the Current Value Assume?

The reported valuation may assume:

- Revenue growth
- Margin improvement
- Low default
- Successful exit
- Refinancing
- Stable regulation
- Favourable event frequency
- Continued buyer demand
- A particular discount rate
- Manager execution

Those assumptions should be made visible.

Exit Value

Many alternative investments depend materially on the value realised at exit.

Exit may occur through:

- Sale
- Public listing
- Refinancing
- Merger
- Repayment
- Secondary transaction
- Settlement
- Maturity

A high estimated value is not useful without a credible path to cash.

Exit Multiple

Private-equity return may depend on selling the business at a particular multiple.

If the thesis requires a higher exit multiple than the entry multiple, the member is partly underwriting future investor enthusiasm.

Duration

An investment can generate an acceptable total gain while producing a weak annualised return because the exit takes longer than expected.

Time should be treated as a cost.

Fees and Gross-to-Net Return

The member should reconcile:

- Gross asset return
- Fund expenses
- Management fees
- Performance fees
- Financing
- Tax
- Net investor return

Small annual differences compound materially across long fund lives.

Scenario Analysis

CCI develops multiple scenarios.

Base Case

What outcome is supported by the most probable operating, financing and exit assumptions?

Bull Case

What would need to occur for performance to exceed expectations?

Possible drivers include:

- Stronger growth
- Better margins
- Faster exit
- Lower defaults
- Improved valuation
- Successful operational change
- Favourable event experience

Bear Case

What happens if:

- Growth disappoints?
- Refinancing is unavailable?
- Exit markets remain closed?
- Valuations fall?
- Fees continue while assets remain unrealised?
- The manager raises additional capital?
- The strategy becomes crowded?
- Recoveries are lower?
- Liquidity is required earlier?

Stress Case

Can the investment survive:

- Severe recession
- Market closure
- Margin calls
- Fund-level covenant breach
- Key-person departure
- Fraud
- Manager failure
- Counterparty default
- A prolonged lock-up?

Permanent Impairment

Permanent loss may arise through:

- Business failure
- Default
- Excessive leverage
- Legal invalidity
- Fraud
- Obsolescence
- Catastrophic event
- Forced sale
- Dilution
- Subordination
- Manager misconduct
- Unrecoverable fees and expenses

Opportunity Cost

Locked capital cannot be redeployed easily.

The member may miss:

- Public-market dislocations
- Higher interest rates
- Better fund vintages

- Personal liquidity needs
- Portfolio rebalancing

Illiquidity should therefore be evaluated against future opportunity—not only current cash.

The CCI Expectations Question

CCI asks:

What must the underlying asset, manager, financing and exit market deliver for the member to receive an acceptable net return?

An attractive story is not enough.

Every layer must work.

20. THE CCI VIEW OF ALTERNATIVE ASSETS

CCI approaches alternative assets as a collection of underlying economic exposures, manager decisions and contractual structures.

Our institutional view rests on the following principles.

1. Alternative Is a Label—Not an Economic Exposure

Identify what lies underneath before evaluating the category.

2. Begin With the Return Engine

Determine whether return comes from ownership, lending, contracts, trading, events or resale.

3. Private Equity Is Still Equity

Private ownership changes control, information and liquidity.

It does not remove business risk.

4. Private Credit Is Still Credit

Negotiated terms can improve protection.

They do not eliminate default, refinancing or recovery risk.

5. A Hedge Fund Is a Vehicle and Strategy—Not One Asset Class

Its risks depend on what the manager owns, sells, finances and hedges.

6. Essential Infrastructure Can Still Be a Poor Investment

Utility does not protect the investor from excessive price, leverage, regulation or weak contracts.

7. Scarcity Requires Durable Demand

An object or right can be rare without possessing a deep future buyer base.

8. Private Does Not Mean Uncorrelated

Economic exposure persists even when price discovery is delayed.

9. Low Reported Volatility May Be a Measurement Feature

Valuation lag and smoothing can conceal—not remove—risk.

10. Illiquidity Is a Cost Requiring Compensation

A lock-up does not automatically create a premium.

The purchase price determines whether one exists.

11. Liquidity Must Be Managed Across the Complete Portfolio

Include unfunded commitments, gates, margin and personal capital needs.

12. Capital Calls Can Arrive During Market Stress

The member should reserve liquidity before it is required.

13. A Secondary Market Does Not Make an Asset Liquid

Consent, delay and discounts can materially affect exit value.

14. Valuation Is an Estimate Until Cash Is Realised

Understand who provides the mark and what assumptions support it.

15. Stable Marks Do Not Guarantee Stable Economics

Revenue, rates, credit and exit conditions change between valuations.

16. Realised and Unrealised Returns Should Be Separated

Paper gains should not be treated as equivalent to distributed cash.

17. IRR Is Not the Complete Return

Examine multiples, timing, leverage, distributions and public-market alternatives.

18. Gross Return Does Not Belong to the Investor

Fees, expenses, financing and tax determine what reaches the member.

19. Complexity Must Earn Its Place

A complex structure should provide an advantage unavailable more simply.

20. Leverage Must Be Aggregated Across Every Layer

Asset, fund, strategy and investor leverage can compound.

21. Payment-in-Kind Income Is Not Cash

Accrued interest can rise while repayment capacity deteriorates.

22. Early Distributions May Be Financed

Determine whether cash came from operations, realisation or additional borrowing.

23. Alternative Beta Is Not Necessarily Alpha

Systematic exposure should not command a skill-based fee without justification.

24. Hidden Risk Often Appears During Stress

Liquidity, credit, volatility and crowding exposures can remain invisible in normal conditions.

25. Manager Selection Is Asset Selection

In manager-dependent alternatives, judgement, culture and integrity form part of the investment.

26. Track Records Must Be Reconstructed

Identify who produced the result, under which conditions and with how much leverage.

27. Capacity Can Destroy an Advantage

A successful strategy may become less attractive as too much capital enters.

28. Alignment Must Be Verified

Manager commitment, fees, hurdles and clawbacks should be understood—not assumed.

29. Disclosure Does Not Remove a Conflict

It tells the investor where competing incentives exist.

30. Access Is Not Alpha

An exclusive opportunity can still be overpriced, weak or unsuitable.

31. Fundraising Success Is Not Investment Success

A large platform benefits the manager unless opportunity quality also persists.

32. Vintage Matters

The conditions under which capital is raised and deployed influence prospective return.

33. Abundant Capital Weakens Terms

Competition can raise prices, reduce covenants and encourage leverage.

34. Scarce Capital Can Create Opportunity

Dislocation may improve price, control, security and expected return.

35. A Long Holding Period Requires a Higher Standard of Evidence

The less control the member retains, the more confidence the original underwriting must deserve.

36. The Portfolio Role Comes Before the Manager or Product

Determine what the capital must accomplish before selecting an alternative exposure.

A PRINCIPLE TO CARRY INTO PART III

Alternative assets can provide access to:

- Private businesses
- Specialist lending
- Operational control
- contractual income
- Event-driven returns
- complex-market inefficiencies
- sources of risk not readily available in traditional portfolios

But access does not establish value.

A private asset may appear stable because its economics are durable—or because its valuation is stale.

A manager may report attractive returns because of skill—or because leverage, market tailwinds and unrealised assumptions have not been separated.

An illiquid fund may give a strong thesis time to mature—or prevent the member from acting when circumstances change.

And a strategy that performed independently during ordinary conditions may reveal familiar credit, liquidity or equity risk during stress.

The member must still determine:

- What role the allocation will perform
- Which underlying economic exposure creates the return
- Which manager possesses a repeatable advantage
- What legal rights the member receives
- How the investment is valued
- How leverage alters the outcome
- What fees stand between gross and net return
- How long the capital may remain inaccessible
- What could permanently impair it
- How the exposure interacts with existing portfolio risks
- How much capital the opportunity deserves

The next question is therefore:

How should a CCI member research, select, size and monitor an alternative investment when transparency, liquidity and control may all be limited?

That is the work of **Part III — Researching and Applying Alternative Assets**.

ALTERNATIVE ASSETS

PART III

RESEARCHING AND APPLYING ALTERNATIVE ASSETS

A CCI framework for identifying the true return engine, selecting capable managers and allocating illiquid capital with discipline.

RESEARCHING AND APPLYING ALTERNATIVE ASSETS

Alternative investing begins with a promise of difference.

A different asset.

A different strategy.

A different market.

A different source of return.

But difference alone does not improve a portfolio.

The member must connect:

1. **Purpose** — What is this capital required to do?
2. **Exposure** — Which underlying economic risk creates the return?
3. **Strategy** — How will the opportunity be captured?
4. **Manager** — Who controls the decisions?
5. **Structure** — What legal rights does the member receive?
6. **Liquidity** — When and how can the capital be recovered?
7. **Valuation** — How is performance measured?
8. **Fees** — How much of the gross return reaches the member?
9. **Allocation** — How much risk should the position contribute?

An alternative asset can be attractive at one layer and unsuitable at another.

A strong private company can sit inside a fund with excessive fees.

A well-secured loan can be weakened by fund-level leverage.

An exceptional manager can become less effective after raising too much capital.

A diversifying strategy can become dangerous when liquidity is needed during stress.

And an apparently stable return can be the product of stale valuations rather than durable economics.

The objective is not to collect alternative investments.

It is to identify exposures whose distinct return engines, structures and managers improve the portfolio after allowing for:

- Illiquidity
- Complexity
- Leverage

- Fees
- Valuation uncertainty
- Opportunity cost

21. POTENTIAL PORTFOLIO ROLES

An alternative allocation should possess a clearly defined role.

Without one, novelty can be mistaken for diversification and exclusivity can be mistaken for value.

Return Enhancement

Alternative investments may seek higher returns through:

- Private-market ownership
- Operational improvement
- Leverage
- Illiquidity
- Complexity
- Specialist sourcing
- Structural inefficiency
- Distress
- Manager skill

The member must determine which source explains the expected return.

Higher target return is not evidence that a higher return will be achieved.

Income

Alternative income may arise from:

- Private loans
- Royalties
- Infrastructure
- Leasing
- Trade finance
- Insurance premiums
- Contractual cash flows

The member should determine whether reported income is:

- Received in cash
- Accrued
- Payment-in-kind
- Financed
- Recurring
- Dependent on asset sales
- Supported by sustainable economics

A high distribution may represent genuine return.

It may also represent return of capital or borrowed money.

Diversification

An alternative may diversify a portfolio when its return depends on a genuinely different driver.

Examples may include:

- Insurance events
- Legal outcomes
- Relative-value spreads
- Trend-following
- Contractual royalties
- Operational value creation
- Distressed restructuring

Diversification should be demonstrated through the economic mechanism—not inferred from a low historical correlation.

Reduced Dependence on Public-Market Direction

Some strategies seek returns with limited net exposure to equity or bond markets.

Examples may include:

- Market-neutral
- Relative value
- Merger arbitrage
- Global macro
- Long–short
- Systematic trend

The member should examine:

- Gross exposure
- Hidden beta
- Leverage
- Crowding
- Short-option risk
- Behaviour during stress

Access to Private Businesses

Private equity and venture capital can provide exposure to companies before they enter public markets—or to businesses that may never list.

Potential benefits include:

- Broader opportunity

- Active ownership
- Greater control
- Long operating horizons

The role should not be justified merely through access.

The private opportunity must offer better prospective net economics than available public alternatives.

Control and Operational Improvement

A control-oriented manager may create value through:

- Management change
- Strategy
- Pricing
- Cost improvement
- Acquisitions
- Asset sales
- Governance
- Capital allocation

This role depends heavily on manager capability and legal control.

Illiquidity Premium

A member with a genuinely long horizon may accept restricted liquidity in exchange for stronger expected terms.

The role is valid only when:

- The capital is not required earlier
- The expected premium survives fees
- The asset is purchased attractively
- The member retains sufficient portfolio liquidity

Crisis and Dislocation Capital

Alternative capital may provide opportunity during:

- Forced selling
- Bank retrenchment
- Market closure
- Default
- Restructuring
- Liquidity shortage
- Complex corporate events

Distress creates potential return because capital and expertise are scarce.

It also creates genuine probability of loss.

Inflation or Contractual Sensitivity

Infrastructure, royalties and specialist real assets may possess:

- Inflation-linked revenue
- Pricing power
- Replacement-cost exposure
- Long-duration contracts

The member must test whether financing costs, regulation and capital expenditure consume the benefit.

Event-Risk Exposure

Insurance-linked and litigation-related strategies may provide exposure to events not primarily driven by public financial markets.

This may improve diversification.

It can also create:

- Concentrated loss
- Model uncertainty
- Legal complexity
- Uncertain timing
- Difficult valuation

Collectible or Passion-Asset Exposure

Collectibles may provide:

- Personal enjoyment
- Cultural value
- Scarcity
- Potential appreciation

Personal utility should be separated from expected financial return.

An enjoyable acquisition does not require an investment thesis.

An investment allocation does.

Speculation

Speculative alternatives may depend on:

- One legal outcome
- One early-stage company
- One collectible
- One event

- One manager
- One restructuring

There is nothing inherently wrong with recognised speculation.

The position must be sized so failure does not threaten the member's broader objectives.

The CCI Role Statement

Before selecting an alternative investment, complete this sentence:

This allocation exists to _____, and its return should differ from my existing portfolio because _____.

If the second blank cannot be explained economically, the diversification claim remains unproven.

22. BUILDING AN ALTERNATIVE-ASSET EXPOSURE

Once the role is clear, the member can select the exposure, manager and structure.

Choose the Economic Exposure

Determine whether the proposed return depends primarily on:

- Business ownership
- Lending
- Contractual income
- Market trading
- Physical or insured events
- Legal outcomes
- Resale
- Manager operations

This first decision determines which risks must be researched.

Choose the Strategy

Private Equity

May suit a thesis involving:

- Business transformation
- Consolidation
- Governance
- Operational improvement
- Long-term ownership
- Distressed control

It requires confidence in:

- Entry valuation
- Leverage
- Management
- Operations
- Exit

Venture Capital

May suit a thesis involving:

- Innovation
- New markets
- Technology
- Exceptional business growth

It requires tolerance for:

- Failure
- Dilution
- Long horizons
- Follow-on funding
- Concentrated outcomes

Private Credit

May suit an income or capital-preservation mandate when:

- Loan terms are attractive
- Security is meaningful
- Covenants are enforceable
- Leverage is controlled
- Recovery is credible

The member should compare the prospective net return with public credit and cash.

Hedge Funds and Liquid Alternatives

May suit a mandate involving:

- Diversification
- Absolute return
- Downside management
- Macro exposure
- Relative value
- Trend

The member must identify the strategy's actual market and liquidity risks.

Infrastructure

May suit a thesis involving:

- Essential services
- Long-duration income
- Contractual revenue
- Inflation linkage
- Demographic or economic growth

The investment remains exposed to:

- Regulation
- Usage
- Capital expenditure
- Debt
- Political intervention
- Price

Royalties and Intellectual Property

May suit a thesis involving:

- Contractual participation
- Diversified usage
- Long-lived rights
- Limited operating responsibility

The member must assess durability, legal ownership and technological change.

Insurance-Linked Assets

May suit a diversification mandate when the portfolio can tolerate event-driven loss and modelling uncertainty.

Litigation Finance

May suit a specialist return mandate when legal expertise, diversification and capital duration are appropriate.

Collectibles

May suit a small speculative or passion allocation when the member understands:

- Authenticity
- Provenance
- Storage
- Insurance
- Market depth
- Transaction cost

Choose the Vehicle

Possible structures include:

- Closed-end private fund
- Open-end fund
- Semi-liquid vehicle
- Listed investment company
- Exchange-traded fund
- Trust

- Limited partnership
- Special-purpose vehicle
- Co-investment
- Direct ownership
- Managed account

The correct vehicle should match the liquidity of the underlying assets.

Strategic or Opportunistic?

A strategic allocation performs an ongoing portfolio role.

An opportunistic allocation seeks to exploit a temporary dislocation.

This distinction affects:

- Manager
- Vehicle
- Commitment period
- Position size
- Return requirement
- Exit
- Reinvestment

Diversify by Return Engine

Owning several alternative funds does not guarantee diversification.

The funds may share exposure to:

- Equity markets
- Credit
- Leverage
- Liquidity
- Technology
- The same sponsor
- The same exit market
- The same financing providers

Diversify according to what makes the investments succeed or fail.

Diversify by Vintage

Private-market commitments may be spread across years to reduce dependence on one:

- Valuation environment
- Credit cycle
- Exit market
- Fundraising period

Vintage diversification should not become automatic commitment regardless of opportunity quality.

Diversify by Manager

Manager diversification may reduce:

- Key-person risk
- Style concentration
- Operational failure
- Fraud exposure
- One underwriting philosophy

Too many managers can produce:

- Duplicated exposures
- Excessive fees
- Administrative complexity
- Diluted best ideas

Set an Illiquidity Budget

The member should establish a maximum allocation that can remain inaccessible without threatening:

- Living requirements
- Emergency capital
- Portfolio rebalancing
- Capital calls
- Tax
- Planned expenditure
- Psychological capacity

Reserve Capital for Commitments

Unfunded commitments should be treated as future liabilities.

The member should determine:

- Maximum possible call
- Expected timing
- Available liquid assets
- Stress-period funding source
- Currency exposure

Expected distributions should not be relied upon as the only source of future capital calls.

Size by Risk

Position size should reflect:

- Illiquidity
- Leverage

- Concentration
- Valuation uncertainty
- Manager dependence
- Strategy complexity
- Drawdown potential
- Time horizon
- Risk capacity
- Risk tolerance
- Risk requirement

A single venture investment should not receive the same weighting as a diversified senior private-credit fund merely because both are called alternatives.

23. THE CCI ALTERNATIVE-ASSET RESEARCH HIERARCHY

CCI researches alternative assets through a deliberate hierarchy:

Mandate → System → Regime → Return Engine → Strategy → Manager → Structure → Valuation → Portfolio

Mandate

What must the capital accomplish?

Ask:

- Is the objective return, income or diversification?
- How long can the capital be committed?
- How much loss can be tolerated?
- Is liquidity required?
- Which existing risk should the investment diversify?

System

What is occurring across:

- Liquidity
- Growth
- Credit
- Interest rates
- Public markets
- Financing
- Volatility
- Exit activity

Regime

Which environment dominates?

Possible regimes include:

- Improving liquidity and growth
- Strong growth and rising rates

- Inflation
- Stagflation
- Recession
- Credit contraction
- Financial-market volatility
- Distress
- Early recovery

Return Engine

What produces the return?

Identify:

- Ownership
- Lending
- Contract
- Trading
- Event
- Operational improvement
- Resale
- Illiquidity
- Complexity
- Leverage

Strategy

How will the manager capture the opportunity?

Examine:

- Sourcing
- Selection
- Structuring
- Operations
- Risk management
- Hedging
- Exit

Manager

Who makes the decisions?

Assess:

- People
- Process
- Track record
- Culture
- Capacity

- Alignment
- Integrity
- Succession

Structure

What legal and financial rights does the member possess?

Examine:

- Fund entity
- General partner
- Limited-partner rights
- Term
- Capital calls
- Redemption
- Gates
- Fees
- Conflicts
- Governance
- Reporting

Valuation

How is value determined?

Examine:

- Method
- Assumptions
- Independence
- Frequency
- Comparable evidence
- Realised cash
- Gross and net performance

Portfolio

What will the exposure do to the complete portfolio?

Ask:

- What risk does it diversify?
- What risk does it duplicate?
- How much liquidity does it consume?
- What commitments remain?
- What is the opportunity cost?
- How will the member exit?
- What could force action before exit is available?

This hierarchy prevents exclusivity, complexity or manager reputation from replacing economic analysis.

24. HOW CCI RESEARCHES AN ALTERNATIVE INVESTMENT

CCI moves from purpose to return engine, from manager to structure and from reported performance to portfolio outcome.

Step One — Define the Mandate

State what the allocation is intended to accomplish.

Examples include:

- Diversify equity direction
- Generate specialist income
- Access private business ownership
- Exploit distressed opportunity
- Add exposure to insurance risk
- Invest with patient operational capital

Avoid objectives such as:

- Alternatives are sophisticated.
- Private markets are stable.
- The manager has an excellent reputation.
- The fund is exclusive.
- Institutions own it.

These are descriptions—not mandates.

Step Two — Translate the Investment

Complete this sentence:

I provide capital to _____, which uses it to _____, and I receive a return when _____.

If the investment cannot be translated into plain language, the analysis should not proceed.

Step Three — Identify the Dominant Risk

Determine whether return is primarily exposed to:

- Equity
- Credit
- Duration
- Liquidity
- Volatility
- Event
- Legal outcome
- Currency
- Operating performance
- Resale demand
- Manager skill

Step Four — Understand the Opportunity

Ask:

- Why does the opportunity exist?
- Why has it not been competed away?
- Who is on the other side?
- What constraint prevents others from participating?
- Is the advantage durable?
- What could eliminate it?

Step Five — Assess the Market Regime

Determine how current:

- Liquidity
- Growth
- Credit
- Interest rates
- Public-market valuations
- Exit conditions

affect the proposed strategy.

Step Six — Evaluate the Manager

Examine:

- Relevant experience
- Complete track record
- Attribution
- Realised performance
- Losses
- Current team
- Turnover
- Ownership
- Key-person dependence
- Regulatory or disciplinary history

- References

A good manager should explain weak investments as clearly as successful ones.

Step Seven — Reconstruct the Track Record

Separate return created through:

- Market beta
- Leverage
- Multiple expansion
- Operations
- Selection
- Timing
- Luck
- Valuation assumptions

Determine whether performance is:

- Gross or net
- Realised or unrealised
- Audited
- Representative
- Produced by the present team
- Relevant to the proposed fund

Step Eight — Assess Sourcing

Determine whether investments arise through:

- Proprietary relationships
- Auctions
- Brokers
- Banks
- Sponsors
- Public markets
- Internal origination

A proprietary label should be supported by evidence.

Step Nine — Examine Underwriting

Review:

- Investment criteria
- Valuation discipline
- Base case
- Downside case
- Stress case
- Rejection rates
- Approval process

- Decision authority
- Post-investment review

Step Ten — Analyse Capacity

Ask:

- How large is the opportunity set?
- How much capital can the strategy deploy?
- Has fund size increased?
- Has deal size changed?
- Has the strategy moved into new markets?
- Could growth weaken prospective return?

Step Eleven — Read the Governing Documents

Review:

- Offering memorandum
- Partnership or trust agreement
- Subscription documents
- Side-letter provisions
- Valuation policy
- Financial statements
- Fee schedule
- Redemption terms
- Key-person provisions
- Conflict disclosures

Marketing material should not replace governing documents.

Step Twelve — Map the Complete Structure

Identify:

- Fund
- Manager
- General partner
- Adviser
- Administrator
- Custodian
- Prime broker
- Valuation agent
- Auditor
- Legal entities
- Underlying assets
- Related parties

Understand where assets and cash are legally held.

Step Thirteen — Map Every Layer of Leverage

Measure leverage at:

- Underlying asset
- Portfolio company
- Fund
- Strategy
- Investor

Include:

- Debt
- Derivatives
- Subscription facilities
- Net-asset-value loans
- Short exposure
- Contingent obligations

Step Fourteen — Analyse Fees and Expenses

Calculate:

- Management fee
- Performance fee
- Carried interest
- Hurdle
- High-water mark
- Catch-up
- Transaction fees
- Monitoring fees
- Administration
- Fund expenses
- Financing
- Tax

Determine which fees are offset and which accrue to related parties.

Step Fifteen — Assess Alignment and Conflicts

Ask:

- How much has the manager invested?
- On what terms?
- Who receives which fee?
- How are opportunities allocated between funds?
- Can assets be transferred between related vehicles?
- Who determines valuations?

- Are some investors given preferential rights?
- What happens when the fund underperforms?

Step Sixteen — Examine Liquidity

Determine:

- Lock-up
- Fund term
- Extensions
- Redemption frequency
- Notice
- Gates
- Suspension
- Transferability
- Secondary market
- Expected distribution schedule

The most restrictive contractual outcome should be included in portfolio planning.

Step Seventeen — Examine Capital Calls

Map:

- Total commitment
- Capital already called
- Unfunded amount
- Investment period
- Notice
- Default consequences
- Recycling provisions
- Recallable distributions

Stress the member's ability to fund calls during a severe public-market drawdown.

Step Eighteen — Assess Valuation

Ask:

- Who values the assets?
- Which method is used?
- How often?
- What inputs are observable?
- Is valuation independent?
- How are conflicts managed?
- How do marks compare with public markets?
- What evidence supports eventual realisation?

Step Nineteen — Reconcile Cash and Reported Return

Separate:

- Capital contributed
- Income distributed
- Capital returned
- Borrowed distributions
- Realised gains
- Unrealised gains
- Remaining value
- Fees
- Expenses

Review measures such as:

- Internal rate of return
- Multiple of invested capital
- Distributions to paid-in capital
- Residual value to paid-in capital
- Total value to paid-in capital

No single measure should govern the conclusion.

Step Twenty — Compare With a Public-Market Alternative

Ask what the same cash flows could have earned in a relevant liquid benchmark.

Then determine whether the alternative compensated for:

- Illiquidity
- Fees
- Complexity
- Valuation uncertainty
- Manager risk

Step Twenty-One — Build Scenarios

Develop:

- Base case
- Bull case
- Bear case
- Stress case

Include possible changes in:

- Earnings
- Default
- Recovery

- Interest rates
- Exit multiple
- Exit timing
- Financing
- Valuation
- Fees
- Capital calls
- Liquidity

Step Twenty-Two — Define Thesis Failure

Possible invalidating evidence includes:

- The return engine does not behave as expected.
- The manager changes strategy.
- Key people leave.
- Fund size exceeds opportunity capacity.
- Leverage rises materially.
- Valuation becomes unsupported.
- Distribution depends on borrowing.
- Liquidity terms change.
- Conflicts become unacceptable.
- The portfolio becomes excessively illiquid.
- The manager's conduct undermines trust.

A disappointing quarter may not invalidate a long-term thesis.

A broken process, structure or alignment can.

Step Twenty-Three — Compare Alternative Expressions

Compare the investment with:

- Public equities
- Public credit
- Listed infrastructure
- Registered funds
- Cash
- Direct ownership
- Another manager
- Another vintage
- A simpler strategy
- No investment

The opportunity cost of complexity should be explicit.

Step Twenty-Four — Size the Allocation

Size should reflect:

- Confidence
- Illiquidity
- Unfunded commitments
- Valuation uncertainty
- Manager dependence
- Leverage
- Concentration
- Time horizon
- Risk capacity
- Risk tolerance
- Risk requirement

Step Twenty-Five — Establish Monitoring Rules

Monitor:

- Performance attribution
- Cash flow
- Valuation
- Leverage
- Asset quality
- Defaults
- Realisations
- Fundraising
- Team
- Strategy
- Fees
- Conflicts
- Capital calls
- Liquidity
- Regulatory events

The member should monitor the variables the manager controls—not merely reported return.

Step Twenty-Six — Establish an Exit or Run-Off Framework

An exit may occur through:

- Redemption
- Secondary sale
- Asset realisation
- Fund maturity
- Manager-led transaction
- Natural run-off
- Refusal to recommit

The most practical portfolio decision may be to stop committing new capital while allowing existing investments to mature.

25. SOURCES OF ALTERNATIVE-ASSET RESEARCH EVIDENCE

Alternative research should begin with primary documents and verifiable evidence.

Governing Documents

Review:

- Offering memorandum
- Partnership agreement
- Trust deed
- Subscription agreement
- Side letters
- Valuation policy
- Fee schedule
- Redemption terms
- Conflict policy

Financial Statements

Examine:

- Audited accounts
- Investments
- Valuation changes
- Debt
- Income
- Expenses
- Related parties
- Cash flow
- Commitments

An audit supports the reliability of the financial statements within its scope.

It does not establish that the investment is suitable or fairly priced.

Capital-Account Statements

These may show:

- Capital contributed
- Distributions

- Fees
- Allocated income
- Current value
- Unfunded commitments

Reconcile them with fund-level reporting.

Portfolio-Company Evidence

For private equity, examine:

- Revenue
- Margins
- Cash flow
- Debt
- Covenants
- Capital expenditure
- Customer concentration
- Management
- Exit planning

Credit Documentation

For private credit, examine:

- Loan agreement
- Security
- Seniority
- Covenants
- Interest
- Maturity
- Payment-in-kind provisions
- Guarantees
- Recovery rights
- Borrower reporting

Regulatory Sources

Depending on jurisdiction, useful evidence may include:

- Adviser registration
- Regulatory filings
- Enforcement actions
- Disciplinary history
- Insolvency records
- Court records
- Company registers

Manager Due Diligence

Request:

- Organisational chart
- Team history
- Ownership
- Staff turnover
- Investment committee
- Risk policy
- Cybersecurity
- Business continuity
- Service providers
- References
- Compliance records

Independent Service Providers

Verify:

- Auditor
- Administrator
- Custodian
- Valuation agent
- Prime broker
- Legal counsel

Independence and reputation matter.

They do not remove manager responsibility.

Performance Evidence

Review:

- Complete track record
- Asset-level attribution
- Realised investments
- Written-off investments
- Net performance
- Benchmark comparison
- Vintage comparison
- Leverage
- Cash-flow timing

Industry and Institutional Sources

Useful foundational evidence may include:

- Securities regulators

- Central banks
- Bank for International Settlements
- International Monetary Fund
- Prudential regulators
- Industry databases
- Specialist research

Industry data may contain:

- Survivorship bias
- Self-reporting
- Inconsistent valuation
- Limited coverage
- Delayed reporting

Methodology should be examined before conclusions are drawn.

26. THE MEMBER'S ALTERNATIVE-ASSET RESEARCH CHECKLIST

Mandate

- What is this capital required to do?
- What existing risk should the investment diversify?
- How long can the capital remain inaccessible?
- Is income required?
- How much loss can be tolerated?
- Is the allocation strategic or opportunistic?

Return Engine

- What underlying asset, contract or event produces the return?
- Is the exposure fundamentally equity, credit or something else?
- Why should the opportunity exist?
- What causes loss?
- Is the return dependent on resale?

Strategy

- What does the manager actually do?
- How are investments sourced?
- What makes the process repeatable?
- When should the strategy underperform?
- What limits capacity?
- Has the strategy changed?

Manager

- Who makes decisions?
- What relevant experience do they possess?
- Who produced the track record?
- Have key people left?
- How is succession managed?
- Does the manager have a regulatory or disciplinary history?
- How much personal capital is invested?

Track Record

- Is performance gross or net?
- Realised or unrealised?
- Audited?
- Complete?
- Relevant to this strategy?
- How much came from leverage?
- How much came from multiple expansion?
- How did losses behave?
- How does performance compare with a liquid alternative?

Structure

- What legal interest do I own?
- Who controls the vehicle?
- Where are the assets held?
- Which service providers are involved?
- What voting or information rights do I possess?
- What can the manager change without consent?

Liquidity

- What is the lock-up?
- What is the fund term?
- Can it be extended?
- What redemption rights exist?
- Can withdrawals be gated or suspended?
- Is transfer permitted?
- What secondary-market discount might apply?

Capital Calls

- What is my commitment?
- How much remains unfunded?
- How much notice will I receive?
- What happens if I cannot fund?
- Can distributions be recalled?
- What liquidity have I reserved?

Leverage

- What debt exists at the underlying-asset level?
- Does the fund borrow?
- Are derivatives used?
- Is there a subscription facility?
- Is NAV financing permitted?
- What leverage exists elsewhere in my portfolio?

- What happens under margin or covenant stress?

Fees

- What management fee applies?
- On committed or invested capital?
- What performance fee or carry applies?
- Is there a hurdle?
- Is there a high-water mark?
- What catch-up applies?
- Which additional expenses are charged?
- Which fees are offset?
- What is the estimated complete net cost?

Conflicts

- How are opportunities allocated?
- Can the manager transact with related parties?
- Can assets move between funds?
- Who determines valuation?
- Do some investors receive preferential terms?
- How are continuation vehicles governed?
- What incentive could cause the manager to act against my interests?

Valuation

- Who determines the value?
- Which method is used?
- How frequently?
- What evidence is observable?
- Is the valuation independent?
- How much return is unrealised?
- Could the asset be sold near the reported value?

Portfolio

- What risk does this allocation diversify?
- What familiar beta does it retain?
- How much total illiquidity do I already possess?
- What unfunded commitments exist?
- What happens during a public-market drawdown?
- What is the opportunity cost?
- How large should the allocation be?

Monitoring and Exit

- Which variables must remain true?
- What information will I receive?

- How often?
- What would invalidate the thesis?
- Can I exit if the manager changes?
- If I cannot exit, when will I stop recommitting?
- How is capital ultimately returned?

If these questions cannot yet be answered, the research is not complete.

27. COMMON ALTERNATIVE-ASSET MISTAKES

Treating Alternatives as One Asset Class

Private equity, hedge funds, royalties and collectibles do not possess one common return engine.

Buying the Label

The word *alternative* does not establish diversification, sophistication or value.

Confusing Private With Safe

Private assets can fail even when their reported prices move slowly.

Confusing Low Reported Volatility With Low Risk

Infrequent valuation can smooth the measurement—not the economics.

Assuming Illiquidity Guarantees a Premium

Too much competing capital can eliminate expected return while the lock-up remains.

Ignoring the Denominator Effect

A public-market decline can leave the portfolio unintentionally overallocated to private assets.

Underestimating Capital Calls

Commitments can require cash during the same stress that reduces portfolio liquidity.

Relying on Expected Distributions

Exits may be delayed.

Expected cash should not be treated as guaranteed funding.

Treating Secondary Markets as Ordinary Liquidity

Sales can require consent, time and a material discount.

Using IRR Alone

IRR can be affected by:

- Timing
- Subscription lines
- Early distributions
- Unrealised values

Review the complete cash outcome.

Treating Unrealised Gains as Realised Wealth

A valuation estimate is not cash.

Ignoring Public-Market Comparisons

Private performance should be compared with an appropriate liquid alternative.

Paying Alpha Fees for Beta

Complex packaging does not transform ordinary market exposure into manager skill.

Ignoring Hidden Leverage

Debt and derivatives can exist at several layers.

Treating Payment-in-Kind Interest as Cash Income

The loan balance can grow while the borrower's capacity to repay weakens.

Confusing Borrowed Distributions With Value Creation

Debt-funded cash may improve short-term reported performance while increasing future risk.

Selecting a Brand Instead of a Team

The people who produced the historical return may no longer control the strategy.

Extrapolating One Successful Fund

One fund can benefit from:

- A favourable vintage
- One exceptional asset
- Leverage
- Multiple expansion
- Luck

Ignoring Capacity

A strategy can become less attractive after it attracts too much capital.

Assuming Access Creates Advantage

Exclusivity can increase demand without improving the underlying economics.

Underestimating Fees

Fees compound across long fund lives and can consume a substantial portion of gross return.

Ignoring Conflicts

The manager can benefit from:

- Larger funds
- Longer holding periods
- Related-party services
- Continuation vehicles
- Higher valuations

The investor must understand where incentives diverge.

Believing Disclosure Eliminates Conflict

Disclosure informs the member.

It does not neutralise the incentive.

Accepting Complexity Without Purpose

Every additional structure, derivative and entity should provide a necessary investment advantage.

Failing to Plan the Run-Off

The member may be unable to sell.

The practical exit decision may be to decline the next commitment.

Allocating Without a Portfolio Role

Owning alternatives because institutions do so is not a strategy.

The allocation must solve a member-specific portfolio problem.

28. KEY PRINCIPLES TO RETAIN

1. Alternative is not an economic exposure.

Look through the label.

2. Begin with the return engine.

Identify what produces cash and what produces loss.

3. Private equity remains equity.

Business quality, valuation and leverage determine the outcome.

4. Private credit remains credit.

Capacity, structure, refinancing and recovery matter.

5. Hedge funds are strategies—not one asset class.

Understand gross exposure, net exposure and leverage.

6. Infrastructure is not automatically defensive.

Contracts, usage, regulation, debt and price matter.

7. Scarcity is insufficient without future demand.

Rare does not necessarily mean valuable.

8. Private does not mean uncorrelated.

Economic sensitivity persists without daily pricing.

9. Low reported volatility can be an artefact.

Appraisal and valuation lag can smooth the path.

10. Illiquidity is a cost.

It deserves compensation rather than admiration.

11. A lock-up does not create return.

Price, asset quality and execution create return.

12. Liquidity must be measured across the portfolio.

Include commitments, gates, margin and personal needs.

13. Capital calls are future liabilities.

Reserve liquid capital before it is required.

14. Secondary liquidity may arrive at a discount.

Accessibility and fair value are different concepts.

15. Valuations are estimates until realised.

Understand method, independence and assumptions.

16. Stable marks do not freeze economic value.

Rates, earnings and exit conditions continue changing.

17. Realised and unrealised performance must be separated.

Cash provides stronger evidence.

18. IRR is one measure—not the conclusion.

Timing can materially alter it.

19. Gross return does not belong to the member.

Fees, financing and expenses determine net return.

20. Complexity must earn its place.

Prefer the simpler exposure when the economics are equivalent.

21. Leverage must be aggregated.

Asset, fund, strategy and investor leverage interact.

22. Payment-in-kind income is not cash.

Accrual can conceal weakening payment capacity.

23. Borrowed distributions are not operating returns.

Trace every cash payment to its source.

24. Alternative beta is not alpha.

Systematic exposure should be recognised and priced accordingly.

25. Hidden beta appears during stress.

Liquidity, credit and volatility often become visible together.

26. Manager selection is part of asset selection.

People, process, culture and integrity determine outcomes.

27. Track records require attribution.

Separate skill, leverage, market tailwind and luck.

28. Capacity can destroy the opportunity.

More capital is not always better capital.

29. Alignment must be verified.

Examine investment, fees, hurdles and clawbacks.

30. Disclosure does not remove conflicts.

Understand how incentives may influence decisions.

31. Access is not investment merit.

An exclusive opportunity can still be overpriced.

32. Vintage influences prospective return.

Deployment conditions matter.

33. Abundant capital weakens terms.

Competition can compress return and increase leverage.

34. Scarce capital can improve opportunity.

Price, security, control and covenants may strengthen.

35. Long lock-ups require stronger original evidence.

The member may not be able to correct a mistake.

36. Diversification must be economic.

Several labels can conceal the same underlying risk.

37. Opportunity cost belongs in the analysis.

Locked capital cannot pursue future dislocations.

38. Position size should reflect control and observability.

The less transparent and liquid the investment, the more carefully it should be sized.

39. Evidence must govern the thesis.

Exclusivity and reputation should never outrank cash flow and structure.

40. The portfolio role comes before the product or manager.

Purpose determines exposure, vehicle, liquidity and allocation.

29. A PRINCIPLE TO CARRY FORWARD

Alternative investing begins with difference.

But difference alone does not create value.

An investment can be private without being superior.

Illiquid without earning a premium.

Complex without possessing an advantage.

Exclusive without being scarce.

Stable in its reported valuation while deteriorating economically.

And managed by talented people while remaining unsuitable for the member's portfolio.

Value emerges through the interaction of:

- Underlying economics
- Price
- Structure
- Manager skill
- Incentives
- Liquidity
- Leverage
- Fees
- Time

A capable manager can create value through access, underwriting, negotiation and operations.

That value must survive every layer standing between the asset and the member.

A long investment horizon can allow a strategy to mature.

That horizon becomes dangerous when it exceeds the member's capacity to remain invested.

A different return driver can improve diversification.

That benefit disappears when leverage, credit or liquidity reconnects the exposure with the rest of the portfolio during stress.

The objective is not to own alternatives because they appear sophisticated or institutional.

It is to allocate capital deliberately to an exposure whose:

- Purpose is clear
- Return engine is understood
- Manager advantage is credible
- Legal rights are verified
- Incentives are aligned
- Leverage is survivable
- Valuation is defensible
- Fees leave sufficient return
- Illiquidity is acceptable
- Role strengthens the complete portfolio

The final question is not:

Should I own alternative assets?

It is:

Which distinct return engine, accessed through which manager and structure, at what net expected return and in what proportion, improves the resilience and prospective return of my complete portfolio?

That is the question the CCI framework is designed to help you answer.

CONTINUE TO ALTERNATIVE-ASSET RESEARCH

Alternative-Asset Deep Dive Pathways Under Development

- Private Equity and Leveraged Buyouts
- Growth Equity
- Venture Capital and Early-Stage Investing
- Private Credit and Direct Lending
- Mezzanine Finance
- Distressed Debt and Restructuring
- Hedge Funds and Absolute-Return Strategies
- Long–Short Equity
- Global Macro
- Systematic Trend-Following
- Event-Driven and Merger Arbitrage
- Relative-Value and Market-Neutral Strategies
- Infrastructure Equity and Debt
- Royalties and Intellectual Property
- Insurance-Linked Securities
- Litigation Finance
- Trade and Specialty Finance
- Collectibles and Passion Assets
- Private-Fund Structures and Limited-Partner Rights
- Alternative-Asset Fees and Performance Measurement
- Private-Market Valuation
- Manager Due Diligence
- Secondaries and Continuation Vehicles
- Portfolio Illiquidity and Capital-Call Management
- Alternatives Across Market Regimes
- The Alternative-Asset Capital Cycle

As the CCI Alternative Assets research library develops, these pathways will connect the framework established here with individual strategies, managers, structures and opportunities.

SELECTED FOUNDATIONAL REFERENCES

- Australian Securities and Investments Commission — Managed Funds, Private Markets and Investment Guidance
- Australian Prudential Regulation Authority — Non-Bank Finance and Financial-System Data
- U.S. Securities and Exchange Commission — Private Funds and Investment-Adviser Disclosures
- Investor.gov — Private Equity, Hedge Funds and Alternative Investment Resources
- Bank for International Settlements — Private Markets, Leverage and Non-Bank Financial Intermediation
- International Monetary Fund — Private Credit and Global Financial Stability Research
- Relevant Company, Fund and Regulatory Registries
- Fund Offering Memoranda, Partnership Agreements and Subscription Documents
- Audited Financial Statements and Capital-Account Reports
- Valuation, Administration, Custody and Prime-Broker Documentation
- Portfolio-Company Financial Statements and Credit Agreements
- Court, Insolvency, Insurance and Intellectual-Property Records Where Relevant
- Independent Manager, Operational and Legal Due-Diligence Reports

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Alternative investments may involve market, business, credit, default, recovery, valuation, liquidity, leverage, margin, counterparty, operational, model, event, legal, regulatory, taxation, currency, interest-rate, governance, fraud, cyber, key-person, concentration, environmental and geopolitical risks. These risks can interact and may become more severe during periods of market stress.

Many alternative investments are illiquid and may impose long lock-ups, capital commitments, limited transfer rights, redemption notice periods, gates, queues, suspensions or manager-controlled extensions. You may be unable to access or sell your investment when desired, or may only be able to do so at a substantial discount.

Capital commitments may require additional payments in the future. Failure to meet a capital call may result in penalties, loss of rights, dilution, forced transfer or forfeiture. Investors should maintain sufficient liquidity to satisfy all contractual obligations.

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