Alternative thinking: diversifying beyond traditional asset classes

By Perpetual Private Insights
22 September 2022

Once a staple investment allocation, the traditional balanced portfolio of shares and bonds has had some challenges in delivering positive returns in today's market environment. Institutional investors, such as superannuation funds and endowments have been investing in alternatives for many years and it is a rapidly growing asset class in the global investing landscape. Individual investors are now looking to alternative asset classes to help diversify their portfolios and improve the probability of meeting their long-term objectives.

What are alternative assets?

Alternatives cover a broad range of asset types, which can include almost anything that does not fit into traditional, market-traded equity and bond securities. These include assets such as real estate, infrastructure, shares in private companies, private loans and debt, as well as alternative trading strategies, such as hedge funds and absolute return funds.

Why invest?

Each of these sub-categories can have very different risk and return drivers to each other as well as to traditional equities and bonds. By including an allocation to these asset classes, the diversification benefit can improve the expected risk-adjusted returns of the portfolio as a whole.

It is important to note that these asset classes are less liquid and more complex than traditional equities and bonds. Whilst it's expected to generate additional returns or better risk outcomes for investors; the illiquid and private nature of many alternative assets generally suit investors with a longer investment time horizon.

We consider them appropriate for investors with a minimum investment horizon of five years and recommend a moderate portfolio allocation of 5-20% depending on the investment objectives of the portfolio.

Not all alternatives are the same

For most investors, a diversified allocation covering a wide range of alternatives can lead to better outcomes over the longer term. Illiquid or private assets mean that investment managers can take advantage of inefficiency or less transparent asset prices to generate more skill-based, idiosyncratic returns. Conservative or more cash-flow based valuations can provide more portfolio stability and less sentiment driven 'noise' compared to the daily 'mark-to-market' price returns in equity and bond markets. Alternative trading strategies can generate returns, even when markets are declining in value, by selling stocks 'short' or using other types of derivative instruments. Overall, these assets and funds can contribute to better returns, reduce volatility and build in more downside risk protection for portfolios.

How do I invest?

At Perpetual Private, we segment alternative investments into two categories: growth alternatives and income alternatives. Growth alternatives are strategies that focus on capital growth, rather than income, and typically include private equity strategies, listed/unlisted infrastructure, opportunistic property, absolute return funds and other more niche investment strategies. Income alternatives aim to provide investors with stable cash flows over time. These strategies include specialist credit funds that provide direct lending to growing companies or secured against real assets, as well as other more niche strategies such as health care royalties, direct property and insurance.

The right mix and allocation of alternatives will vary, and the benefits of these asset classes also come with a different set of risks to consider which may not be suitable for all investors. We therefore recommend you speak to a financial adviser prior to investing.

Why Perpetual Private?

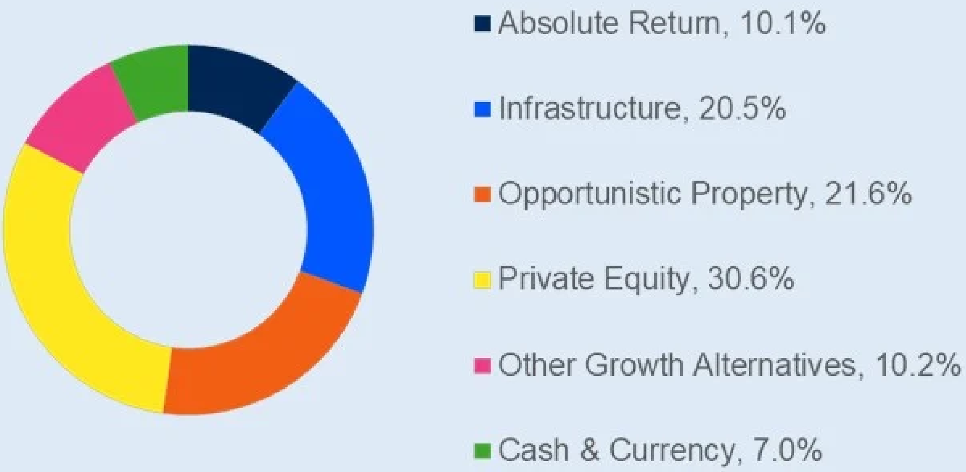
Given the significant scope in complexity, style and geography of the alternative asset class, a specialist skill set is required to successfully navigate the opportunity set. At Perpetual Private we have been managing two built-for-purpose alternatives portfolios for our clients for nearly 15 years. Managed by seven dedicated investment staff, with over 100 years of combined investment experience, our fund-of-funds vehicles provide a truly diversified exposure to alternatives through world-class investment managers across geographies, strategies, styles, and vintages, ensuring our clients capture the full array of benefits afforded by alternative investments.

Perpetual Growth Opportunities Fund

Return Objective	To outperform the benchmark over rolling 5-to-7-year periods by 3% per annum.
Benchmark	Bloomberg Ausbond Bank Bill Index +3% p.a.
Liquidity	Monthly applications; Quarterly withdrawals (Subject to restrictions, please refer to PDS.)
Management Fee	0.9%*
Performance Fee	15% if the fund exceeds its benchmark

*Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.

Sector Asset Allocation as at 31 July 2022



Source: State Street, Perpetual Private Investment Research Team.

Perpetual Income Opportunities Fund

Return Objective	To outperform the benchmark over rolling 3-year periods by 1% per annum.
Benchmark	Bloomberg Ausbond Bank Bill Index +1% p.a.
Liquidity	Monthly applications; Quarterly withdrawals (Subject to restrictions, please refer to PDS.)
Management Fee	0.5%*
Performance Fee	Nil^

*Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.

^No performance fee is charged at the Fund level however, underlying managers held may charge a performance fee.

Sector Asset Allocation as at 31 July 2022

Source: State Street, Perpetual Private Investment Research Team.

Take your first step - contact us on 1800 631 381

Learn more about how you can diversify your portfolio and improve the probability of meeting your long-term financial objectives with alternative investments. Call us on 1800 631 381 or fill in the form below.

Get in touch