THE CASE FOR ALTERNATIVE INVESTMENTS

Alternative investments are financial transactions outside of investing in the usual publicly traded stocks, bonds, or liquid cash. Although typical stock-market investors label these investments as 'alternatives', alternatives investments are some of the largest asset classes globally—including private real estate and private equity.

Large institutions, including endowments, sovereign wealth funds, and insurance companies, have gravitated towards alternative investments in an effort to boost diversification, minimize correlation, and enhance performance. Unlike traditional publicly traded stocks and bonds, the performance of alternative investments' is less likely to correlate with public markets, as they do not typically trade on a daily basis. This means there is less volatility in price, which provides insulation from the inevitable public market swings. Given that many alternative investments do not offer daily liquidity, the investors are usually compensated at a premium, compared to public markets, to compensate for the illiquidity that goes with investing in an alternative asset.

However, not all alternative investments share the same characteristics or have the same investment agenda, the same way that publicly traded stocks do not all share the same characteristics. Different strategies may be used to achieve different goals. For example, buying a distressed business in a private equity fund in hopes of turning around the company for profit carries substantially more risk than buying a partnership in a business that is well-run with ample free cash flow and a strong balance sheet. The specific purpose and strategy for each investment should be understood prior to investing. The specific investing strategy one uses should be tailored to achieve a set of predetermined goals and to fit financial circumstances and/or constraints. While some investors prefer buying rental real estate, others prefer buying distressed businesses or buying into hedge funds. It is advisable to consult a financial professional for advice.

For the purposes of the offerings made available on Yieldwink, we will delve deeper into three main asset classes: Private Real Estate, Private Equity, and Private Credit.

Private Real Estate

Real estate is utilized to enhance risk-adjusted returns by capitalizing on specific mandates to achieve income, growth through appreciation, as well as inflation protection. Today, real estate is the largest asset class in the world. The strategy focuses within real estate investing can be broken down into these categories: core, core plus, value-add, and opportunistic.

Core

Synonymous with "income." They are typically tailored for conservative investors looking to generate stable income with very low risk. This type of real estate is typically most utilized by passive investors with little need for asset management.

Core Plus

Synonymous with "growth and income.". This type of is considered low- to moderate-risk, as property owners typically have the opportunity to increase cash flow through minor repairs or improvements. These properties also tend to be passive, though they require some asset management to improve cash flow. This typically includes long-term rentals with high-quality tenants with good credit.

Value-Add

Synonymous with "growth." This type of profile is typically labeled as a medium- to high-risk, as these properties often have no cash flow at the time of acquisition and require value added in order to generate cash flow. The reasons for the initial lack of income can be related to management issues, low or no tenant occupancy, deferred maintenance, or a combination of these issues. This higher-risk style of investing also generates a higher average annualized return.

Opportunistic

Synonymous with "growth," though, considered the riskiest category of real estate investments. Opportunistic investments typically do not generate cash flow for a few initial years, as the type of investments include ground-up developments or complete demolition and rebuild projects. Opportunistic investments also have the potential to be the most lucrative. The largest risks associated with this type of investment is the market and time, as a home builder may not account for changes in the market to come.

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Private Equity

In 2020, there are more companies owned by private equity firms than publicly traded stocks. According to a 2020 McKinsey & Company whitepaper, approximately $3.9T in assets were held by private-equity (PE) firms, as of 2019. Simply stated, private equity is an investment in non-publicly traded companies with a focus on profit, usually within 3-7 years through value-add by increasing the operational efficiency and productivity of the company. The exit plan of a private equity strategy typically involves a sale of the portfolio and/or of an individual company to generate profit for the investors.

There are four different stages within a company life cycle: start-up, development, maturity, and restructuring.

Start-Up	Venture Capital- early-stage financing
Development	Growth equity (development or expansion capital)
Maturity	Leverage buy-out (replacement capital)
Restructuring	Distressed equity

**Ippolito, R. (2020). Private capital investing: The handbook of private debt and private equity. In Private capital investing: The handbook of private debt and private equity (p. 7). Chichester, West Sussex, United Kingdom: John Wiley & Sons.*

Type of Private Equity	Required IRR(%)
Start-up	>40%
Distressed equity	>35%
Expansion equity	>25%
Leveraged buy out	>20%
Quasi equity (mezzanine)	15-20%
Portage and equity dressed debt	10-15%

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Private Credit

Private credit is on the rise. The regulatory directives (Dodd-Frank, Volcker Rule, Basel III) following the financial crisis of 2008 have enabled private lenders to flourish-voiding funding gaps to small- and middle-market companies. Broadly defined, private credit involves any private loan (issued by a non-bank lender) that is not publicly issued or traded. The debt issued is typically provided to non-listed companies at higher rates to compensate investors for the illiquidity associated with these direct loans.

The risk of a private credit loan is typically determined by a few factors, including borrower balance sheet, enterprise and equity value of the borrower, and covenants imposed on the borrower by the lender. Private lenders will look to minimize default risk through stringent maintenance and incurrence covenants. Taking on senior secured debt versus mezzanine debt is another way of minimizing risk, as senior debt holders are always paid out first. Collateralizing inventory, intellectual property, and the company's tangible and intangible assets can be required for some lenders to minimize loss ratios in case of a borrower loan default.

Like private equity, there are also different types of private debt as a function of the investee company life cycle.

Private Debt

Life Stage	Type of private debt
Start-up	Venture debt (early-stage financing)
Development	Growth debt (development or expansion credit)
Restructuring	Distressed debt

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Type of Private Equity	Required IRR(%)
Senior debt unlevered funds	4-6%
Senior debt levered funds	6-8%
Leveraged buy-out funds	5-7%
Mezzanine funds	8-12%
Hybrid capital funds	10-15%
Distressed credit funds	15-18%

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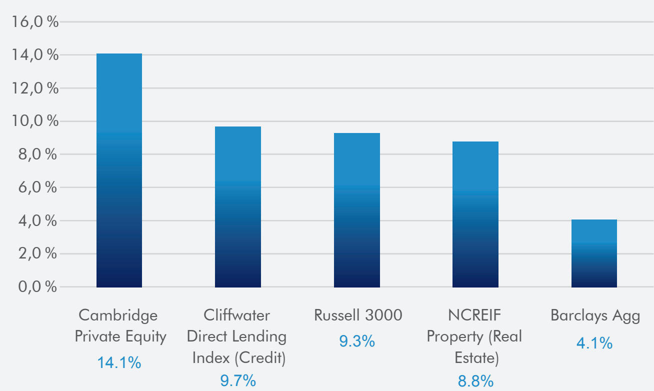
Closing Statements About Alternative Investments

Alternative investments can be beneficial in client portfolios to help decrease portfolio volatility, minimize market correlation, and enhance returns. As bond yields remain anemic in today's low interest rate environment, institutional clients have poured into these alternative asset classes to boost yield while decreasing overall portfolio volatility. The advent of online digital platforms, such as Yieldwink, make alternative investing easily accessible to investors. The Yieldwink model bypasses the typical "fee on fee" structure—as typically charged by other advisors—providing Yieldwink investors with lower, transparent fees, in hopes of boosting return.

Asset Class Returns



**Asset class return, September 2004 to December 2017*