

Democratising Alternatives:

A New Era of Wealth Management



Written by: **Neil Brown**
Head: Anchor Asset Management

The wealth management landscape is undergoing a significant transformation as an increasing number of wealthy individuals and financial advisors are turning to alternative investments to diversify their portfolios and enhance returns.

Alternative assets are the broad name given to investments bought and sold outside the major stock, bond, and commodity markets. This includes private equity, private debt, real estate, hedge funds, natural resources, infrastructure, structured products, art, bitcoins and others.

According to the *2023 EY Global Wealth Research Report*, 81% of ultra-high-net-worth (UHNW) investors hold alternatives, with a significant average allocation of 25% in 2020. This trend follows the footsteps of endowments and single-family offices, which typically allocate a substantial portion of their portfolios to alternatives. On average, endowments direct nearly 40% of their capital to private investments, 16.9% to hedge funds, and 3.1% to real assets. Similarly, the *2023 UBS Global Family Office Report* found that single-family offices, with an average net worth of US\$2.2bn, allocate 34% to private investments and 7% to hedge funds. US-based organisations are the most aggressive in their alternative allocations.

The reasons to invest in alternative assets include:

- **A high return potential:** Investing in private markets, while requiring patience due to longer investment horizons, offers the potential for substantial rewards. Numerous studies demonstrate the outperformance of US private equity over the S&P 500 across various time horizons, highlighting the 'illiquidity premium' that private investments tend to provide.
- **Diversification benefits:** Alternative assets can help diversify portfolios as they aim to provide returns independent of traditional listed equity and bond markets, thus allowing investors to benefit from multiple return streams that are less correlated and, overall, less sensitive to traditional markets.
- **Lower volatility:** Alternatives are held with a longer-term view and are generally not mark-to-market daily, hence they are less volatile than many other asset classes.
- **Direct ownership and control:** Alternative assets tend to be held directly by investors often involved in the underlying investment, allowing them to actively mitigate the risk of adverse outcomes and maximise return prospects. This benefit is difficult to achieve in traditional listed equity and bond markets, as most investors have limited control over the underlying company or instrument held.



The Risks of Alternative Investments

Like all investments, alternatives pose certain risks and drawbacks, with the primary concerns relating to illiquidity, complexity, transparency, higher fees and volatility.

- **Illiquidity:** Many alternative investments are difficult to sell quickly (and without a price impact), which can pose challenges for investors needing access to their funds fast.
- **Complexity and transparency:** The nature of alternatives often means that the underlying strategies are more complex, and transparency can be limited. This can make it difficult for investors to understand the risks thoroughly.
- **Higher fees:** Alternative investment funds are more complex than traditional investments and often have higher fees, which can eat into returns.
- **Volatility:** While alternatives often have a lower correlation with equities, some, such as commodities or hedge funds, can still experience volatility, especially during periods of economic stress.
- **Risk of Capital:** As with other investments, the potential of a higher return is usually accompanied by a higher risk of Capital loss.

There is a wide range of investment types that fit into the Alternatives category, each with its unique characteristics. The above risks will not apply equally to each alternative investment. Each investment must be carefully considered on its own merits, taking the above and other relevant risks into account.

Among the most accessible and effective avenues gaining traction is investing in funds of alternative investments (“Alternative funds”), where professional managers handle portfolios of alternatives.

Why Alternative Funds?

Alternative funds provide a single access point for investors to gain exposure to alternative investments while mitigating the risks. These funds are professionally managed and invested in a portfolio of alternative assets or different alternative investments, thereby giving investors diversified exposure to multiple asset classes in one fund. These funds are specifically designed to optimise the benefits of alternatives while managing the risks, making them an effective and reassuring option for investors who might not have the resources to invest in each asset class individually.

Alternative funds, particularly those investing in asset classes like private equity, private credit, and hedge funds, offer investors access to opportunities generally out of reach for individual investors. This is due to restricted access to many underlying investment opportunities that alternative funds invest in, which are not made available to the general public and the large investment amounts required for the individual underlying alternative investments.

The Growth of Alternative Funds

Increasingly, wealth managers and financial advisors are recommending higher allocations to alternatives for their clients.

This growing interest is driven by the accessibility of evergreen funds, which offer lower minimum investment thresholds and greater flexibility in asset withdrawal, thus lowering barriers to entering and exiting the asset class. Despite the rising popularity, most portfolios still lag the recommended levels for alternatives, which can be as high as 30% or more for optimal diversification.

Evergreen funds, such as Anchor's **Prime Alternative Flexible QIHF**, are an excellent example of this trend. Designed to offer flexibility and diversification, these funds pool capital from investors and invest across various alternative strategies. This setup helps mitigate the individual risks of each asset class and allows investors to potentially achieve strong returns with reduced volatility.

Anchor's Prime Alternative Flexible QIHF

Anchor's Prime Alternative Flexible QIHF provides a robust solution for SA investors seeking exposure to alternative assets. This evergreen fund aims to offer double-digit annual returns (10%-15% per annum) with upside potential and reduced volatility via diversification.

The Prime Alternative Flexible QIHF combines a balanced mix of alternative investments. By investing in this fund, clients gain access to diverse strategies, many of which are typically out of reach for the average investor. This fund is especially beneficial for financial advisors looking to integrate alternative investments into their clients' portfolios without the complexity of selecting individual assets.

The Prime Alternative Flexible QIHF allocations offer a healthy spread of opportunities (*see table below, which shows the fund's makeup as of 31 March 2025*)

The Benefits of Diversification

One of the primary advantages of investing in alternative funds like the Prime Alternative Flexible QIHF is diversification.

Each asset class—whether private equity, private credit, or hedge funds—offers different risk-return profiles, and when combined, they can provide a more resilient portfolio.

Alternative assets tend to be less correlated to traditional markets, meaning they often behave differently from equities and bonds during economic turbulence. For example, private equity tends to thrive in periods of economic recovery, while hedge funds and private credit can provide stable income streams in volatile markets.

The diversification offered by alternative funds makes them essential for balanced portfolios, particularly for clients seeking to protect and grow their wealth in a volatile global economy.



Figure 1: Diversified across alternative asset classes, offshore and local and liquidity profiles:

Investments				Liquidity			
Sector	Local	Offshore	Total	Sector	Local	Offshore	Total
Hedge Funds	21.2%	5.7%	26.9%	Daily	43.3%	6.7%	53.1%
Structured Products	0.4%	4.8%	5.1%	Monthly	5.7%	15.7%	21.5%
Private Debt	6.4%	18.8%	25.2%	Quarterly	0.0%	6.9%	6.9%
Private Equity	0.0%	10.8%	10.8%	Illiquid	1.1%	17.5%	18.6%
Cash & Equivalents	25.1%	6.7%	31.9%				
	53.2%	46.8%	100.0%		53.2%	46.8%	100.0%

Source: Anchor, Prime

How to Integrate Alternative Funds into Client Portfolios

When advising clients, taking a thoughtful and strategic approach to incorporating alternative funds into their portfolios is essential. Consider these guidelines:

- **Assess client risk tolerance:** While alternative funds offer attractive returns, they also come with risks, such as liquidity concerns (especially with private equity). It is essential to assess a client's risk appetite before allocating these types of funds.
- **Long-term focus:** Many alternative investments, such as private equity, require a longer investment horizon to realise their value fully. Ensure that clients are aligned with the long-term nature of these investments before making recommendations.
- **Diversify across alternatives:** Diversification remains key within the alternative asset category. A well-balanced mix of private equity, hedge funds, private credit, and bespoke property will give clients broader exposure to different risk-return profiles and income sources.



Conclusion

The democratisation of alternative investments is reshaping wealth management paradigms, offering broader access and potential for enhanced portfolio performance while becoming a cornerstone of modern portfolio strategies. Anchor is at the forefront of this trend by providing access to products such as the **Prime Alternative Flexible QIHF**.

Financial advisors in SA can offer their clients exposure to alternatives, effectively mitigating risk, enhancing returns, and achieving long-term wealth creation. By leveraging the growing availability of alternative funds, advisors can help their clients diversify their portfolios and stay ahead of market trends in this new era of wealth management.

For support or information, connect with us.



**NEIL
BROWN**
HEAD OF ANCHOR
ASSET MANAGEMENT

E nbrown@anchorcapital.co.za
M +27 (0) 82 922 3964
T +27 (0) 11 591 0677

