

# ARE ALTERNATIVE INVESTMENTS FOR ME?

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Alternatives have the potential to stabilize your portfolio in ways that traditional asset classes are struggling to do.

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# Alternatives can contribute to more efficient portfolio construction

Improvements in access, liquidity, and transparency are making Alternative Investments increasingly suitable for retail investors.

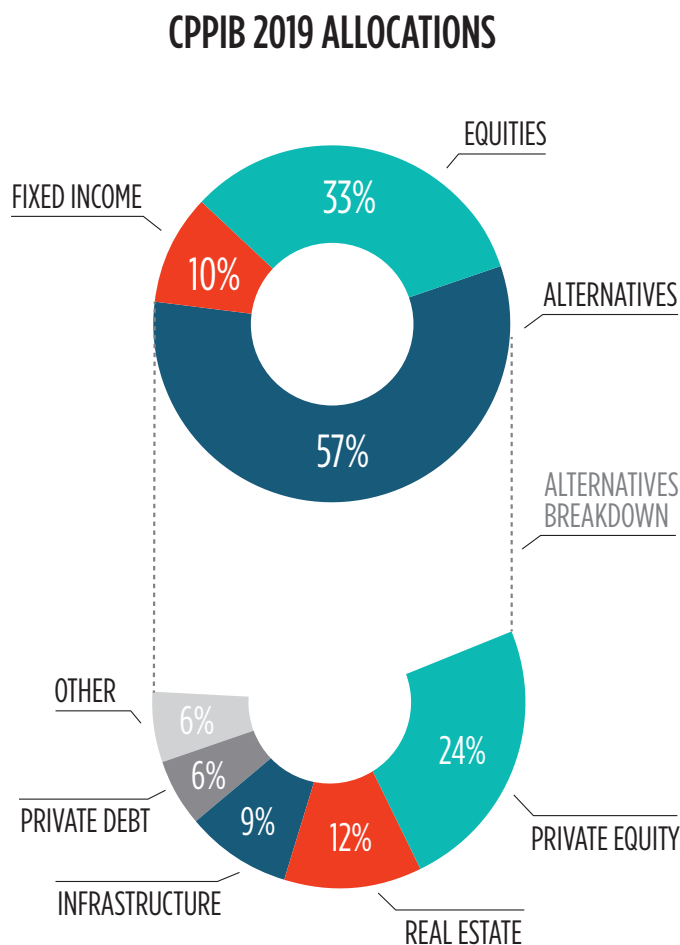
## Where's the Smart Money Going?

Because of chronically low bond yields, extreme central bank intervention, and the threat of overheated stock valuations, the most sophisticated investors in the world are allocating more of their assets to Alternative Investments.

They believe that Alternative Investments will give them a better chance of achieving sufficiently high returns to meet future obligations while protecting against excessive downside.

## What Are Alternative Investments?

Generally speaking, Alternative Investments are any asset class that is not among the three traditional asset types (stocks, bonds and cash) and are used, among other objectives, to more fully diversify a portfolio.



Source: Canadian Pension Plan Investment Board, Annual Report, 2019

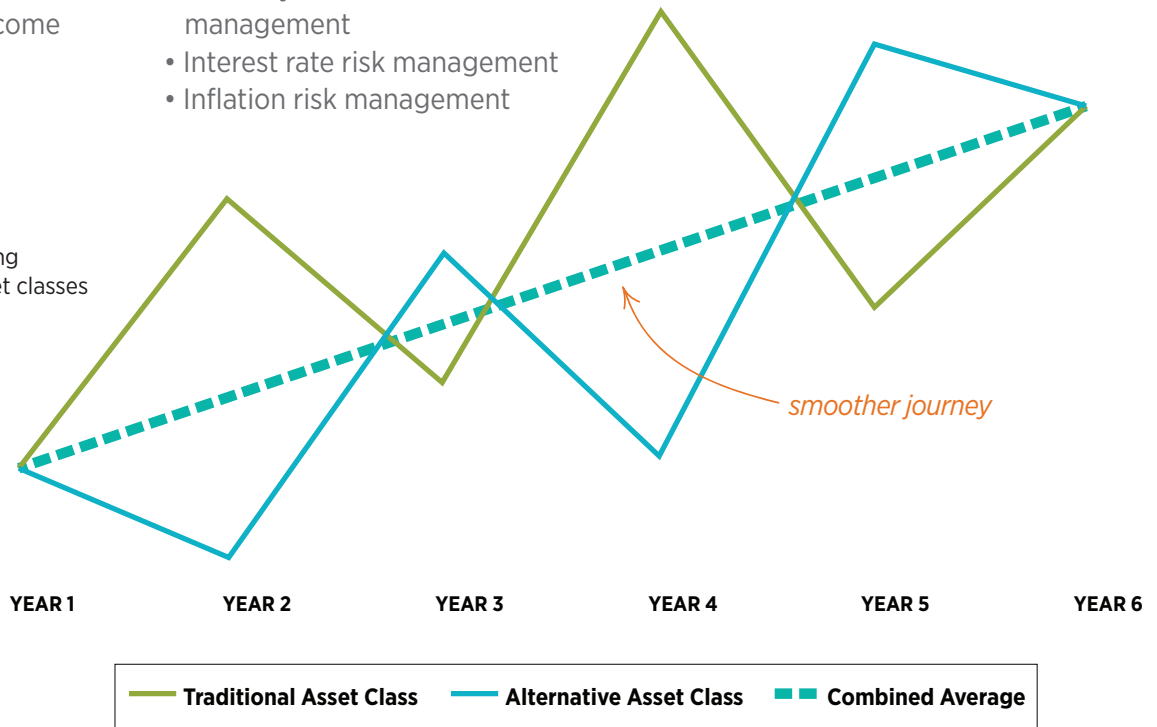
ALTERNATIVE ASSETS
Commodities Real Estate Infrastructure
OTHER ALT INVESTMENTS
Private Debt/Credit Private Equity
ALTERNATIVE STRATEGIES
Long/Short Event-Driven Market Neutral Global Macro

# The Goal of Alternative Investments

Alternative Investments permit more efficient portfolio construction with the potential to deliver on a range of desired outcomes:

- Portfolio diversification
- New sources of income
- Enhanced returns
- Volatility & drawdown management
- Interest rate risk management
- Inflation risk management

Theoretical example using inversely correlated asset classes



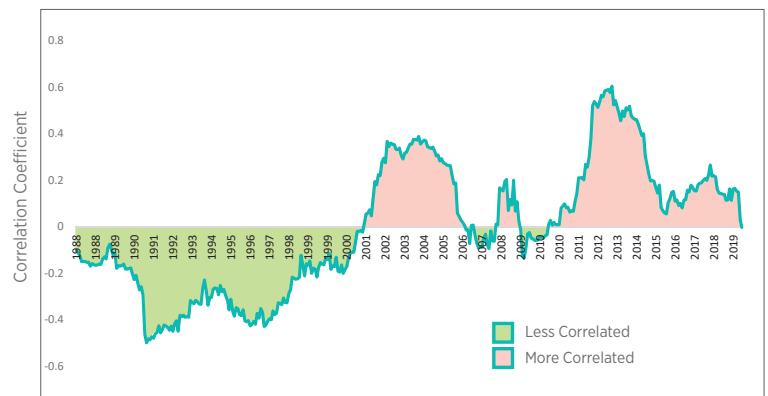
This stylized diagram is for illustrative purposes only, and does not reflect suggested performance of any type

# Market factors driving interest in Alternatives

Several factors are driving interest in Alternative Investments among sophisticated investors:

- **Higher correlations** between traditional asset classes, exposing a portfolio to greater risk in a drawdown.
- **Low interest rates.** Yields are low and income is hard to come by.
- **Creeping portfolio risk.** As investors have sought to replace income in their portfolios due to falling government bond yields, substitutions have included longer duration bonds, high yield bonds, dividend paying equities, and preferred shares – all which may increase portfolio risk.
- The age of the **current market cycle.**

## MONTHLY ROLLING CORRELATION OF S&P 500 VS 10-YEAR US GOVERNMENT BONDS



Source: Morningstar and St. Louis Fed (FRED), September 2019

## Common risks and offsets for retail investors

While the definition of Alternative Investments has broadened, “Alts” still suffer from the perception of being high-stakes, high-torque hedge funds.

Today’s hedge funds are more focused on risk management and the broader set of Alternative Investments to which they belong are designed to provide stability to a portfolio through better diversification.

That said, for retail investors interested in Alternative Investments, there are some important considerations:

**Access:** In the past, investing in Alternatives required significant investment minimums. Today, a range of funds are available to give retail investors exposure to Alternative asset classes, with varying degrees of risk at more manageable levels.

**Liquidity:** Some Alternative Investments can tie your money up for more than a year. However some Alt funds are now being structured to provide 30 day liquidity, while Liquid Alts can provide daily liquidity. In any case, Alternatives are best viewed from a longer time horizon.

**Transparency:** Many Alternative Investments are privately traded, so there is limited information available on pricing, track records, and comparability (benchmarks). Good manager selection can help here, as can the visibility offered by Liquid Alt products.

Alternative Investments	Private Investments	Mutual Funds	Exchange Traded
<b>Real Estate</b>	<ul style="list-style-type: none"> <li>• Direct Investment</li> <li>• Private REITs</li> </ul>	<ul style="list-style-type: none"> <li>• REIT Funds</li> <li>• Real Estate Sector Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Public REITs</li> <li>• Closed-End Funds</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>• Direct Investment</li> <li>• Direct Investment Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure Sector Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure ETFs</li> <li>• Closed-End Funds</li> </ul>
<b>Commodities</b>	<ul style="list-style-type: none"> <li>• CTAs</li> <li>• Managed Futures</li> <li>• Direct Investment Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Resource-Focused Sector Funds</li> <li>• Precious Metals Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Resource ETFs</li> <li>• Precious Metals ETFs</li> </ul>
<b>Private Debt</b>	<ul style="list-style-type: none"> <li>• Direct Investment</li> <li>• Private Debt Funds</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• BDCs</li> </ul>
<b>Private Equity</b>	<ul style="list-style-type: none"> <li>• Direct Investment</li> <li>• Private Equity Funds</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Listed Holding Companies</li> </ul>
<b>Marketable Securities</b>	<ul style="list-style-type: none"> <li>• Traditional Hedge Fund Strategies</li> </ul>	<ul style="list-style-type: none"> <li>• Liquid Alt Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Hedge Fund Indexed ETFs</li> <li>• Closed-End Funds</li> </ul>

## The role Alternative Investments can play in a portfolio

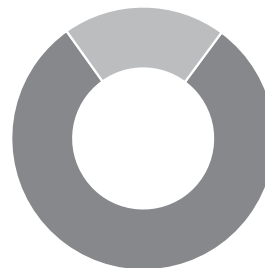
When well managed, Alternatives have the potential to complement core equity and fixed income allocations by improving diversification, managing risk, providing income, and enhancing returns.

A professional asset allocator can help determine if Alternative Investments will help a portfolio achieve its investment goals.



### CORE STRATEGIES

seek to provide exposure to asset classes that are broadly representative of the market, such as stocks and bonds.



### DIVERSIFYING STRATEGIES

have the potential to deliver consistent returns and enhanced risk management. Institutional investors frequently make use of alternative investments to this end.



### RESULT

More efficient portfolio construction with investment outcomes (risk/return) better suited to an investor’s needs.



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