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# WHY ALTS? WHY NOW?

**BY ELIZABETH LYNDON**

Senior Director,
Institutional Solutions,
BNY Mellon | Pershing

Demand for alternative investments is on the rise as investors look for greater diversification and downside protection while pursuing alpha and meaningful returns. Earlier this summer at INSITE, we gathered a group of investment experts to explore why alternatives are back in the spotlight and what role they could play for investors in both turbulent times and calmer conditions.

As head of client relationships and service for Pershing's institutional clients, I was excited to talk with industry experts to learn more about what advisors and their clients in the wealth space are thinking about when they consider alternative investments. The aficionados who joined me on stage were:

- **Joanna Berg,** *Director, Senior Alternative Investments Strategist,* BNY Mellon Investor Solutions
- **Matt Brown,** *Founder and CEO,* CAIS
- **Gina Sanchez,** *CEO,* Chantico Global LLC
- **Richard Williams,** *Managing Director and Head of Advisor Solutions Group,* Sanctuary Wealth

***We've captured a few highlights from the session as our panel answered the questions, "Why Alts?" and "Why Now?"***

# REASON 1

## Demand for alternatives has never been higher

***A confluence of factors has put alternatives in the spotlight and may lead to significant growth in the segment over the next several years. But increased demand creates a need for better education for investors and advisors according to our panel.***

- **According to Matt:** “We have extreme demand from wealth management firms wanting more access to alternative investments to improve portfolio performance for their clients. We have asset managers who know that their institutional allocations are flat, and they need wealth management firms as new shareholders for growth. And we have the enormous impact of technology making the whole process easy. The outcome of these three trends together means that trillions of dollars will be moving from traditional assets into alternatives over the next decade.”
- **Joanna added:** “Education is at the core of allocating to alternatives because they are more complex, and you cannot just show returns and say, ‘invest in it.’ The client will come back in a negative year, asking ‘What did you put me in?’ Really spending time explaining what these strategies do in simple terms, I think that handholding is the crux of getting clients invested.”

# REASON 2

## Alternatives offer a hedge against market volatility

***With market volatility expected to be elevated for the foreseeable future, investors and advisors are looking for uncorrelated asset classes to soften the ups and downs. Our panel weighed in on which types of strategies work best in a volatile market.***

- **Joanna said:** “The way we think about taking advantage of volatility and dislocations is kind of a two-pronged approach. It’s through hedge fund strategies that can mitigate the volatility through their low net exposures and then on the other side through distressed investing. These are longer term investments that take advantage of the market dislocations. As we think about the hedge fund market volatility neutralizing strategy, we think about market neutral hedge funds, relative value, and these tend to run their portfolios at very low net exposures to the markets, which essentially means that their performance tends to be less correlated to the markets, lower beta and almost bond-like volatility.”

- **Gina added:** “I remember after the Great Financial Crisis, there was a great cartoon with a little graduate saying, ‘What I have learned in life is that if you go down 10% and you go up 10% you have not broken even.’ That’s a fact. And the reality is that the dampening effect of not losing money and the compounding impact that has on a portfolio is much greater in a higher volatility market than a normalized market.“

# REASON 3

## Private markets may offer higher yields

***In today’s markets, CDs, Treasury securities and highly rated corporate debt are earning 5% or greater yield. Investors may say that’s a safer guaranteed return, but our panel reminded us that it’s important to consider the opportunities in private markets.***

- **According to Richard:** “One, in the private credit market, most of those loans are floating rates, so they’re based off what used to be LIBOR. Two, those lenders are negotiating the terms and the covenants in those loans individually. Three, we’ve mentioned they have workout teams. They’re not afraid to for a loan to go into default because they have excellent workout teams to come in and restructure and even take over the company or whatever the case may be. So, from that standpoint you’re seeing Treasury yields at 5%, corporate yields at 6-6.5% and you’re getting 10 – 12% in private credit with a low turn of leverage.”

- **Gina agreed:** “The quality of credit coming to the private credit space is going up dramatically and you’re getting paid quite a bit more. You’re getting paid 12% right now for some very high-quality companies. So even though we are at higher interest rates, for credit that’s a good thing. It means you start the conversation with a company much higher than you did before. You’re getting paid to take the risk that they might default and the balance sheets that you’re getting in some of these private credit firms are significantly more robust. Meaning the likelihood of a default is going down as you’re getting paid quite a bit more.”

# REASON 4

## A chance to recast the traditional portfolio

***Market volatility, inflation and rising interest rates have thrown the traditional 60/40 portfolio into question in many investment circles. Our panel saw alts as a potential way to diversify and enhance potential return.***

- **Richard said:** "Some of the risk in alternatives involves how much illiquidity you are willing to accept to generate excess return in your portfolio. We spend a lot of time talking about the traditional 60/40 portfolio, which is 60% equity and 40% fixed income. We're changing that conversation to talk about 60% being public and private equity and 40% being public and private fixed income and what those trade-offs in liquidity happen to be."
- **Matt added:** "The inclusion of alternatives into a portfolio is recasting the traditional 60/40 into more of a 50/30/20 and that's a trend that's not reversing. And there's a lot of participants in the market that want to see that happen - advisors, clients, custodians, platforms and asset managers. So, the train has left the station on that."

# Consider your own strategy for alternatives

Our panelists all agreed that ease of access to alternatives as well as education for advisors and investors are the keys to any alts offering. To find out how you can incorporate alternatives into your investment program, reach out to your relationship manager.

Missed INSITE? **Watch a replay of our panel.**

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