Introduction to Alternative Investments

Wealth Management

Traditional public investments

Publicly-traded stocks and bonds have traditionally been considered the core building blocks of a diversified portfolio, often split 60% equities and 40% fixed income to capture the growth upside of stocks and the yield and price stability of many fixed income investments. As markets have evolved, a growing universe of alternative investments have emerged that offer investors a greater array of options to achieve the returns necessary to meet financial goals across economic cycles in a risk-managed way.

Alternative investments

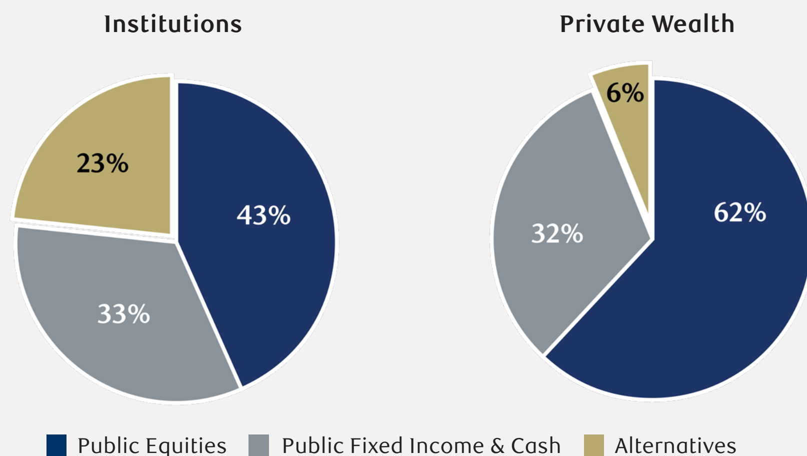
"Alternatives" refer to any investment outside of publicly-traded stocks and bonds. Private market alternatives provide access to equity investments in non-publicly traded companies and debt investments in directly originated private loans. Investors typically require a higher return on these less liquid investments as compensation for this risk. Public market alternatives provide differentiated exposure to traditional asset classes via fund structures that employ more complex trading strategies to a target a specific risk-return profile.

Types of alternative investments

Private market alternatives			Public market alternatives
Private equity[1]	**Private debt[2]**	**Real assets[3]**	**Hedge funds and liquid alternatives[4]**
Invests in non-publicly traded companies, ranging from startups to large private enterprises. Key types of private equity strategies include buyout, growth and venture capital.	Financing that does not involve a traditional bank. Common types include lending to companies and investing in structures backed by pools of assets.	Investment in tangible assets that are used for productive purposes. Includes real estate, infrastructure and natural resources.	A pooled investment fund that holds mainly liquid (and at times illiquid) assets and makes use of complex trading and risk management techniques to seek to improve investment performance and potentially insulate returns from public market risk.

Current asset class weights by investor type*

While private wealth investors have different liquidity needs and time horizons than institutions, investors in both groups have options available to them that can be appropriate and provide a number of benefits. Many of these products are newer, leaving some private wealth investors unaware of their options and therefore potentially under-allocated to this important part of the market.



Figures do not sum to 100% due to available detailed numerical data and rounding.

[1] Because of their long-term investment horizon, an investment in a private equity is often illiquid and it may be necessary to hold an investment in a private equity for several years before any return is realized. Private equity typically imposes limitations on investors' ability to withdraw their investment.

[2] Private debt involves considerable risk. Some include, lack of liquidity as the funds are generally not listed on an exchange and many have significant restrictions on transfers and withdrawals. Additionally, private debt funds carry credit and interest rate risk as the debt instruments purchased are subject to the risk that the borrower may default and sensitive to changes in interest rates.

[3] Real assets involve multiple risks. Including, lack of liquidity as real asset investments have longer hold periods than many other funds. Also, due to the physical nature of the real assets held, investors may be exposed to a wide range of potential risks including macroeconomic, political, regulatory, environmental, or commodity risk.

[4] Hedge funds often employ complex strategies, which may involve higher risk levels than traditional investments. Additionally, hedge funds may have limited liquidity, meaning investors may need more time to withdraw their investments on short notice easily. Hedge fund investor should be prepared to pay higher fees relative to a more traditional investing vehicle.

*Source: 2023 Fidelity Institutional Insights' "A Study of Allocations to Alternative Investments by Institutions and Financial Advisors," based on the 2022 Fidelity Institutional Investor Innovation Study (based on US market data).

Benefits of alternative investments

1. Return enhancement
Investors can often be paid to take on illiquidity as well as access **less efficient parts of the market** through alternatives, which may drive higher returns than traditional investments.

2. Portfolio diversification
Alternatives can often access asset **classes that are not available through traditional markets**, increasing portfolio diversification.

3. Current yield
Alternatives such as **alternative credit** and **real assets** have the potential to deliver higher yields with lower volatility than their publicly traded counterparts.

4. Volatility mitigation
Alternatives often rely less on broad market trends and more on the **strength of each specific investment**. This **low correlation** to broad markets may decrease portfolio volatility.

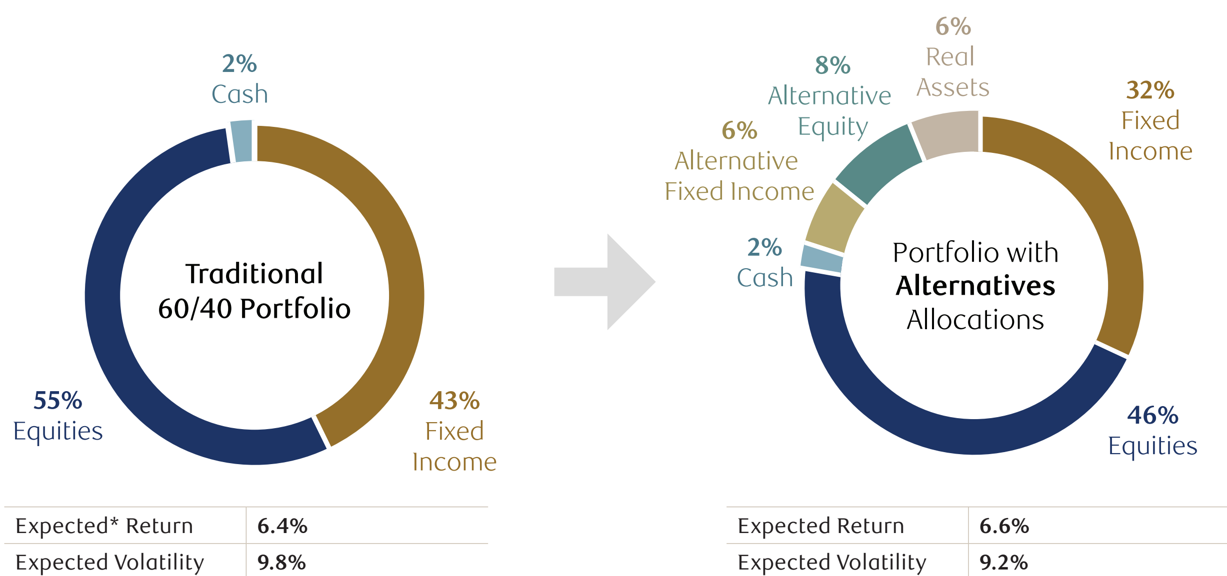
5. Inflation protection
Some alternatives, including **real estate** and **agriculture**, have inflation hedging properties stemming from an ability to benefit from increasing prices.

6. Tax benefits
Some structures used in alternatives strategies may offer **tax benefits**, including REITs and BDCs, as can certain **government programs**.

	Portfolio objective	Private equity	Private debt	Real assets	Hedge funds
1	Return enhancement	X	X		
2	Portfolio diversification	X	X	X	X
3	Current yield		X	X	
4	Volatility mitigation			X	X
5	Inflation protection			X	
6	Tax benefits	X		X	X

Adding alternatives to a portfolio has the potential to increase returns while lowering volatility. Actual allocations can be tailored to the specific objectives of each portfolio.

Long-term returns forecast (5 to 10 year horizon from 2024, before fees)



Expected* Return	6.4%
Expected Volatility	9.8%

Expected Return	6.6%
Expected Volatility	9.2%

The charts above are considered hypothetical, it is not based on actual client performance. This is for illustrative purposes only. Forecast returns is not a guarantee of future results.

The forecasts contained herein have been generated by RBC Wealth Management using a combination of computer models, statistical models and analysis, and professional judgment, and reflect RBC Wealth Management's best estimate of how various asset markets and asset allocation strategies may perform over a 5 to 10 year investment horizon. Historical data in respect of matters such as markets, interest rates and inflation, each from around the world, has been used as inputs within this process together with data generated by other forecasting models, including those used by RBC Global Asset Management Inc., an affiliate of RBC Dominion Securities Inc. Where appropriate, efforts have been made to remove data relating to unusual or one-time events to improve consistency in viewing trends. In addition a number of assumptions which have been made about the future performance of market and corporate data, interest rates and other key elements have been used as inputs to produce this forecast. In some cases an established method of forecasting returns may not exist for certain asset classes or historical data may not be complete due to limited availability which may, in turn, affect the reliability of aspects of the forecast. In such cases, forecasts may be based on other asset classes which are believed to have a strong correlation with the initial asset class. This means that the forecast for one asset class and its underlying data and assumptions will be used to create a forecast for another different asset class.

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The information provided is a forecast and is considered hypothetical. This forecast does not provide certainty as to what will happen in the future. This is because all forecasts rely on assumptions about important economic and market factors that may not be realized in the future, historical and statistical relationships that may not continue into the future, and a simplified modeling framework that can never reflect all the complexities of reality. There is no guarantee that the forecast returns can or will be achieved, that the models or the mathematical equations used therein are error free, or that the assumptions used in calculating the forecasts will reflect actual future data. We caution you not to place undue reliance on these estimates as a number of important factors could cause actual performance to differ materially from those expressed or implied in the estimates provided here. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest rates and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments and catastrophic events.

Investing involves financial risk, and in any individual year actual performance may vary dramatically from long-term forecasts. Furthermore, these estimates are based on broad asset class projections as measured by market indices. Since it is impossible to invest directly into these indices, there is no guarantee that the portfolio you choose will produce the same results as any model due to differences in the selected products' investment mandate, tracking error, fees, and idiosyncratic performance factors. Caution should be used when relying upon any forecast when making investment decisions.

Past performance does not guarantee future results. There is no guarantee that any targets or forecasts made will be achieved. An investment in an alternative investment should be viewed only as part of an overall investment program which considers your personal circumstances. The allocations referenced above may not be suitable for all investors.

Investments in alternative funds are speculative and involve significant risk of loss of all or a substantial amount of your investment. Alternative funds may: (i) engage in leverage and other speculative investment practices that may increase the risk of investment loss; (ii) can be highly illiquid; (iii) are not required to provide periodic pricing or valuation information to investors; and (iv) are not subject to the same regulatory requirements as prospectus-offered mutual funds. In assessing the suitability of this investment, investors should carefully consider their personal circumstances including time horizon, liquidity needs, portfolio size, income, investment knowledge and attitude toward price fluctuations.

The following indices have been used to represent each asset class when calculating historical performance and other statistics:

Traditional 60/40 Portfolio:

FTSE Canadian Treasury Bill 30-Day - Cash 2%; FTSE Government Bond 50% Short Term and 50% Mid Term - Government Bonds 11%; FTSE All Corporate Universe 50% Short Term and 50% Mid Term - IG Corporate Bonds 16%; Bloomberg Barclays Global-Aggregate Index (CAD Hedged) - Global Bonds (CAD hedged) 5%; S&P/TSX Preferred Share Index - Canadian Preferred Shares 3%; Bloomberg Barclays U.S. Aggregate Credit High Yield (CAD Hedged) - High Yield 4%; JPM EMBI Global Diversified (CAD Hedged) - Emerging Markets 4%, S&P/TSX Composite - Canadian Equities 33%; S&P 500 US Equities 12%; MSCI EAFE - International (EAFE) Equities 6%; MSCI Emerging Markets - Emerging Markets 4%.

Portfolio with Alternatives Allocations:

FTSE Canadian Treasury Bill 30-Day - Cash 2%; FTSE Government Bond 50% Short Term and Government Bonds 8%; FTSE All Corporate Universe 50% Short Term and 50% Mid Term - IG Corporate Bonds 12%; Bloomberg Barclays Global-Aggregate Index (CAD Hedged) - Global Bonds (CAD hedged) 4%, S&P/TSX Preferred Share Index - Canadian Preferred Shares 2%; Bloomberg Barclays U.S. Aggregate Credit High Yield (CAD Hedged) - High Yield 3%; JPM EMBI Global Diversified (CAD Hedged) - Emerging Markets 3%, HFRI Relative-Value Index - Fixed Income Hedged 3%; Credit Suisse Leveraged Loan Index - Private Debt 3%, S&P/TSX Composite - Canadian Equities 26%; S&P 500 US Equities 10%; MSCI EAFE - International (EAFE) Equities 6%; MSCI Emerging Markets - Emerging Markets 4%, HFRX Equity Hedge: Equity Market-Neutral Index - Hedged Equity 4%; Burgiss Private Equity Index and MSCI World Index - Private Equity 4%, Bloomberg Commodity Index - Commodity 2%; Burgiss Global Infrastructure Index and MSCI World Infrastructure Index - Infrastructure 2%; MSCI World Real Estate Index - Real Estate 2%.

Asset allocation and diversification do not assure a profit or protect against loss.

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