COLUMBIA THREADNEEDLE
INVESTMENTS

How do you define alternatives?

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With increased buzz around alternatives, we asked advisors to share their perspectives.

Against the backdrop of a breakdown in the decades-long negative correlations between stocks and bonds, the spotlight on alternative investments has grown brighter. But what are they exactly? We reached out to advisors to get their perspectives on what constitutes an alternative investment and how these investments fit into investor portfolios. Here's what we found:[1]

What is considered an alternative investment?
Generally, "alternative investment" is a catchall for any investment beyond the traditional realm of long-only, publicly traded stocks, bonds or cash. That's a wide net. Given that broad definition, we asked advisors what they consider to be alternative investments. Our survey suggests that alternatives are usually associated with asset class exposure that is beyond stocks or bonds (e.g., real estate, private equity) and access to non-publicly traded markets (e.g., private real estate, private debt).

Top ten investments advisors consider "alternatives"
(%)

Private real estate fund	75
Private equity fund	74
Venture capital fund	68
Private debt fund	63
Commodities fund	60
Bitcoin	54
Art and antiques	54
Public real estate fund (e.g., REIT)	51
Long/short equity fund	51
Options/derivatives	48

Source: Columbia Threadneedle Investments.

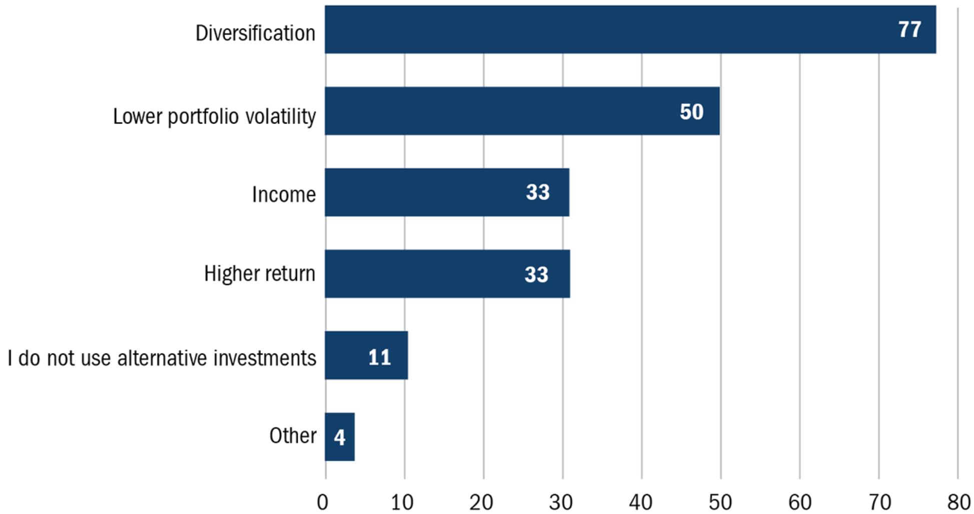
Notably, advisors also identified collateralized loan obligations (34%) as alternatives. This suggests a broad understanding of what constitutes an alternative investment and reiterates advisors' focus on asset class exposure as part of that definition.

The "why" behind alternative investments

Our survey indicates that advisors turn to alternatives to smooth out the investment journey. Advisors identified diversification (77%) and lower portfolio volatility (50%) as the primary reasons they turn to alternatives. Other reasons advisors cited included higher return (33%) and income (33%).

The main reasons advisors allocate to alternatives

(%)



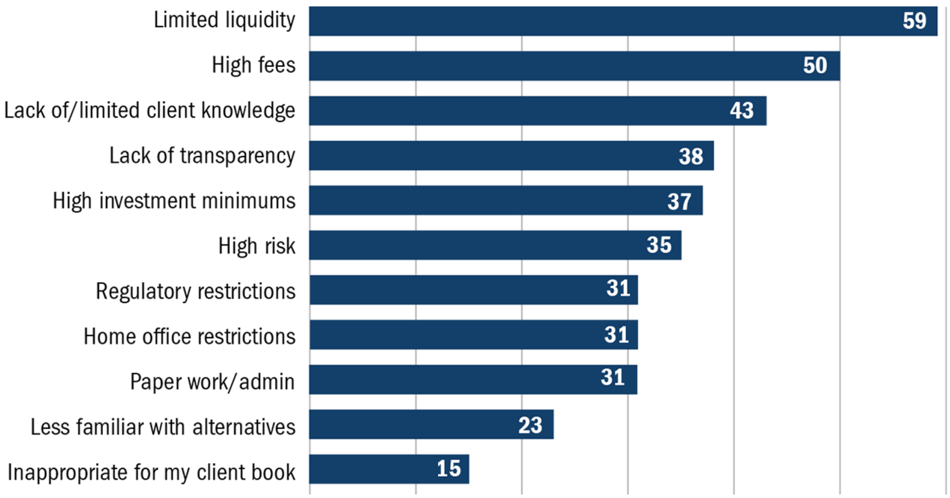
Source: Columbia Threadneedle Investments.

The challenges to investing in alternatives are still significant

While alternative investments could provide investors with attractive opportunities, they come with unique obstacles. These relate to their complexity, often tied to accessing private markets, which could mean lower liquidity and transparency compared with their public counterparts. Moreover, they could also involve higher fees and investment minimums. Regulatory disparities further complicate matters, as some alternatives fall outside the scope of traditional investment policies and may face constraints from home offices. Advisors voiced common concerns over limited liquidity (59%), high fees (50%) and clients' lack of familiarity (43%) as significant barriers to adopting alternatives.

Constraints advisors face in allocating to alternatives

(%)



Source: Columbia Threadneedle Investments.

Because the universe of alternatives has expanded quite significantly over the past few years, and given the constraints of liquidity and high fees, investors could consider more accessible alternative asset classes such as floating rate or commodity funds, which could offer access to uncorrelated returns but have the benefit of a traditional mutual fund or exchange-traded fund wrapper that offers more oversight and liquidity.

The bottom line

Alternatives encompass a wide variety of approaches to investing, and while they may provide the benefits of diversification and higher returns, there are still significant risks and limitations that could make investing in alternatives challenging. A financial advisor can help investors navigate the complexities and identify the most appropriate options to meet your financial goals.

[1] An online survey conducted through The Financial Collective 2.0 and Connecting Advisors in April 2024.

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Investing involves risk including the risk of loss of principal.

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

Alternative investments cover a broad range of strategies and structures designed to be low or non-correlated to traditional equity and fixed-income markets with a long-term expectation of illiquidity. Alternative investments involve substantial risks and may be more volatile than traditional investments, making them more appropriate for investors with an above-average tolerance for risk.

Floating rate loans typically present greater risk than other fixed-income investments as they are generally subject to legal or contractual resale restrictions, may trade less frequently and experience value impairments during liquidation.

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