



For marketing purposes
For professional / qualified /
institutional clients and investors only
January 2021

Alternative Investments

IMPROVING PORTFOLIO PERFORMANCE | Titan Funding

John M. Mansour Co-founder & CEO

Edward N. Piazza Co-founder & President



Table of contents

1	OVERVIEW	2
1.1	Who should consider alternative investments?	
2	ALTERNATIVE ASSET CLASSES	3
2.1	Real Estate	
2.2	Options for investing in real estate	
2.3	Real Estate Investment Trusts (REITs)	
3	PRIVATE CREDIT	8
3.1	Real estate debt funds	
3.2	Bridge loans and construction loans	
4	OTHER ALTERNATIVE ASSETS	12
4.1	Hedge Funds	
4.2	Commodities	
4.3	Art	
4.4	Cryptocurrency	
5	SUMMARY	17

1. Overview

“According to CAIA, alternative investments grew from 6 percent to 12 percent of global investments between 2003 and 2018. Members ... expect growth to continue, with alternatives representing between 18 percent and 24 percent of global assets by 2025.”

Julie Segal, Institutional Investor: April 2020

Alternative investments are generally taken to mean any non-traditional asset classes such as stocks, bonds, or cash, or even the use of non-traditional investment strategies. The general category of alternatives includes investment vehicles as disparate as: art, commodities, hedge funds, natural resources, cryptocurrency, private debt (including mortgages), private equity, real estate, and infrastructure.

1.1 Who should consider alternative investments?

Once considered to be the prerogative of high-net-worth investors, the alternative investments sector has become more mainstream and continues to gain popularity. In fact, the term itself is arguably inaccurate as such investments are no longer an “alternative” but now form an essential part of many portfolios. Alternative investments are seen as a valuable way to diversify portfolios and, while some may carry a higher risk, generally they are less impacted by market volatility¹.

Alternative investments are likely to appeal to: individual investors with a comprehensive knowledge of portfolio management and both alternative and traditional asset classes, and those looking to invest in managed funds with the specific goals, such as income generation, diversification, or to counter market volatility while building long-term gains.

The term “alternative investment” also refers to the use of alternative strategies – for example, long/short positions, managed futures, private equity, or distressed debt. Alternative investments can be used to diversify portfolios and balance high-risk/high-return investments with more traditional low-risk/low-return products. Private real estate debt funds, for example, conservatively realize returns between 6% and 16%, with average loan-to-value ratios of 67%, thus providing excellent risk vs return benefits for investors. Alternatives should be seen as a complement to traditional investments, rather than outliers, as their name might suggest.

The alternative market sector doubled between 2008 and 2017; by February 2020, it was worth \$10 trillion and is projected to be worth \$14 trillion by 2023, according to data from Preqin.

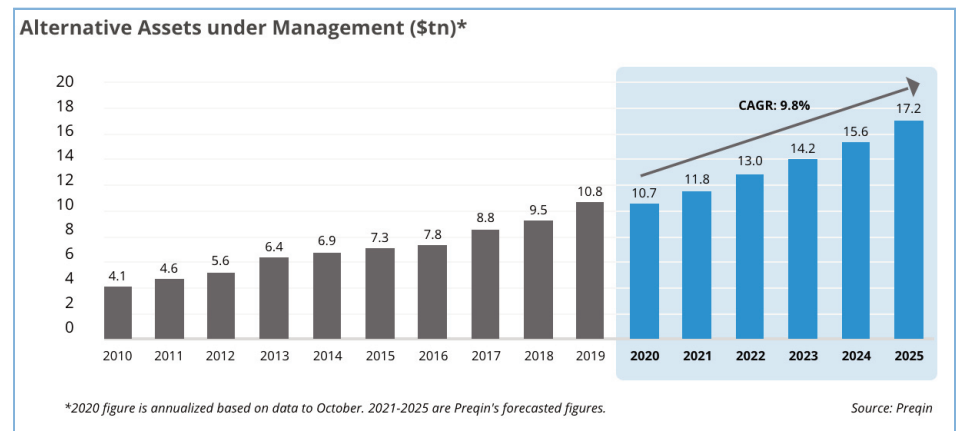
Recommended portfolio allocations are **10% to 20%**; though in certain cases, this allocation may be increased. Currently, the largest sectors of alternative assets are: private equity, real estate, hedge funds, and private debt (a sector that is rapidly increasing.)

In 2020, **40%** of institutional investors stated that they would increase investment in private equity, private debt, real estate, and infrastructure, while **30%** said they would also invest in hedge funds and natural resources².

We should, therefore, consider alternative investments to be essential to any well-balanced portfolio.

Potential investors should judge alternatives by the same

standards as traditional investments: Risk vs return; liquidity; costs; and performance. These essential considerations will vary considerably between different classes of alternative assets.



www.recapitalnews.com/aew-analysis-real-estate-debt-performance/

“Highly volatile markets serve as a good reminder of the importance of proper asset allocation and portfolio diversification.”

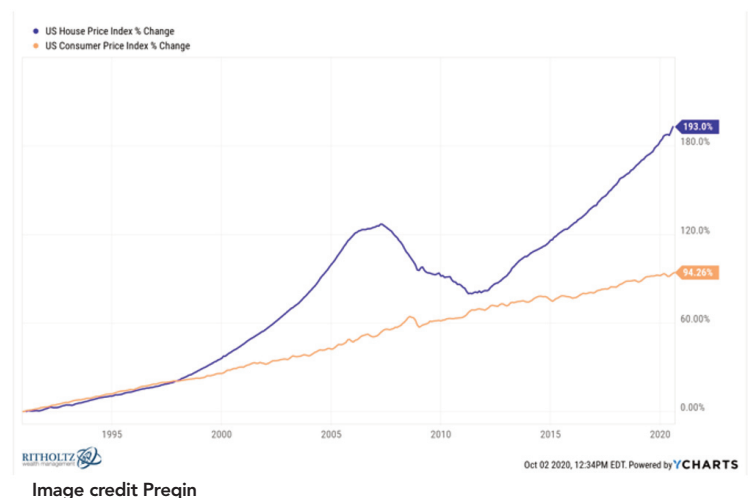
Kelli Click – Forbes March 2020

2. Alternative Asset Classes:

2.1 Real Estate

Traditionally, real estate is considered illiquid as it can take time to buy and sell a property, usually at considerable cost in commissions, legal fees, and property transfer taxes.

However, the real estate market has held its own against other investments over the long term, while proving a reliable hedge against inflation.



2.2 Options for investing in real estate

- + Buying property for purposes of rental, enabling investors to achieve regular income (in addition to capital gains) over time. For investors looking for long-term growth, plus the possibility of regular income, the real estate market is hard to beat.
- + 'Flipping' properties – buying cheaply, spending on attractive upgrades or renovations, and then reselling at a profit. Property prices in general have outpaced inflation.
- + Commercial real estate, which may include apartment buildings, but also shopping centers, office towers, warehouses, and industrial buildings, has the potential to realize high income. Commercial property can show ROIs between 6% and 12%, compared to perhaps 4% on residential property. Downsides are the greater initial investment required, along with higher levels of risk, and greater time commitment.

Unlike paper or digital investments, such as commodities, or cryptocurrency, real estate has the advantage of being undeniably solid, a tangible asset with inherent value that can be lived in, or worked from – in the case of commercial real estate. In the case of residential property, while developers may realize relatively fast gains, for the individual owner a house is not

just an investment, it's a home, making it markedly different from most other investments.

Real estate also includes undeveloped land, which will generally rise in value over time, providing investors with capital gains, even though it generates no regular income.

Pros

Reliable returns on capital over time that outdo the performance of many other investment vehicles and provide a hedge against inflation.

Both residential and commercial real estate properties can generate regular income if rented out.

Even undeveloped land will almost always rise steadily in value.

Non-high-net-worth investors can share in the gains of real estate investment, through REITS.

Cons

Real estate does not have high liquidity; disposing of property can be time consuming and expensive; significant capital gains may take many years.

Purchasing real estate for investment, whether to be rented to residential or commercial tenants, involves a considerable amount of hands-on responsibility. Landlords will normally be responsible for repairs and maintenance.

Insurance and property taxes are an additional expense.

Truths about real estate

- **Market size**

In 2019, the professionally managed real estate investment market was worth \$9.6 trillion globally.

- **Risk vs returns**

Traditionally, risks are low and returns – over time – fairly high. However, during an economic downturn, whether it be global, national, or local, property values will often drop.

- **Liquidity**

Real estate should be considered an illiquid investment. Real estate liquidity is highly dependent on the type of property; commercial or residential, and location. Additionally, there are many other factors that can affect the real estate market in any given location. In a strong market, property might sell within 24 hours. In a weak market, property may sit for months before receiving an acceptable offer.

- **Costs**

Buying and selling real estate is undeniably expensive. Sales commissions are notoriously high, often >6% of the sale price. Lawyers' fees and land transfer taxes can add another 2% or more. Investors also need to cover property taxes, insurance, and regular maintenance.

- **Performance**

The National Property Index (NPI) suggests that, for US commercial real estate, returns over the last 25 years have averaged 9.4% with a standard deviation of 7.5%. Income-producing residential properties have performed slightly better at an average of 10.6%³.

³ Average Annual Returns for Long-Term Investment in Real Estate – JB Maverick, March 2020
www.investopedia.com/ask/answers/060415/what-average-annual-return-typical-long-term-investment-real-estate-sector.asp

2.3 Real Estate Investment Trusts (REITs)

REITs are excellent candidates for income-focused portfolios, allowing a wider range of investors the chance to see good returns, in addition to capital growth. Investors purchase shares, which provide the REIT with capital to purchase and manage income-producing real estate.

Property owned by REITs could be an apartment complex, a retail center, a warehouse, or other industrial building. REITs have the advantage – over outright real estate purchases for investment – of removing the maintenance concerns that often plague other property owners. Investors in REITs simply purchase shares, while the trust managers take care of everything else, making them perfect income producers for investors for a fraction of the cost of purchasing an income property outright.

Pros

REITs are legally obligated to distribute 90% of profits in dividends; most REITs pay these quarterly, making REITs useful producers of regular income.

Cons

REIT dividends may be taxed as ordinary income, normally charged at a higher rate than dividends.

Fees are relatively high.

Annual Returns for the FTSE Nareit U.S. Real Estate Index Series
2020 - 2019

Year	FTSE Nareit All REITs				FTSE Nareit Composite				FTSE Nareit Real Estate 50™			
	Total		Price		Total		Price		Total		Price	
	Return (%)	Index	Return (%)	Index	Return (%)	Index	Return (%)	Index	Return (%)	Index	Return (%)	Index
2000	25.89	1,294.05	15.91	90.68	25.89	1,294.05	15.91	90.68	28.66	128.66	19.98	119.98
2001	15.50	1,494.65	7.05	97.07	15.50	1,494.65	7.05	97.07	12.20	144.36	5.13	126.14
2002	5.22	1,572.61	-2.15	94.98	5.22	1,572.61	-2.15	94.98	1.86	147.05	-4.30	120.71
2003	38.47	2,177.53	29.34	122.85	38.47	2,177.53	29.34	122.85	36.30	200.44	28.34	154.92
2004	30.41	2,839.70	22.87	150.94	30.41	2,839.70	22.87	150.94	35.00	270.58	28.31	198.79
2005	8.29	3,075.06	2.51	154.73	8.29	3,075.06	2.51	154.73	13.67	307.57	8.52	215.71
2006	34.35	4,131.39	28.31	198.53	34.02	4,121.18	27.98	198.02	35.64	417.18	30.28	281.03
2007	-17.83	3,394.71	-21.39	156.07	-17.83	3,386.30	-21.42	155.60	-16.34	349.00	-19.57	226.03
2008	-37.34	2,127.27	-41.04	92.02	-37.84	2,104.93	-41.56	90.94	-37.31	218.80	-40.78	133.85
2009	27.45	2,711.15	19.90	110.33	27.80	2,690.12	20.15	109.26	27.62	279.23	20.36	161.10
2010	27.58	3,458.89	21.81	134.39	27.56	3,431.62	21.76	133.03	26.72	353.83	21.13	195.14
2011	7.28	3,710.61	2.37	137.57	7.30	3,682.29	2.34	136.14	9.45	387.25	4.69	204.29
2012	20.14	4,458.10	14.98	158.18	19.73	4,408.71	14.54	155.93	18.05	457.14	13.37	231.60
2013	3.21	4,601.14	-1.15	156.35	2.34	4,511.90	-2.03	152.76	-0.53	454.71	-4.44	221.31
2014	27.15	5,850.23	21.93	190.65	27.23	5,740.43	22.00	186.36	28.73	585.32	23.86	274.12
2015	2.29	5,984.18	-1.95	186.93	2.05	5,858.14	-2.20	182.27	4.40	611.08	0.42	275.27
2016	9.28	6,539.68	4.97	196.21	9.37	6,407.34	5.05	191.47	5.52	644.80	1.91	280.52
2017	9.27	7,145.73	4.77	205.57	9.29	7,002.84	4.76	200.58	9.23	704.33	5.01	294.58
2018	-4.10	6,852.72	-8.34	188.43	-3.94	6,727.27	-8.21	184.12	-2.12	689.37	-6.02	276.85
2019	28.07	8,776.18	22.95	231.68	28.21	8,624.88	23.03	226.52	29.22	890.83	24.59	344.91
Avg.	13.03		7.18		12.95		7.08		13.30		8.04	

Reference: FTSE Nareit U.S. Real Estate Index Historical Values & Returns.

Truths about (REITs)

- **Market size**

In 2019, REITs in the US had a market capitalization of \$1.33 trillion.

- **Risk vs returns**

Investing in real estate, these trusts enjoy relatively low risks – though obviously property values can always be affected by unforeseen events. Also, tenanted properties, both residential and commercial, may sit empty for short periods from time to time. The returns, on the other hand, tend to be high – the MSCI US REIT index listed five-year returns at 15.76% as of June 2020.

- **Liquidity**

Liquidity is generally high, especially if the trust is stock-exchange listed.

- **Costs**

Costs are relatively high. Base fees range from 0.25% to 0.5% of property value. There are also performance-based fees on income/profit plus an acquisition fee of 1% and a divestment fee of 0.5%.

- **Performance**

According to the MSCI U.S. REIT Index, five-year returns from 2015 to December 2019 were 13.31%.

Annual Returns for the FTSE Nareit U.S. Real Estate Index Series
2020 - 2019

Year	FTSE Nareit All Equity REITs				FTSE Nareit Equity REITs			
	Total		Price		Total		Price	
	Return (%)	Index	Return (%)	Index	Return (%)	Index	Return (%)	Index
2000	26.37	3,002.97	16.51	264.90	26.37	3,002.97	16.51	264.90
2001	13.93	3,421.37	5.85	280.40	13.93	3,421.37	5.85	280.40
2002	3.82	3,552.10	-3.12	271.66	3.82	3,552.10	-3.12	271.66
2003	37.13	4,871.12	28.48	349.02	37.13	4,871.12	28.48	349.02
2004	31.58	6,409.30	24.35	434.01	31.58	6,409.30	24.35	434.01
2005	12.16	7,188.85	6.67	462.98	12.16	7,188.85	6.67	462.98
2006	35.06	9,709.31	29.51	599.59	35.06	9,709.31	29.51	599.59
2007	-15.69	8,185.75	-19.05	485.36	-15.69	8,185.75	-19.05	485.36
2008	-37.73	5,097.46	-41.12	285.79	-37.73	5,097.46	-41.12	285.79
2009	27.99	6,524.25	21.28	346.60	27.99	6,524.25	21.28	346.60
2010	27.95	8,347.58	23.07	426.55	27.96	8,348.46	23.06	426.53
2011	8.28	9,039.07	4.32	444.96	8.29	9,040.81	4.32	444.95
2012	19.70	10,819.84	15.61	514.43	18.06	10,673.56	13.86	506.60
2013	2.86	11,128.83	-0.80	510.33	2.47	10,936.91	-1.33	499.85
2014	28.03	14,247.97	23.44	629.96	30.14	14,233.18	25.25	626.05
2015	2.83	14,650.51	-0.98	623.76	3.20	14,688.11	-0.68	621.76
2016	8.63	15,914.73	4.77	653.48	8.52	15,939.34	4.63	650.54
2017	8.67	17,295.16	4.52	683.05	5.23	16,772.33	1.04	657.29
2018	-4.04	16,595.65	-7.95	628.75	-4.62	15,997.00	-8.72	599.98
2019	28.66	21,352.44	23.95	779.34	26.00	20,156.03	21.07	726.38
Avg.	13.31		7.97		12.99		7.59	

Reference: FTSE Nareit U.S. Real Estate Index Historical Values & Returns.

3. Private Credit

3.1 Real Estate Debt Funds

Real estate debt funds are relatively new players in the investment field, having blossomed in the wake of the 2008 financial crisis and the credit tightening that followed it. Yet, real estate debt funds now form the core of many portfolios. Investment giant Blackstone currently has the largest real estate credit fund ever raised - \$8 billion was gathered in September 2020⁴.

From 2008 to 2020, private equity funds have extended widely into direct lending. The performance of private debt funds has equalled, and sometimes exceeded, the performance of the high yield market; the tangible value of real estate as collateral has contributed to this improved performance.

"Private lending has been one of the standout growth stories in private real estate over the past decade... the industry stands at \$190 billion in aggregate assets under management..."

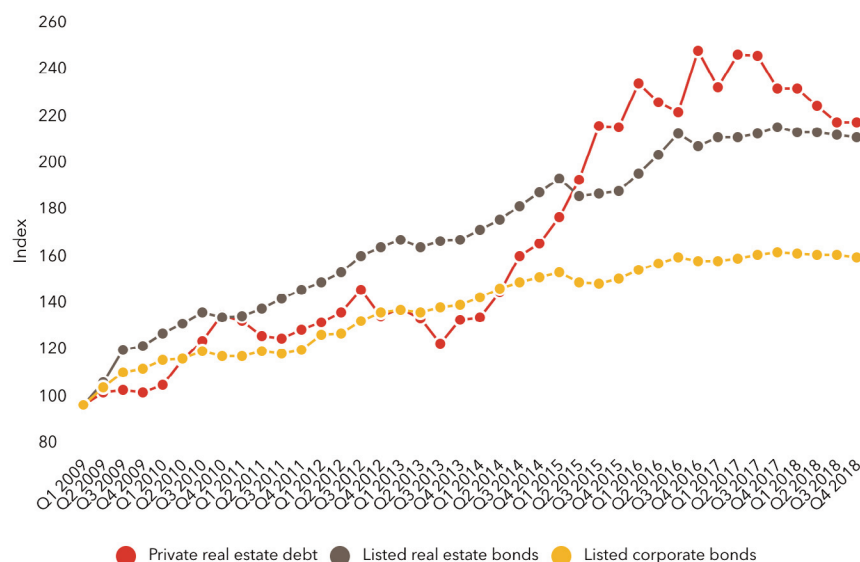
Craig Solomon, CEO of Square Mile Capital

Another factor in their success is speed. Potential borrowers can obtain loans quickly in order to close on prospective deals. Following the financial crisis in 2008, traditional lenders tightened regulations and liquidity requirements for borrowers.

Banks were resistant to offering loans for commercial real estate and, if they did, they placed greater focus on income and cash flow than on equity and assets. Real estate debt funds were able to fill a narrow but potentially very profitable niche market.

REAL ESTATE DEBT'S RELATIVE VALUE

Private real estate debt has outperformed listed real estate bonds and listed corporate bonds in recent years



Source: Bank of America Merrill Lynch, Bloomberg, Real Capital Analytics, Real Estate Capital, AEW Europe

Real estate debt funds positives

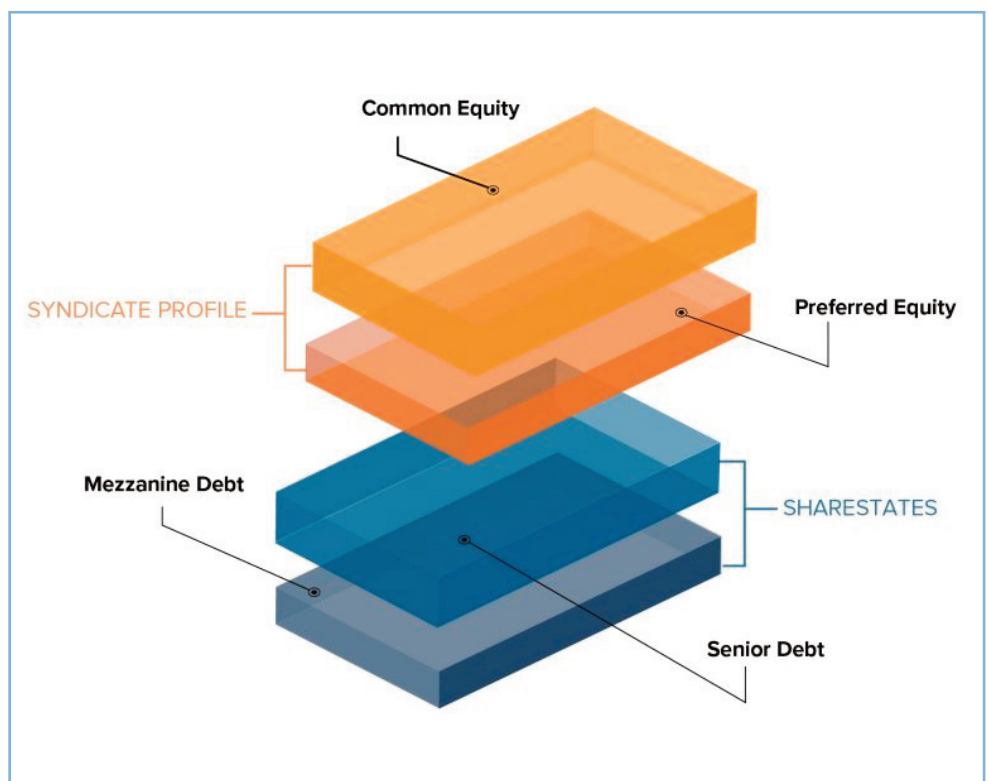
- **Lend money to prospective or current owners** of real estate assets, using private, equity-based capital
- **Provide loans collateralized** by real estate assets to borrowers, often developers, for a range of commercial, business, and real-estate development
- **Offer investors regular payments** based on interest charged on commercial real estate loans
- **Provide a pooled investment**, opening opportunities for individual investors to benefit from fixed-income returns from commercial real estate, thereby mitigating risk
- **May offer short-term loans** (one to three years) with amounts ranging from \$5 million to >\$150 million

Funds may choose to focus on one particular type of investment; for example, apartment buildings or industrial development.

Real estate debt funds offer the benefit of a predictable and stable income, enjoying certainty in the capital stack – as senior debt – and also benefiting from diversification, with investment capital spread across a large pool of loans to mitigate risk. Real estate debt funds are comprised of equity-based capital that provides qualified borrowers with real estate loans backed

by collateral. In the event of a real estate project failing, those investing in equity will be last

to be paid, whereas those investing through debt funds will be paid first.



3.2 Bridge loans and construction loans

The most common loan types available through real estate debt funds include bridge loans and construction loans.

Bridge loans are sought by borrowers who need short-term financing while they either obtain permanent financing or while they free up capital by disposing of an existing property. Bridge loans enable such borrowers to move quickly in acquiring new properties for investment. Interest rates on bridge loans are normally high – often into double digits.

Construction loans are short-term loans used to finance the construction of real estate projects. The builder takes out a construction loan before obtaining long-term funding. Considered relatively risky, construction loans attract higher interest rates than traditional mortgage loans.

Given the collateralization and the priority, as senior debt, for repayment, investment in real estate debt funds can be seen as safe and reliable, while avoiding the volatility of equities. Additionally, real estate debt funds generally involve shorter-term investments than equities, with the option to recycle funds during the investment period.

COVID-19 has been the “black swan”, or unanticipated catalyst, for the real estate market. However, fund managers that have

prudently managed their leverage, and maintained a healthy level of liquidity, will be well positioned to gain market share as the real estate market resettles post-COVID.

For those wishing to invest in private real estate debt funds, there is an abundance of choice. Investors should compare various funds to see which one suits them best. Both high-risk and low-risk investment strategies can be possible with commercial real estate investment.

Pros

Can include shorter-term investments.

As senior debt, debt funds have primary claim in the capital stack.

Offer predictable, stable income.

Loans backed by real estate collateral.

Cons

COVID-19 has been a catalyst in the market; investors who are over leveraged may be at risk – fund managers that have prudently managed leverage will mitigate this risk.

Possibility of borrowers defaulting on loans; however, that gives fund managers the chance to obtain title to real estate that has been used as collateral.

Truths about bridge loans and construction loans

- **Market size**

In 2020, the private debt industry held \$190 billion in assets under management.

- **Risk vs Returns**

Lending to borrowers who are not able to access funds expeditiously through traditional lenders, naturally carries an element of risk. That said, the risk is mitigated by the right to be paid first, and the ability to obtain title on real estate used as collateral for the loan. Returns on debt funds are generally consistent and stable. Whenever risk is elevated, returns are also elevated. Despite risks being mitigated as stated above, returns still reflect the possibility of default, and are generally in double figures.

- **Liquidity**

Real estate is clearly not an investment that enjoys high levels of liquidity. However, some debt fund managers have been able to use open-ended funds, operating in a similar fashion to mutual funds, to achieve almost daily liquidity at the portfolio level while still enjoying the premium returns normally associated with illiquid investments.

- **Costs**

Fees are comparatively reasonable, ranging from 1% to 1.5% for senior and secured loans to 2% to 2.5% for distressed opportunities.

- **Performance**

In recent years, performance has often exceeded that of real estate bonds and corporate bonds.

4. Other Alternative Assets

4.1 Hedge Funds

Hedge funds generally invest in alternative assets with relative liquidity, using these as a 'hedge' against market volatility. They may use complex strategies designed to manage risk, such as short selling, leverage, or derivatives. Traditionally, hedge funds have been limited to high-net-worth investors. They are not strictly regulated by the SEC and can offer diversification while investing aggressively in a wide range of assets.

Pros

Flexibility; hedge funds are generally not publicly traded and have the advantage of greater flexibility than mutual funds.

Hedge funds utilize more adventurous strategies such as short selling and leverage.

High returns; the biggest attractions of hedge funds are the potential for very high returns.

Loss reduction; in the event of a sell-off in the market, losses can be significantly reduced.

Cons

Cost; management fees, usually around 2% are just the beginning – a 20% premium paid to hedge fund managers on performance make these funds one of the costliest investments to hold.

Risk; high returns are naturally accompanied by higher risk

Truths about hedge funds

- **Market size**

Estimated gross assets under management exceed \$8.5 trillion, implying an average leverage ratio of around 1.6 to 1 across all funds.

- **Risk vs Returns**

Risk is high, depending on the type of fund – however, the benefit to hedge funds for many investors is the potentially very high rate of returns.

- **Liquidity**

Hedge funds are relatively illiquid, often making it difficult for investors to withdraw money at will.

- **Costs**

Management costs are high; hedge funds are one of the costliest investments to hold.

- **Performance**

“In a bull market hedge funds may not perform as well as mutual funds, but in a bear market—taken as a group or asset class—they should do better than mutual funds because they hold short positions and hedges.”

David R. Harper, CEO and founder, Bionic Turtle – October 2020

3.4 Commodities

Commodities include both natural resources – for example, oil and precious metals – and agricultural products, such as coffee, rice, sugar, or pork. Each category has its own individual market and each is subject to individual factors driving that market. One can, in some cases, obtain and hold the actual product – gold bars, for example, are extremely valuable in comparison to their weight and volume, a 10-ounce gold bar, currently worth around \$18,500, would be the size of a small paperback, making it easy to store considerable fortunes in a home safe.

However, even with something as tangible as precious metals, the majority of investors do not actually hold the physical metal itself. For many commodities, physical possession is rarely possible, one would not normally envisage holding a cellar full of sugar, or coffee beans. ETFs make commodities accessible to a wider range of investors, providing exposure to a range of commodities, consequently reducing the risks involved in investing in just one. ⁵

Pros

Portfolio diversification.

Hedge against inflation.

ETFs offer access to a wider range of investors.

Cons

Growth may be slow and steady, conversely, markets are quite volatile.

With the possible exception of some precious metals, commodities underperformed the broader market in 2020.

No income is generated while holding a commodity; its ROI depends on future value.

3.5 Art

Art has been an alternative investment for centuries. However, the market can be unpredictable and it should certainly not be considered a liquid investment. From a purely financial point of view it should only ever be a small portion of a well-balanced portfolio. Many people choosing to invest in art have a genuine love for it, and buy mainly for the pleasure of owning something they find beautiful. Alternatively, they may wish to encourage an up-and-coming artist, with the hope that the artist's work will increase in value over time.

While art lovers with disposable funds (that they don't need to see a return on for a decade or more) might want to consider art as an investment, those buying art for eventual profit need extensive background knowledge, must do their due diligence, and must be prepared to be patient regarding possible ROI.

Pros

Art, largely a matter of individual taste, is appealing in a truly altruistic sense. Beautiful artworks give aesthetic pleasure to their owners.

Art is not affected by the performance of the stock market – the market for art may head in a very different direction – as such, art may provide a counter to downturns in the stock market.

Art generally appreciates with age, particularly so when the artist is no longer alive.

Cons

Art is almost always a long-term investment.

Risk; there are no set factors for determining the monetary value of any piece of artwork; artists' reputations change over time and their work can easily fall victim of the whims of fashion.

Investing in art requires a fair amount of background knowledge; investors must do their due diligence to establish provenance and prospective value.

Security can be a considerable expense for serious art investors.

No income is generated by a house full of beautiful art; ROI depends on its eventual resale value.

3.6 Cryptocurrency

Cryptocurrency is a digital currency that has seen massive adoption by investors over the last 10 to 12 years. The attraction for investors lies in the possibility of massive gains – however, as a highly liquid investment, it is also extremely volatile. Crypto has no inherent value, compared, for example, to precious metals, making it extremely vulnerable to sudden changes in the market. Janet Yellen, Secretary of the Treasury in the US, and previous chair of the Federal Reserve, is arguing to curtail the use of crypto, mainly due to its frequent use for illegal purposes.

Pros

Potential for significant gains within a short time span.

Highly liquid.

Cons

Highly volatile.

Subject to cybersecurity issues.

Often used for illegal purposes.

Lack of inherent value.

4. Summary

Alternative investments are now decidedly mainstream as the global market share continues to rise. Once the prerogative of the ultra-wealthy, or institutional, investor, they are now available to a wider range of investors due to newer products and investment strategies.

Alternate investments should not be lumped together as a category. Alternatives include: collectibles (a wide category including, among others: art, antiques, jewelry, wine, vintage cars, and baseball cards); commodities (for example, oil, precious metals, and agricultural products); cryptocurrency; and real estate (including commercial and residential properties, private credit, and REITs.) Each asset category has its own advantages and disadvantages, performs very differently, and will appeal to different types of investors.

Real estate is one of the most secure of any 'alternative' investment due to its inherent value and income-producing potential; what it lacks in liquidity, it arguably compensates for in a desirable high-return/low-risk ratio. Real estate debt funds can pool open-ended shares into funds that are now available to investors with less available wealth; this not only widens the appeal of debt funds, it also offers the “holy grail” of liquidity and the high returns associated with illiquid investments.

Best practice is to include alternative investments in portfolios as a complement to traditional ones, bearing in mind that alternative strategies can often be used as efficiently as actual alternative assets.