For most investors, traditional asset classes like equities, bonds and cash will make up the bulk of their portfolios. However, there are several other asset classes out there. These other asset classes are collectively known as alternative investments or alternatives for short. Alternatives behave differently to traditional asset classes and act as a useful diversification tool, which could lower the risk attached to your portfolio. There is a wide variety of alternative assets you can explore; however, like with any listed investment, knowledge and understanding is key to minimising risk and generating sustainable returns.

What is an alternative investment?

An alternative investment is a financial asset that does not fall into any of the conventional investment categories. Conventional assets typically include listed companies, bonds and cash instruments. Typically, alternative investment classes are held by institutional investors, like hedge funds or high-net-worth individuals, due to the complex nature of certain alternative investment classes, the lack of market regulation and the degree of risk. However, private investors with a passion and a knowledge of specific alternative assets can also generate yield and incorporate these kinds of assets into their overall investment portfolios.

Private equity, hedge funds, direct property and direct commodities are some of the investments commonly thought of when considering alternative exposure. More recently, however, other alternative investments have become more popular – probably because they appeal to individual passions. Antiques, classic cars, wines, coins, stamps, cattle and even sneakers have become more prominent alternatives. There is a very broad range of alternative investments available, and we highlight just some of the alternatives available below.

- **Private equity** includes investing directly into unlisted companies – these can include start-ups, large privately-owned businesses or even Section 12J funds. One can also access private equity indirectly through listed companies that invest in unlisted companies. Examples include EPE Capital Partners, African Rainbow Capital and Brait.

- **Hedge funds** are managed investment portfolios run by professionals using a range of strategies. These include buying and selling listed and unlisted instruments, utilising leverage, and taking derivative positions. By employing these strategies, hedge funds aim to provide positive returns in both rising and falling markets. There are several retail hedge funds available to investors.

- **Direct property investments** include properties purchased for investment purposes (usually where you are not the primary tenant of the property). An example includes purchasing an apartment and renting it out. This has become more popular with the advent of services such as Airbnb. It is very important to take care when purchasing a property directly – you will be responsible for the day-to-day maintenance and upkeep, as well as renting it out.

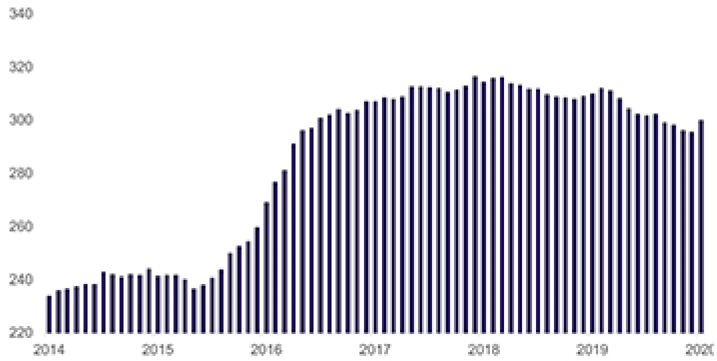
Average monthly rentals in selected provinces of South Africa

Source: FNB Economics

- **Direct property investments** are used as a key material in the production of other goods and services or, in the case of gold, as a store of value. Outside of gold, examples include copper, platinum group metals (PGMs), oil, wheat, maize and coffee beans. Investing in commodities holds excellent diversification value and access is easy. You can invest in a range of commodities by buying exchange-traded funds or notes on the JSE.

- **Wine investing** is no longer only for the wealthy, as today there are wine stock exchanges, wine-specific investment funds and multiple avenues to buy and sell wine. The quality and scarcity of wine appreciates over time and so does its value. Successful wine investors purchase high-quality wines and store them in the hope that their prices will increase over time due to the rarity of that specific year and blend. For investors looking for access to wines, this can be obtained directly through the acquisition of physical wines or through wine investment funds. Investing in wine requires knowledge and investors need to have a solid foundation when looking for the right investment.

Liv-ex 100 Benchmark Fine Wine Index*



Source: Bloomberg
** Represents the price movement of 100 of the most sought-after fine wines for which there is a strong secondary market. The index value is calculated using Liv-ex Mid Prices, which are derived from live bids, offers and transactions on Liv-ex - the Fine Wine Exchange, the global trading platform for fine wine.*

- **Classic cars** are cars 30 years and older. This type of asset class does require good motoring knowledge of which car to purchase and how to look after it. Classic cars can be acquired for as little as R50 000 but also include limited edition Ferraris priced in the hundreds of millions. A common strategy is to buy a car before 30 years of age in the hope that once is reaches classic status, the value will go up. There are many factors influencing the value and appreciation of value in classic cars but for motor heads and those with a passion for old cars, the journey is an extremely enjoyable one.

- **Sneakers** have gained in prominence as an investment over the past few years. By way of an example, Jordan 1 Retro High Off-White Chicago sneakers are currently selling at an average of $4 020 a pair, a 1 900% premium over the original retail price. Apart from the cool factor associated with the brands and the collaborations with popular personalities, the value of sneakers is driven by the implementation of limited “drops” (i.e. releases in limited quantities). Primary sales take place online on a first come, first served basis where popular limited editions tend to sell out in minutes. Apart from a vibrant resale market outside of stores, online platforms like StockX and GOAT have become valuable entities that help create some pricing transparency and authentication.

Risks of investing in alternatives

It is important to understand that there are unique risks inherent to alternative investments – namely:

- Many of the managed products have high and complicated fee structures. Most hedge funds, for example, have management fees (~2% per annum) and performance fees (~20% of excess return).

- Many alternative investment structures are more complex and less transparent than traditional investments, making it difficult both for untrained investors to understand what they are investing in and even for trained investors to value accurately.

- Alternatives are often less liquid, particularly in periods of stress.
- Certain alternatives, like commodities, often have high risk or volatility attached to them and often do not perform as expected.
- The benefits of diversification are limited. During periods of stress, correlations between many unrelated asset classes can increase sharply.

Final thoughts

Alternative investments hold diversification value and can even add an element of fun to your investment journey. Passions can be turned into investments and having specific knowledge about an asset class can be utilised to both diversify risk and enhance potential returns. Like any investment, alternative assets must be understood first, and the risk and opportunities must be properly assessed.

Find out what else our experts have to say on the **RMB Private Bank App**. Simply click on **TV Hub**, then **RMB TV** and select **Trending**. Please ensure you have the latest version of the RMB Private Bank App installed.

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If you have any questions on the above, please feel free to contact us.

Yours sincerely,
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