

Why Alternative Investments?

Alternative investments (AI) are those that fall outside the typical asset categories of stocks, bonds or cash. They can include private equity, hedge funds, real estate, commodities and more. Alternatives can help to lower volatility, enhance returns and broaden diversification of a portfolio. Traditionally used by institutional funds and accredited investors, new investment platforms have recently made alternatives more accessible to individual investors. These funds are seeing a surge in popularity. They represented more than \$13.3 trillion in AUM in 2021, with that figure projected to grow to over \$23 trillion by 2026*.

Wealth Enhancement Advisory Services (WEAS) has partnered with CAIS, a leading alternative investment platform, to offer a wide variety of investment options for a broad audience of accredited clientele.

▼ Alternative Investments and Your Clients

Who is a good client for alternatives in terms of investor profile?

Clients With Longer Investment Time Horizons

Most alternative investment funds are less liquid than public market investments. Clients should understand the liquidity structure of these funds to ensure these investments align with their financial goals and needs.

Higher Net Worth Investors

Some alternative investment funds (especially limited partnership structures) are only available to Qualified Purchasers (QP), defined as individuals with a net worth of \$5M or more, excluding their primary residence. See below for further details about QPs.

Sophisticated Investors

Alternative investments can be more complex investment products than traditional stocks and bonds. For this reason, these investments may be confusing to less experienced investors/clients.

Investors Comfortable With Unique Risks

Alternative investments can result in higher return potential, but also come with higher risk. It's important for clients to fully understand the differences between these private and public securities.

▼ Alternative Asset Class Investment Objectives



Private Equity

Appreciation and return enhancement



Alternative Income (Private credit and debt)

Above-market yields with lower risk and uncorrelated collateral pools



Hedge Funds

Returns with less correlation to equity and fixed-income markets that may offer downside protection



Real Estate and Real Assets

High-quality assets with potential for appreciation and yield. Potential hedge against inflation. Tax advantaged solutions (Opportunity zones and 1031 exchanges)

✓ Minimum Investment Levels/Investor Accreditations

The minimum needed to invest in alternative investment funds ranges from \$2,500 to \$250k.

Some funds may only be available to accredited investors or qualified purchasers:

Accredited Investor Criteria

- \$200k annual income requirement (\$300k when combined with spouse), and/or:
- \$1M net worth, which can include spouse's assets but excludes primary residence.

Qualified Purchasers (QP) Criteria

- Individual or family business that owns \$5M or more in investments, excluding their primary residence, and/or:
- Individual or entity that invests at least \$25M, either for their own accounts or on others' behalf; or:
- Entity owned exclusively by qualified purchasers.

✓ Maximum Allocation Levels

WEAS has developed the below maximum allocation parameters, which align with industry best practices.

Client Liquid Net Worth in Non-Liquid AI	50% or less
Client Liquid Net Worth in any one Fund or AI Product	30% or less
Wealth Enhancement Group AUM in any one Fund or AI Product	10% or less

✓ Introducing Alternative Investments to Clients

Here are some topics for Financial Consultants to introduce alternative investments to their clients.

Discuss Recent Capital Gains With the Client

Opportunity zone investments can be a beneficial tax investment because these funds allow for tax deferral of realized gains through 2026, no tax on up to 15% of deferred gains, and potentially no tax on capital appreciation.

Ask About Their Interest in Private Markets

Private market returns are typically not highly correlated with public markets, which can benefit the diversification of an investment portfolio.

Talk About Reducing Portfolio Volatility

Private market investments are historically less volatile than equities and can be a stable presence in a portfolio, especially in more turbulent economic environments.

Inquire About Risk Tolerance and Investment Time Horizon

Private market investments often offer greater return potential, but may come with enhanced risk, including liquidity risk, since some alternative investments may be locked-up for the life of the fund (approx. 10 years).

✓ Wealth Enhancement Group Alternative Investment Resources

The portfolio consulting team is ready to assist with any alternative investment related items, including:

- Alternative Investment Portfolio Allocations
- General Questions/Inquiries
- Operational Implementation

Wealth Enhancement Group has recently partnered with CAIS to bring our advisors a centralized alternative investment platform, which will benefit with fund selection, implementation, and general servicing/reporting.