

The Realm Of Alternative Investments

By Eng Tiang Chuan

Hedge Funds come to mind when one talks about Alternative Investments. But there are much more to Alternative Investments than just hedge funds. We offer some examples here.



As international financial and asset management institutions heed Singapore's call of becoming the regional financial and wealth management hub, investors here have found it increasingly easy to access alternative investments once not available to them. With the establishment of flexible platforms, the breadth and depth of investment choices offered by Independent Financial Advisers (IFA) now rivals, and may even surpass that offered by private banks. Investment administration has also been much simplified in tandem.

Alternative assets promises non correla-

tion or low correlation to traditional assets and can be beneficial to one's investment portfolio. However, investors must be mindful of the possible issues with this class of investments and not be blinded by their impressive historical returns. The following is a brief discussion:

MANAGED FUTURES

Managed Futures is typically classified as a hedge fund. This class of investment follows an absolute return strategy and trades in futures market. Also known as Commodities Trading Advisers (CTAs), they are typically

quantitative in nature and utilize computer algorithms in their trading programs. Managed Futures generated double digit returns in 2008 with many having more than 30 per cent return. They also offer liquidity as the underlying investments are futures contracts which can be sold easily. The 2009 Year-to-Date return however has generally been negative as there was a trend reversal in the markets.

PROPERTY INVESTMENTS

Many investors are fascinated with properties, mainly because they are tangible and

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can potentially gain capital appreciation and rental income. Unlike traditional property funds, which invest into Real Estate Investment Trusts (Reits) listed on stock exchanges, alternative property funds buy, own or build actual buildings. Holdings could include residential, hotels and hostels. Some of these funds have continued to give steady returns during the Credit Crisis due to their business models. Historical returns have been around 10 per cent (in GBP).

ENVIRONMENT TECHNOLOGY

With the world facing severe environmental issues, environmental friendly ‘Green’ industries have been touted as the next big thing. Again, unlike traditional ‘green’ funds which invest into equities of different companies with ‘green’ technologies, this alternative fund invests in just one company with a patented technology to treat organic waste and avoid punishing landfill tax. The key income generator comes from the waste management contracts with the town and city councils in the UK which offers more stability in these times. It has a target return of 12 to 14 per cent per annum (in GBP).

LIFE SETTLEMENTS

By buying over the unwanted/unneeded insurance policies from the wealthy, this form

of investment can offer a win-win solution to both seller (policy owner) and buyer (fund). The surrender value of a with-profits life policy is usually much lower than the maturity/claim value. Instead of losing out on the smaller sum, the life assured can instead choose to sell his policy to this fund at a higher price. Some investors are however not comfortable at that thought of ‘benefiting’ from the life assured’s death when the sum assured is paid out to the fund. Target return of the fund is 10 to 12 per cent per annum (in USD).

CAVEATS

Alternative investments offer access to some very specialized and niche investment spheres that require expert knowledge and skills. Very often, hard physical assets instead of paper assets are held. This makes it much less liquid than traditional assets like stocks and shares which could be sold off easily.

In an effort to protect existing investors, some alternative funds discussed above have suspended redemptions during the tumultuous end to 2008 and start of 2009. As the underlying holdings are not liquid, selling off the assets in those times when credit-flows freeze would mean liquidating at fire-sale prices. This would not be fair to existing

investors who would stay vested. As such, these investments may not be suitable for those with liquidity needs.

Many of the funds are domiciled offshore with their assets held overseas as well. Investors in Singapore would face currency risks. The current relative weakness of the major currencies versus the Singapore dollar would help to reduce some risks.

Alternative funds require specialized knowledge and may not be easily understood. Asset behavior during market meltdowns may also spring more nasty surprises than anticipated. Unknown unknowns could be lurking. A smaller allocation to these assets would be a protection against ‘black swan’ events. ■

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The above discussed funds are for Accredited Investors only.

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