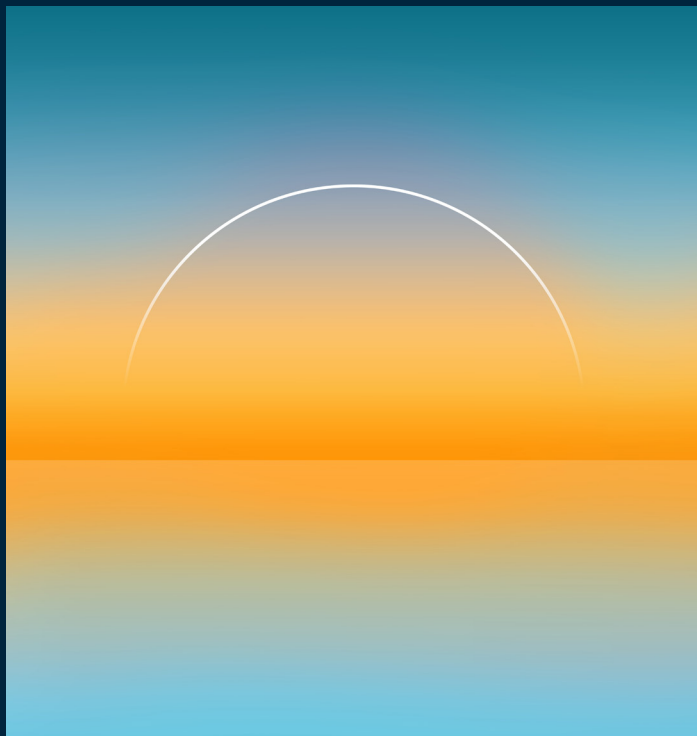


Wealth Trends in Alternatives:
OPTIMIZING OPPORTUNITIES



FOREWARD: THE ALTERNATIVES RENAISSANCE

Institutional investing into the alternative investments (alts) market is mature, with institutional capital deployed to alts asset classes for more than two decades. While alternative managers traditionally have raised capital from institutions, an influx of new capital is coming from the private wealth space. Alts are becoming increasingly democratized as logistical investing challenges are addressed by alts managers, allowing them to access a largely untapped pool of investors, in what has the potential to be the next frontier of exponential growth for the alts industry.

The potential of the private wealth market is huge. Alts account for less than 3% of the portfolios of high-net-worth individuals, for example.¹ But over the next decade, it is estimated that alts assets under management for private wealth investors will increase three-fold from \$4 trillion to \$12 trillion.²

To help capture this valuable source of fresh capital, alts managers increasingly are working with wealth managers to better understand their needs in the alts space and how to match product offerings with the suitability of private clients. While individual private wealth investments may not be as large as institutional allocations, private wealth individuals invest for the long-term and provide an opportunity for alts managers to diversify their capital base.

¹Elisa Battaglia Trovato, "Alternative assets becoming key battleground for wealth managers," Professional Wealth Management, FT Wealth Management, February 26th 2024; <https://www.pwmnet.com/alternative-assets-becoming-key-battleground-for-wealth-managers>

²Hugh MacArthur, Rebecca Burack, Graham Rose, Christophe De Vusser, Kiki Yang, and Sebastien Lamy; "Global Private Equity Report 2024;" Bain; Bain & Company, Inc.; 2024; https://www.bain.com/globalassets/noindex/2024/bain_report_global-private-equity-report-2024.pdf

For wealth managers that are newer to alts, these investment strategies present both opportunities and challenges. As wealth managers become more experienced with the different risk-return profiles and how to incorporate them in portfolio construction, demand for these products will continue to grow. The benefits of alts include returns uncorrelated to traditional equity and fixed income markets, potential for higher yields, downside protection and greater diversification. An increased focus on alts within wealth management firms is palpable, with hundreds of new hires taking place and specialist teams devoted to this segment becoming larger. Figures show that hiring rates are likely to increase by nearly 50% year over year in 2024.³

BNY has established alts expertise across investment management, advisory, distribution, securities services, wealth technology and custody and clearing. In addition, BNY Pershing offers support for alts and wealth managers across the alts ecosystem through targeted introductions and investment access via BNY's Alts BridgeSM. Having these relationships with both sides of the market offers a unique vantage point to observe trends and be actively involved in the evolving alts space – including the rise in wealth managers actively looking to invest in alternatives and hedge fund clients proactively marketing to the private wealth segment.

With private clients seeking to leverage new investment opportunities, BNY Pershing has undertaken a deep dive into the alts landscape, collecting primary data through a wealth industry survey to understand key considerations and deciding factors for wealth managers when making investments into alts. The survey findings uncover insights into the state of play in the market, shedding light on the experiences of wealth managers and how alts solutions can be shaped to help overcome barriers to entry and support evolving client needs.

Survey Methodology

The use of alts in client portfolios is one of the fastest-growing trends in wealth management. To help gain insights into current and future use of alts and understand the needs of wealth managers and their clients, BNY Pershing has conducted an industry survey: *Wealth Trends in Alternatives*. The survey asked more than 100 wealth managers in the United States for feedback regarding their experience in the following areas:

- **Current use of alts**
- **Barriers to investing in alts**
- **Operational experience with alts**
- **Future use of alts**

For purposes of this survey, an alternative investment is defined as any investment made through a wealth manager that is outside the traditional investments categories of publicly traded stocks, bonds and cash. Alts are therefore defined as private equity, private credit, hedge funds, infrastructure, natural resources and real estate investment trusts (REITs).

³Sasha Jensen, "The Push for Private Wealth: Diversifying Through Alternatives," Jensen Partners Executive Search, Jensen Partners Executive Search, October 9, 2024, <https://www.jensen-partners.com/insights/the-push-for-private-wealth-diversifying-through-alternatives/#:-:text=Private%20wealth%20clients%E2%80%9494%20high%2Dnet,while%20also%20offering%20greater%20diversification>

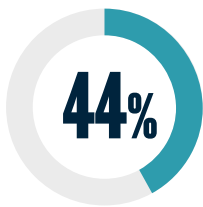
EXECUTIVE SUMMARY:

ANALYZING THE NEW ERA OF PRIVATE WEALTH AS THE SOURCE OF CAPITAL FOR ALTS

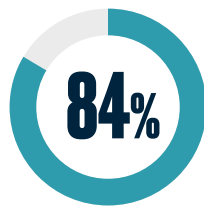
Alts gaining traction

The buzz around alts is loud and getting louder.

Among the wealth managers surveyed:



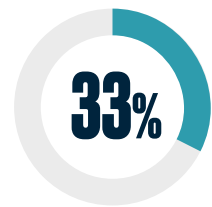
of wealth managers have **greater than 20%** of their portfolios allocated to alts



of wealth managers expect **alts allocations to rise** in the next 12 months



of wealth managers expect alts allocations to be **significantly higher** in the next 12 months



of wealth managers are not currently using alts but are **likely to start** in the next year

With a majority of respondents expecting to increase their allocations to alts over the next year, it's clear there is a growing interest in the impact alts can make for private client portfolios. In fact, 84% of wealth managers surveyed are looking to alts to diversify returns or increase return potential as two of the top factors driving their investment decisions.

REITs and private equity riding high

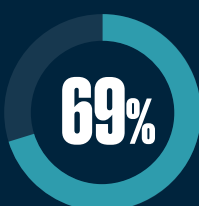
Nearly 90% of respondents shared that they are using alts to generate longer-term returns and the most popular asset class is REITs, used by 89% with their private clients. Depending on private client liquidity needs, REITs can be accessed via public markets and private markets. Since both options are available to private clients of different liquidity profiles, REITs may have the broadest appeal.

Private equity also is one of the top three alts asset classes ranked in the survey, used by 67% of wealth managers.

Hedge Funds a top choice for alts allocation

An overarching finding from our survey is that liquidity is one of three most important factors in portfolio construction and how alternatives strategies are used.

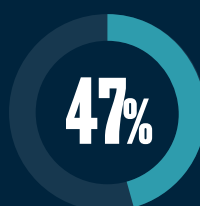
Among the wealth managers surveyed:



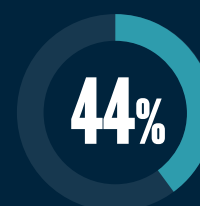
use alts for
current income



list **liquidity** as
one of the most
important factors
when selecting alts



use **evergreen**
hedge funds to
access alts



expect their allocation
to hedge funds to be
significantly higher
in the next year

When selecting alts funds, key considerations highlighted by survey respondents include liquidity, diversification of returns and increased return potential. As such, the ability of hedge funds, in particular, to provide these investment attributes is emphasized by survey respondents. This is in contrast to the general perception that private markets and illiquid alts are the most sought-after strategies currently and that hedge funds may be experiencing stagnant interest. Instead, with the use of hedge funds anticipated to rise, according to the survey, this could indicate that liquid alternatives have even more room to grow, driven by the wealth management space. Ultimately, the survey results highlight that there is no “one size fits all” approach when it comes to alts; it comes down to the suitability of each private client, and depending on their needs, it may be suitable for private clients to invest in liquid alts, illiquid alts or a mix of both.

Big brands

With many wealth managers relatively new to the alts space, it may be easier for them to invest in products offered by market-leading brand name investment firms. The majority of participants favor using large traditional managers that offer alternative products and large alternative/private market managers for selecting alts.

84% of wealth managers turn to **large traditional managers** that offer alternative products



80% of wealth managers turn to **large alternative or private market managers**



56% of wealth managers turn to asset managers with a **historical focus on retail investors**



Straightforward strategies are the order of the day

Survey respondents revealed that wealth managers' capacity to undertake complex, time-consuming research is limited – particularly when it comes to alts research and manager selection.



Having a robust selection of alts managers to choose from is the **biggest challenge** for wealth managers



of wealth managers agree that it is **harder to research alts products** than traditional investments



of wealth managers spend **6 hours or less** screening for, researching, or learning about alts products

This is an indication that simple and straightforward strategies may have the most success with private clients. The wealth manager must first understand the investment benefits of the strategy in order to explain those benefits to their private clients. Therefore, the easier the strategy is to understand, the more efficient it can be to inspire private clients to invest.

Documentation and compliance inefficiencies

Respondents shared that their greatest operational challenges when investing in alts on behalf of their private clients are complying with legal and regulatory requirements and managing manual documentation.

- Confirming a legal, risk or compliance matter was viewed by 51% of respondents as being harder than in the traditional investments space.
- The most time-consuming part of the subscription document/order entry form process, according to 78%, is completing a legal, risk or compliance matter.
- This was followed by verifying investor data and completing numerous manual fields at 66% and 51%, respectively.

THE RESULTS

Current use of alts: Allocation, time-horizon and asset classes

FIGURE 1

Aggregated across all of your clients, what is your current allocation to alternative investments?

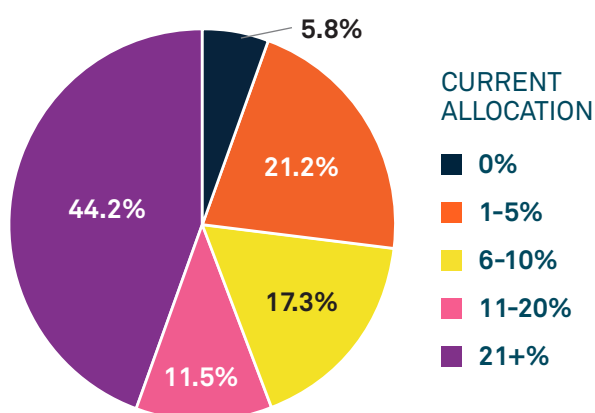
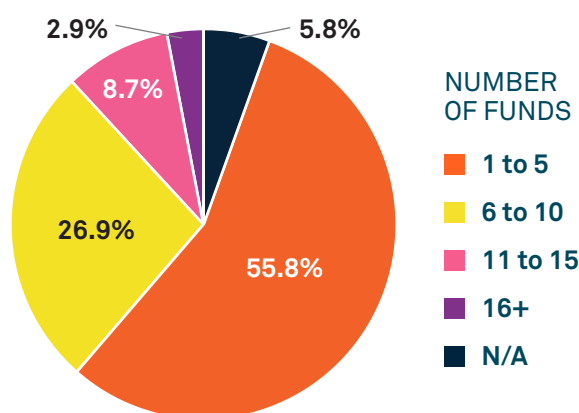


FIGURE 2

How many unique alternative investment funds are you invested in across all of your clients?



The majority of respondents (94%) have already allocated client portfolios to alts. Of those, 44% reported allocating over one-fifth of private client portfolios to alts (see Figure 1), supporting the apparent trend of wealth managers moving away from traditional 60/40 portfolios (60% equity, 40% bonds) towards more diversified asset allocations. Only 6% of respondents reported not having a current allocation to alts.

Of those investing in alts, more than half (56%) are currently invested in up to five unique alt funds (see Figure 2).

FIGURE 3

In which of the following stage of wealth planning do you incorporate alternative investments? (Please select all that apply.)

| | Response rate |
|-----------------------------|---------------|
| Longer-term returns | 89.4% |
| Current income | 69.2% |
| Multi-generational planning | 33.7% |
| All 3 | 22.1% |
| Other | 2.9% |

A high proportion of respondents reported using alts for two distinct purposes (see Figure 3): longer-term returns (89%) and to generate current income (69%).

This highlights the fact that the alts selected will vary based on each private client's needs. Their considerations include size of investible assets, specific client liquidity needs and risk profile.

FIGURE 4

Which of the following asset classes do you currently include in your alternative investment allocations? (Please select all that apply.)

| | Response rate |
|---|---------------|
| Real estate investment trusts (REITs) | 88.8% |
| Hedge funds | 67.3% |
| Private equity (including venture capital and growth) | 67.3% |
| Natural resources | 61.2% |
| Private credit / alternative income | 55.1% |
| Infrastructure | 51% |
| Other | 4.8% |

All alternative asset classes are being used by over half of respondents, which indicates strong adoption of alts in private client portfolios. The most popular asset class being REITs, used by 89% for their private clients (see *Figure 4*). REITs can be either liquid or illiquid, providing wealth managers the ability to use them with a wide range of private clients.

Competing for second place are hedge funds and private equity, each coming in at 67%. Hedge funds typically offer more liquidity than private equity, while private equity typically has the potential for larger returns. This shows that respondents are embracing a mix of liquid and illiquid alts, depending on the needs of their private clients.

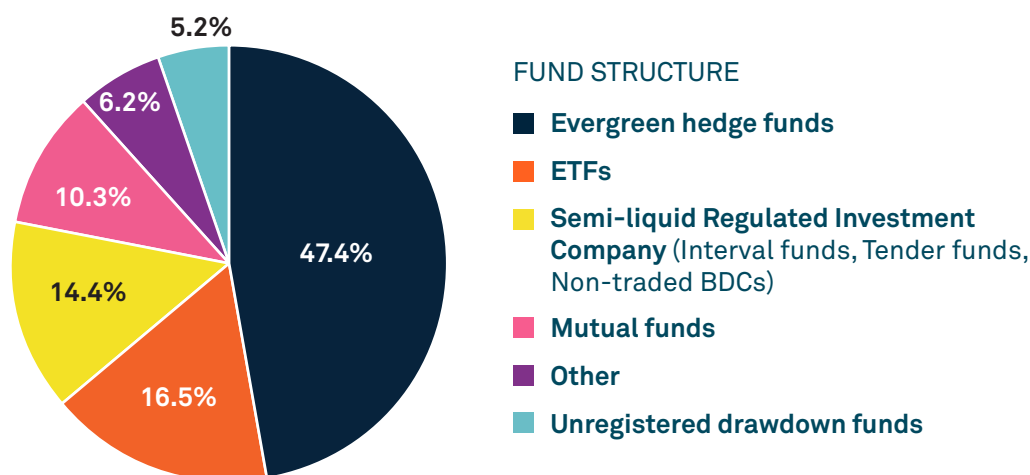
FIGURE 5

When selecting alternative investments, which of the following factors are most important? (Please select up to three.)

| | Response rate |
|--|---------------|
| Investment strategy | 62.2% |
| Liquidity | 58.2% |
| Tax considerations | 52% |
| Manager track record | 33.7% |
| Manager pedigree | 24.5% |
| Total fees | 18.4% |
| Net returns | 17.3% |
| Access to firm resources on strategy and performance metrics | 15.3% |
| Diversification | 8.2% |
| Manager name recognition | 5.1% |

FIGURE 6

Which of the following fund structures, if any, do you most frequently use to access alternative investments? (Please select one.)



Liquidity is top of mind for many wealth managers, according to the survey, with 58% choosing liquidity as one of the top three factors when selecting alts, along with investment strategy (62%) and tax considerations (52%) (see *Figure 5*). When it comes to the most popular fund structure, nearly half of respondents are using evergreen hedge funds – allowing investors to periodically cash out or re-allocate investments (see *Figure 6*).

Another 40% of respondents are using other fund structures to access alternative strategies, including exchange-traded funds, regulated investment companies and mutual funds (for liquid strategies) and unregistered drawdown funds (for illiquid strategies).

Sourcing alts: Big brands matter

FIGURE 7

Which of the following sources do you currently use when selecting alternative investments? (Please select all that apply.)

| | Response rate |
|---|---------------|
| Large traditional managers adding alternative products | 83.7% |
| Large alternative/private market managers | 79.6% |
| Managers with a historical focus on retail investors | 56.1% |
| Managers with a historical focus on institutional investors | 55.1% |
| Well-known boutique managers | 38.8% |
| Lesser-known boutique managers | 13.3% |

When it comes to the sources participants use to select alts, the most popular responses were large traditional managers that offer alternative products (84%) and large alternative/private market managers (80%). Respondents highlighted that big brand names are viewed as particularly valuable, suggesting that reputation, broader experience and trusted, established relationships are key factors in decision-making. In addition, more than half of wealth managers surveyed lean toward asset management firms with a historical focus on retail investors, further emphasizing the growing demand for alts among private clients and the steps asset management firms take to meet that demand.

Resources for selecting alts managers: Leveraging internal staff

FIGURE 8

Which of the following resources do you use when selecting managers for alternative investments? (Please select all that apply.)

| | Response rate |
|--|---------------|
| Internal investment staff | 82.7% |
| Custodial partners | 57.1% |
| Alternative access platforms | 52% |
| Investment consultants | 51% |
| Third-party wealth management firms | 17.3% |
| Outsourced CIO (all investment decisions are outsourced) | 6.1% |
| Other | 1% |

When it comes to selecting managers for alternative investments, most respondents are utilizing a mix of resources, including 83% using internal investment staff and more than half of respondents also using custodial partners, such as prime brokers (57%), alternative access platforms (52%) and investment consultants (51%), indicating that having internal expertise may lead to greater adoption of alts by wealth managers but may not be without complex challenges. Utilizing outside resources to select managers for alternative investments may provide benefits such as:

- **Prime brokers** have capital introduction teams that provide wealth managers with opportunities to learn about different alternative strategies, meet with managers who offer these strategies and learn about evolving investing trends, including asset allocation changes and changes in sub-strategy demand.
- **Alternative access platforms** can provide wealth managers with alts research, access to alts products via feeder funds (designed to pool smaller investments of individuals), and automation for the investment process (designed to solve for the logistical challenges of making investments into funds and provide more visibility).
- **Third-party investment consultants** can provide support for (i) wealth managers that are not historic users of alts but may be considering alts asset classes or (ii) wealth managers that are long-time users of alts and whose manager research team may benefit from additional resources.

Barriers to investing in alts

Alts present a wide-range of asset class categories and strategies, each offering different risk-return profiles, tax considerations and liquidity. When thinking about wealth managers – those considering using alts and also those already in the space that want to expand their current use – it is important for alts managers to understand what challenges these wealth managers have and how to solve for them.

Key challenges: Alternative manager selection and portfolio modeling

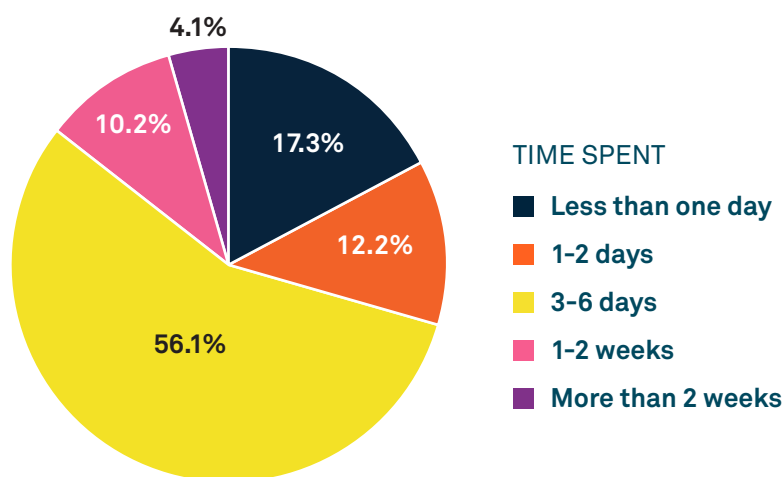
FIGURE 9

Which of the following, if any, would you say is the biggest challenge for you when investing in alternative investments?

| | Response rate |
|---|---------------|
| Having a robust selection of alternative managers to choose from | 27.6% |
| Portfolio modeling | 23.5% |
| Post-allocation lifecycle events (e.g., reporting, capital calls, redemptions) | 14.4% |
| Investor/client education | 12.2% |
| Understanding the investment benefits of alternative investing | 8.2% |
| Process of completing subscription documents and order entry | 8.2% |
| Required investment minimum amount | 5.1% |
| Other | 1% |

FIGURE 10

How much time do you typically devote to working through the aforementioned challenge?



According to the survey, wealth managers' biggest challenges when investing in alts are not having enough choice and portfolio modeling (see Figure 9).

At its core, having a robust selection of alternative managers to choose from is specific to building a peer group of managers, evaluating who is best quantitatively, evaluating qualitative attributes and then making an informed decision about which manager to select. The fact that this is a primary challenge for wealth managers, though they most often use internal resources to evaluate alts managers, indicates that internal staff may either be lacking the expertise or time to build and monitor alts peer groups – a process that requires deep analysis across a number of strategies and often takes weeks to complete.

The majority of respondents (86%) report they spend up to six days trying to solve these challenges (see Figure 10). In the case of manager selection, it may be that some respondents aren't spending significant time on this function because they outsource it to third-party firms that have built peer groups and provide advisory services. But it may also suggest a new learning curve in the industry as access to alts expands for a broader set of investors or that alternative strategies and how they are used could benefit from a more straightforward approach to marketing their strategies to be simple enough to articulate to clients.

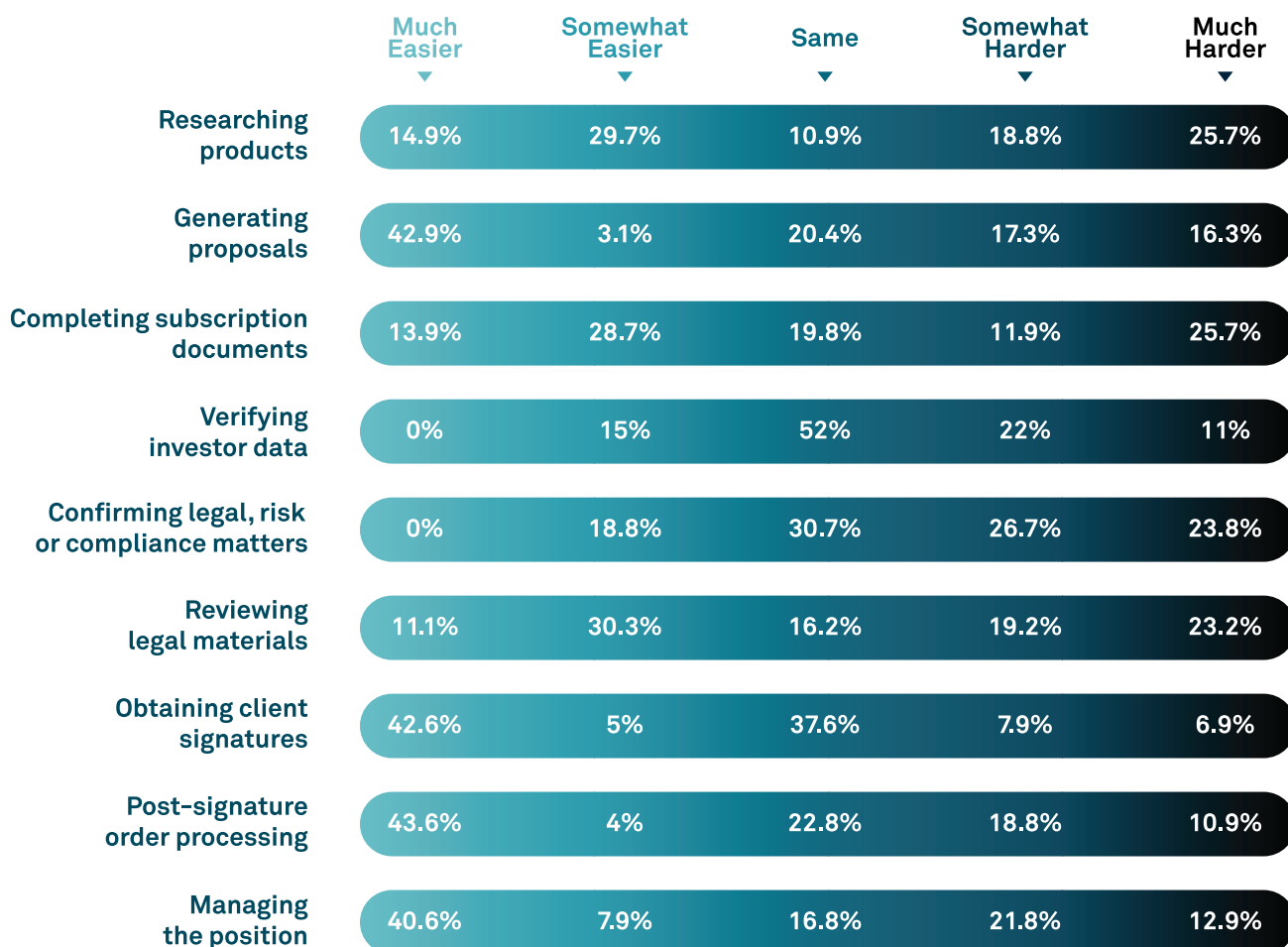
Portfolio modeling, the second biggest challenge for wealth managers, involves asset allocation sizing, as well as determining risk-return expectations for each sleeve, the number of sub-strategies within each sleeve and the size of each investment. This again suggests that wealth managers are facing a learning curve as the alts market continues to grow. It's likely some wealth managers are simply less familiar with how to size the different alts sleeves, build out sub-strategies and size individual investments.

Comparing alts with traditional investments: Data and regulation pain points

Respondents were also asked to share whether certain tasks in the alts space were easier, harder or about the same as the equivalent process for traditional investments.

FIGURE 11

For each of the following, please indicate whether you generally find the task easier to complete, about the same, or harder to complete for alternative investments as compared to traditional investments.



Nearly every task was identified by most participants as being the same or easier for alts than traditional investments.

Of note, generating proposals, obtaining client signatures and post-signature order processing were regarded as much easier for alts by the majority of respondents (43%, 43% and 44%, respectively).

However, at least one-third of respondents regarded every task (except for obtaining client signatures) as harder than traditional investments.

The tasks with the highest number of respondents regarding them as harder are confirming legal, risk or compliance matters; researching products and reviewing legal materials. This may indicate that these tasks are the most onerous for respondents and their private clients.

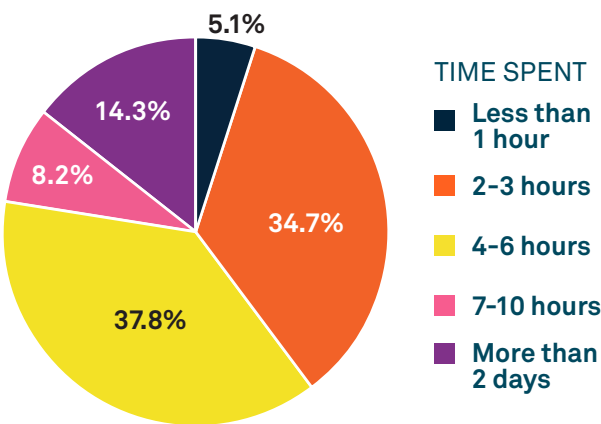
Operational experience

This section of the survey specifically examines the operational processes of alts.

Researching products and inefficiencies

FIGURE 12

When looking to identify or understand an alternative or private market investment product, how much time do you spend screening for, researching, and/or learning about the product?



Over three-quarters (78%) of respondents spend six hours or less screening for, researching or learning about alts (see Figure 12). This limited time spent on researching alternative strategies, ensuring they are straightforward and easy to understand, could be an influencing factor for whether strategies are adopted or not.

Examining the subscription document/order entry form process specifically, the most time-consuming aspect is confirming a legal, risk or compliance matter, according to 78% of respondents (see Figure 13). The other elements flagged as particularly time intensive are obtaining or verifying investor data (66%) and completing numerous manual fields (51%).

FIGURE 13

Which of the following are the most time-intensive aspects of completing a subscription document or order entry form for an alternative investment? (Please select up to three.)

| | Response rate |
|---|---------------|
| Confirming a legal, risk or compliance matter | 77.7% |
| Obtaining or verifying investor data | 66% |
| Completing numerous manual fields | 51.1% |
| Reviewing legal materials | 42.6% |
| Obtaining client signatures | 14.9% |
| Order processing post signature | 12.8% |

Alts allocation 1 year outlook

FIGURE 14

Thinking ahead to one year from today, do you expect your target allocation to alternatives across all clients to be higher, about the same, or lower than it is today?

| | Response rate |
|----------------------|---------------|
| Significantly higher | 83.70% |
| Slightly higher | |
| About the same | 13.3% |
| Slightly lower | |
| Significantly lower | 3.1% |

The survey reveals that 84% of participants currently using alts expect their target allocation to increase in a year's time (see Figure 14). Moreover, 52% believe it will be significantly higher.

FIGURE 15

Thinking ahead to one year from today, do you expect your allocation to each of the following alternative asset classes to be higher, about the same, or lower than today?

| | Significantly higher ▼ | Slightly higher ▼ | Same ▼ | Slightly lower ▼ | Significantly lower ▼ |
|---|---------------------------|----------------------|-----------|---------------------|--------------------------|
| Hedge Funds | 44.9% | 17.3% | 34.7% | 2% | 1% |
| Private equity (including venture capital and growth) | 17.3% | 45.9% | 32.7% | 3% | 1% |
| Private credit / alternative income | 10.2% | 32.7% | 48% | 8.2% | 1% |
| Infrastructure | 27.6% | 21.4% | 46.9% | 3% | 1% |
| Natural resources | 45.9% | 15.3% | 36.7% | 2% | 0% |
| Real estate investment trusts (REITs) | 44.9% | 21.4% | 28.6% | 5.1% | 0% |

An overwhelming majority of respondents expect their allocation for all alternative asset classes to be the same or higher one year from now, with only the private credit/alternative income and infrastructure asset classes showing a slower rate of expected increase in allocation; 43% and 49%, respectively, compared to the average expected increase in allocation of 63 percent for all other asset classes. The greatest growth is likely to be in natural resources, hedge funds and REITs, with 61%, 62% and 66%, respectively, stating allocation is likely to be slightly higher or significantly higher in 12 months. In comparison, allocations to private equity are expected to grow for 63% of respondents, though more expect this increase to be only slightly higher.

Drivers of asset class allocation: Diversification and return potential are joint priorities

FIGURE 16

*Earlier in the survey, you reported that you plan to **increase** allocation to these asset class(es) over the next year. Which of the following reasons describe why you expect increases to this class(es)? Please select all that apply.*

| | Response rate |
|------------------------------------|---------------|
| Diversification of returns | 84.4% |
| Increased return potential | 84.4% |
| Tax efficiency | 65.6% |
| Reducing portfolio-wide volatility | 23.3% |
| Other | 2.2% |

FIGURE 17

*Earlier in the survey, you reported that you plan to **decrease** allocation to these asset class(es) over the next year. Which of the following reasons describe why you expect decreases to this asset class(es)? Please select all that apply.*

| | Response rate |
|---|---------------|
| Performance | 76.5% |
| Preferences for private market strategies | 47.1% |
| Increase liquidity | 35.3% |
| Other | 5.9% |

Diversification of returns and increased return potential are equally the greatest drivers for future investment according to respondents, with 84% selecting both as reasons for anticipated increases (see *Figure 16*).

This highlights that the survey respondents are exploring a variety of risk-return profiles and fund structures, reinforcing other findings from the survey.

CONCLUSION:

OVERCOMING BARRIERS TO ENTRY AND GROWTH

Wealth managers increasingly recognize the value of incorporating alts into their clients' portfolios, with most respondents using alts within over one fifth of their portfolio allocations. There is therefore strong awareness of the potential benefits, but also significant room for growth. Alts managers seeking new areas of growth may look to wealth managers as a potential source of fresh capital. As they develop offerings that align with the needs of wealth managers and their clients, they should keep in mind the different investment considerations, such as liquidity, and operational challenges that wealth managers are sensitive to. Furthermore, wealth managers' time limitations likely require alternative strategies to be simple and easy to understand, with clarity around how a strategy fits within a broader asset allocation model.

As the alts industry continues to solve for these investment considerations and operational challenges, there is the potential for exponential growth, fueled by new technologies to support wealth managers' ability to analyze performance and strategies and ultimately invest in alts. These platforms, such as BNY's Alts Bridge, are positioned to help managers meet investor demand to diversify portfolios and scale. Additionally, these alternative access platforms provide robust benefits: direct access to a selection of alts managers; streamlined processes and documentation for meeting compliance and regulatory requirements; digitalization; and automation across the end-to-end operational process, from research to post-investment requirements and less burdensome data collection and analysis.

But facilitating wealth managers' use of alts isn't about technology alone. The survey highlights that operationally, many believe it isn't necessarily harder to invest in alts than the traditional market. However, it is important that wealth managers newer to alts have the opportunity to learn about the benefits in a simple and easy way and are aware of resources available to support them. Firms like BNY Pershing can provide expertise, resources and tools to support wealth managers and alts managers at all stages of their investing journey.

Wealth managers increasingly are recognizing the value of incorporating alts into their clients' portfolios – and with the right resources and support, there is a new world of risk-return opportunities to explore.

LISA LEWIN, Director, BNY Pershing Prime Services Business Development

NEELU SODHI, Director, BNY Pershing Prime Services' Capital Introductions

AARON STEINBERG, Senior Director, Head of BNY Pershing Prime Services Business Development and Capital Introductions

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