Grow your wealth *faster* with alternative assets

A Complete Guide to the New Universe of Investment Opportunities

Travis Miller

WILEY

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Introduction

Alternative assets are an exciting new investment opportunity for individual investors. Well, strictly speaking they are not new, but until recently they have only been available to the big players, such as institutions and incredibly wealthy families, who can invest anywhere from $5 million to $50 million in one trade. But thanks to some outside-the-box thinking combined with innovations in technology, things are shifting and now individual investors like you and me can pool our investing power and get on board.

What makes alternatives so attractive is their risk-return profile. They can provide more favourable returns for the amount of risk than traditional investments. As non-traditional asset classes, they can get a bit complex, but there is a premium to be earned from complexity, and they are also very interesting, so it's fun to get your head around them.

So what is an alternative asset? The best way to think about alternative assets is in terms of what they are not. They are not listed equities (shares), over-the-counter fixed income or cash, term deposits, cash management trusts or traditional managed funds. These are all traditional assets available in

the public market. Alternative assets are everything else. They often take the form of capital provided to private companies in various debt or credit structures (which is where they get really interesting). They can also be things like commercial property, infrastructure, agriculture and commodities.

A key difference with alternative assets is that they are illiquid, which means that you put your money down for a fixed amount of time — say 18 months — and you can't get access to it during that time. A liquid investment is one where you can get your money back (or what's left of it) whenever you like. If you buy shares today, you could sell them tomorrow. With illiquid investments, you can't get your money out whenever you choose, but because of this, you typically earn a greater return. So, with alternative assets you're not necessarily taking on more loss risk, but you get paid more because you've committed to a fixed or unknown term of investment, which is a scarcer form of capital. Hence, through a simple supply-and-demand dynamic, you can earn more!

There's a further supply-and-demand piece in play, which is the fact that alternative assets are not an off-the-shelf product. They are hard to find and complex to package, so traditional financial planners and private wealth companies don't usually offer them broadly. Most wealth firms are built for scale, so they typically try to offer low-touch, low-service, commoditised models such as managed accounts and discretionary portfolios. Alternative assets often don't fit into such models because they aren't commoditised, meaning no two alternative assets are exactly the same. This is another reason why they typically have greater returns for similar or lower risk: fewer investors means less capital available to these investment opportunities.

Less supply of capital (from investors) + more demand (from capital raisers) = greater returns (but for the same or less risk).

The percentage of alternative assets that people generally have in their portfolios is currently quite low, perhaps around 5 per cent. To really make your money work for you, I suggest allocating approximately 20 to 30 per cent in alternatives as a good starting point.

The majority of my investments are in alternative assets. I have been investing for a long time, but I only really threw myself into alternatives in 2008 when I was working for Deutsche Bank and realised there were some pretty cool opportunities in this asset class. At the time there were a lot of barriers to access. Historically, alternative assets have been difficult to find. Even if you find them, you then have to put in place very complex legal documentation. Because I worked in an investment bank, I understood where to look and how things worked. If I'd been an average investor, I would have struggled to get access to these investments (or even know they existed). This is because traditionally, alternative asset opportunities are promoted to banks, large institutional investors and large family offices, not individuals like you or me. This lack of access was the key — and frustrating — barrier that drove co-founder Rob Nankivell and me to start iPartners, which was the first alternative assets investment platform of its kind.

Investment platforms such as iPartners have totally changed the landscape for direct investors to gain access to alternative assets. Investors can now educate themselves, search, research and access investments in smaller denominations than they could in the past. Technology has enabled this by making the

aggregation of investor capital efficient and scalable. Investors can put in as little as $10 000 per trade. After they invest, they can review their investments by logging onto the platform to see how their investment is performing. The most exciting feature is the ability to potentially access secondary liquidity on what has historically been an illiquid asset, which is a fancy way of saying if you need to sell your alternative assets before the fixed term is up, the iPartners platform may be able to find someone who will buy them from you. This is a bonus because, remember, the good risk-return profile of alternatives is due in part to the fact that they are illiquid assets.

A wide range of investors use our platform: from financial professionals who work in alternative assets and want access to similar opportunities for their personal investing, to doctors, lawyers, tradespeople and business owners who want to diversify their portfolio with alternative opportunities. To invest in the majority of alternative assess (under current regulations) you must be a wholesale investor and hold net assets worth more than $2.5 million, or your gross annual personal income must be at least $250 000 for the last two years — this can include income from a business if you're a small business owner.

I'm passionate about alternative assets. They can open up an entire new universe of investment opportunities for the individual investor. So I wrote this book to share the dream!

Part I of the book looks at the history of alternative assets (you can skip that bit if it's not your thing), how to invest in them, things to look out for, and how trades are found and executed. In part II I run through all the alternative asset

classes and explain them as simply as I can to give you a broad understanding of the range of opportunities in this growing space.

If you have any questions or you just want to chat with me, please email me at alternatives@ipartners.com.au.

Travis

Part I

The what, why and how of alternative assets

Chapter 1

Where it all started

Let's start out by taking a look at the recent history of alternative assets and how I got into them.

I can't talk about the history of alternative assets without framing it around the GFC (global financial crisis), which was an investment game changer. So here's a quick refresher before we get into it. As you may well know, the GFC was a severe worldwide economic crisis that occurred from mid 2007 to early 2009. It was the most serious financial crisis since the Great Depression of the 1930s. It was caused by house prices in the United States falling and a rising number of US borrowers being unable to repay their mortgages. As a result, various US banks held trillions of dollars of worthless loans. Because of the linkages in the global financial system, this downturn in the United States spread to the rest of the world, resulting in a deep global recession. Millions of people lost their jobs, and banks incurred large losses and ended up having to rely on government money to avoid bankruptcy.

Before the GFC, alternative asset opportunities for everyday investors in Australia mainly came out of banks as what's

known in the business as 'structured products'. The underlying assets tended to be hedge funds, alternative funds or products combining a deposit with embedded derivatives (a derivative is a contract between at least two parties that derives its value from something else, such as an underlying asset or event outcome). These products were called 'structured' because they tended to have a loan embedded in them, or some other complexity. (We'll dive into structured products in part 2). The aim of the banks in making these products available was to effectively build their loan books by lending money to retail and wholesale investors so they could gain access to these assets. The banks, in turn, collected both interest on the loan and product fees.

Post GFC, a large proportion of these assets underperformed, and it wasn't a great experience for investors because of the loan element. When the market turned down, investors had limited prospects of positive returns from the underlying assets, but were locked into contracts that required them to continue paying interest. Investors lost money and banks suffered reputational damage. No-one was happy. Since then, we haven't really seen banks issue leveraged alternative asset products in Australia.

In the early 2000s property trusts and real property asset investing started to emerge: some listed, some unlisted. The listed property trusts were called REITs (Real Estate Investment Trusts) or diversified property exposures. The unlisted versions were private. For example, five investors would put in $1 million each and then buy the equity in a small shopping centre in, say, Newcastle for $5 million. Property debt specifically became very popular — and still is. Property debt typically involves a private lender, lending to a developer.

Property is one of the key alternative assets that investors invest in today.

Property debt is such a popular alternative asset that it's become quite mainstream — to the point where I believe it almost shouldn't be classed as an alternative asset anymore.

Since the mid 2010s we've seen the emergence of crowdfunders in the alternatives space. These are entities that aggregate very small amounts of capital to provide angel and seed funding to start-up businesses. These crowdfunding platforms don't necessarily have high-quality, vetted deal flow though, or much investment success of note. They're simply a location where investors can put small amounts into early-stage companies, which all investors know is a highly risky investment to make. There's no reliable promise of returns nor is much obvious due diligence done. Regardless of the quality of investments, they have become an access point for investors looking to gain exposure to (that is, to have the opportunity to invest in) venture capital and private, equity-like investments.

My venture into alternative assets

When the GFC hit, I was a director at Deutsche Bank Australia. I got to witness changes in the investment banking world from the inside during this volatile time. I was lucky to see opportunities emerge for investing personally during a time that was difficult for so many. These opportunities were in alternative assets, and they were unbelievable. Because virtually all markets were crashing, anyone who wanted to buy could pretty much buy at literally any price. I had some money at the time, so I was lucky that I could be a buyer when most people were selling. These investment opportunities were only available for those with cash, a contrarian view on markets

and courage to take risk, which means I started my journey into alternative assets at a time when the ride was pretty wild!

I'd been working in banking for about seven years, although it wasn't my original career of choice. When I was at high school, sport was my main thing and studies were an afterthought at best. My final HSC grades were pretty woeful, but it didn't matter to me at the time because I was drafted to play AFL straight out of high school and spent 1992 at the Fitzroy Football Club (now merged into Brisbane Lions) and part of 1993 at Melbourne and Collingwood football clubs, so for a while I was living the dream.

But the dream didn't last. I rode on talent rather than putting in the effort to really do well — even in sport, which I enjoyed. I look back at my younger self and think my head just wasn't quite screwed on yet! I had some growing up to do.

After finishing up with the AFL I drifted around the personal training and gym industry for a while, and gradually woke up to the importance of education. All my mates had already got their degrees and were kicking off their careers while I was still working part-time jobs in gyms and pools. So I enrolled in a Bachelor of Arts in Recreation and Fitness. For the first time, I realised I was reasonably intelligent and I enjoyed studying.

By this time I was managing a gym and running my own personal training business on the side. I realised I had some business smarts, which eventually gave me the idea that I could go into business myself. So after completing my Bachelor of Arts, I went straight into doing a Master of Business Finance at Victoria University.

When I started studying finance I thought, 'Actually, this is pretty cool.' It was challenging. I needed to think and solve

problems, do modelling and regression analyses — things that were really interesting and different. That's when it became fun for me. I'd bumbled through my BA, but I really applied myself when I got into finance.

I completed my Master of Finance at around 24, then started out as a junior e-commerce analyst at the ANZ, helping them build an online capital markets platform, which was well ahead of our times in the early 2000s. (A sign of things to come?) During that first year at ANZ I did a Master of Business Administration (MBA) at Victoria University on the side.

I got lots of great opportunities at ANZ. Throughout my whole career I've had great bosses who were willing to trust and stretch me, for which I'm very grateful. By 2003 I'd got my Chartered Financial Analyst (CFA), which is one of the top qualifications in the industry, and had a new position as Associate Director of Credit Derivatives. I was sitting in the dealing room doing a lot of structured credit and credit analysis, which was really cool. It was pre GFC, the markets were absolutely flying and I was sitting in the hottest area. Banking was an awesome place to work, with lots of problem solving and lots of different trades. I was learning a lot. There were jobs everywhere and people were getting paid really well, so it was a fun time to be involved.

I was doing well in my job and started getting approached by other investment banks about working for them. In 2006 I accepted an offer for a director role at Deutsche Bank.

The work involved a lot of problem solving, complex modelling and analysis. There were all these inputs or tools to put together to create a product that was investable. It needed to be