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Exploring alternatives

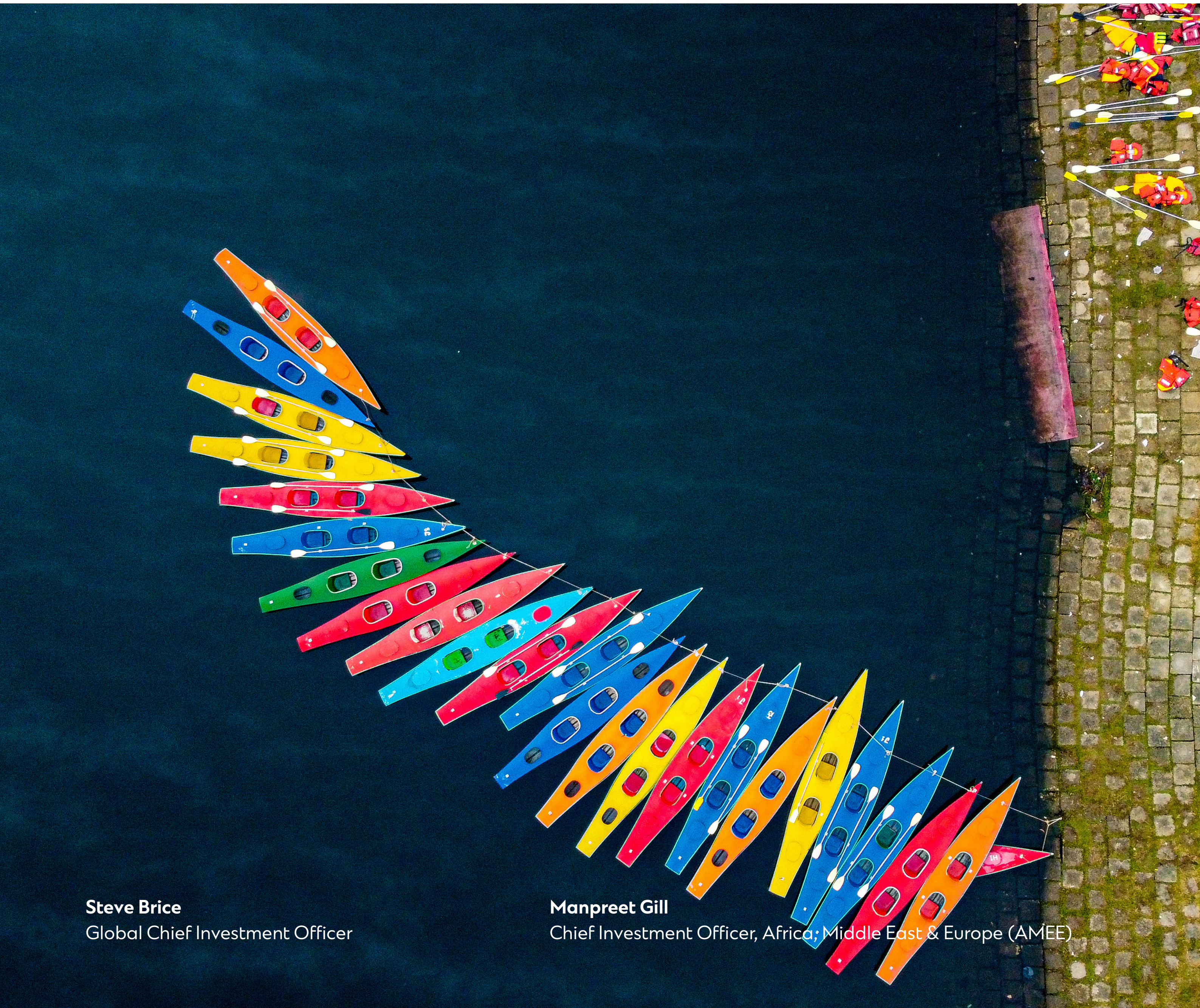
Looking beyond traditional investments

October 2025

In an investment environment where key market relationships have been challenged in recent years, investors have been looking beyond traditional investments to help achieve their return and risk goals. Alternative investments – asset classes that go beyond the traditional mix of cash, stocks and bonds, such as hedge funds, private equity and digital assets – play an increasingly important role in global investments in this emerging world.

The CAIA's 2024 report estimates global alternative assets under management (AUM) now total USD 22trn, accounting for approximately 15% of total global assets under management. The growing significance of alternative investments stems from their ability to provide more meaningful diversification, optimise risk-adjusted returns and help protect against inflation.

In this report, we discuss alternative investment strategies that can help optimise investment portfolios.



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Why consider alternative investments?

Alternative investments (alternatives) can add a dimension to investment portfolios that is fundamentally different from that of traditional asset classes.

They have the potential to diversify, modify and mitigate traditional risks. Alternatives are emerging as an interesting option for investors due to their rising liquidity, innovation, reduced concentration risk and lower costs. This notable shift in dynamics reflects both opportunities and challenges in this space.

Shifting dynamics of traditional assets

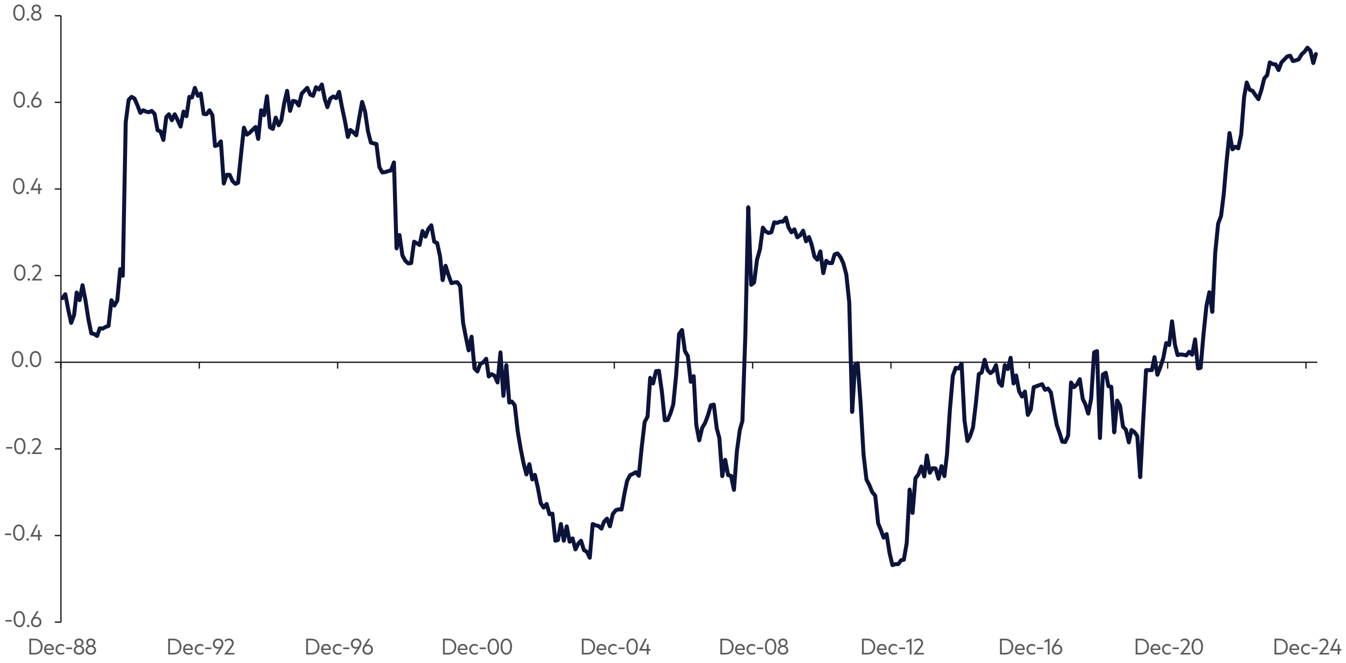
An FS Investments 2023 report highlights the shift in correlations between stocks and bonds since 2022. Historically, stocks and bonds tended to have a negative correlation, establishing their ability to stabilise a portfolio through offsetting returns.

However, correlation between stocks and bonds has turned positive in recent years, hurting their ability to de-risk a portfolio through diversification. Investors looking for diversifiers have started to look at other options that could help to mitigate risks during market drawdowns.

Fig. 1

Stock-bond correlation has started to turn positive, diminishing the diversification benefits of a stock-bond portfolio

36-month rolling correlation between the S&P500 and Bloomberg US Aggregate Bonds Index



Source: Standard Chartered, FS Investments Is (2023)

Cross-asset correlations

Examining diversification benefits via cross-asset correlations is a good starting point to examine the potential benefits of investing in alternative assets.

Some alternative assets are negatively correlated to traditional investments and can hence lend meaningful diversification. Others enable outsized returns but entail greater risk. This is illustrated in the table below from the First Sentier Investors' 2022 report that indicates the returns, volatility and correlations for assets based on monthly returns for the 2013-22 period.

For instance, wine and catastrophe bonds exhibit low correlations with traditional assets but can provide meaningful risk reduction. During the same period, Bitcoin and Freight returns offered much higher returns than traditional assets, but this came at the cost of substantial risk (as indicated by historical volatility). Hence, it is important to evaluate the risk-return profile of alternative assets carefully, despite their low or negative correlations with existing assets in a portfolio.

Fig. 2

Cross-asset correlations

Returns, volatility and cross-asset correlations; monthly returns over 2013-2022

			Correlations														
Asset classes	**Historical return**	**Historical volatility**	**US Equities**	**World (ex US) Equities**	**MSCI World Small Cap**	**Emerging Markets Equities**	**Global Bonds**	**US TIPS**	**US High Yield**	**USD Cash**	**Bitcoin**	**Freight**	**Timber and Forestry**	**Frontier Equities**	**Distressed opportunities**	**Wine**	**Catastrophe Bonds**
US Equities	13.6%	15.7%	**1.00**														
World (ex US) Equities	5.3%	14.9%	0.87	**1.00**													
MSCI World Small Cap	9.5%	17.8%	0.92	0.90	**1.00**												
Emerging Markets Equities	3.4%	16.5%	0.70	0.80	0.74	**1.00**											
Global Bonds	2.2%	3.2%	0.18	0.16	0.15	0.21	**1.00**										
US TIPS	1.7%	4.5%	0.28	0.34	0.29	0.38	0.78	**1.00**									
US High Yield	3.9%	7.5%	0.76	0.80	0.83	0.73	0.37	0.47	**1.00**								
USD Cash	0.9%	0.2%	-0.08	-0.07	-0.11	-0.02	0.15	0.07	-0.03	**1.00**							
Bitcoin	294.2%	1150.2%	0.11	0.08	0.09	0.05	0.05	0.03	0.09	-0.05	**1.00**						
Freight	70.3%	179.1%	0.07	0.07	0.10	0.10	-0.08	0.02	0.07	-0.05	0.00	**1.00**					
Timber and Forestry	6.6%	20.8%	0.78	0.80	0.85	0.70	0.08	0.28	0.70	-0.12	0.05	0.02	**1.00**				
Frontier Equities	4.1%	16.8%	0.67	0.74	0.73	0.70	0.15	0.24	0.73	-0.11	0.11	0.07	0.58	**1.00**			
Distressed opportunities	4.1%	5.8%	0.66	0.73	0.76	0.57	0.01	0.13	0.71	-0.17	0.13	0.07	0.59	0.68	**1.00**		
Wine	2.9%	4.6%	0.07	0.06	0.11	0.13	0.01	0.14	0.23	-0.12	-0.06	0.13	0.14	0.08	0.12	**1.00**	
Catastrophe Bonds	4.8%	3.1%	0.19	0.16	0.18	0.21	0.17	0.14	0.27	-0.13	0.05	0.01	0.21	0.18	0.20	0.15	**1.00**

Source: Standard Chartered, First Sentier Investors (2022), Bloomberg, Datastream. To be consistent across the historical data, we restrict data to the shortest history of the alternative assets, being Bitcoin, which is from 28 February 2013 to 30 June 2022.

Past performance is not indicative of future performance. Historical returns are gross performance and do not take into account any fees.

Potential for higher risk-adjusted returns

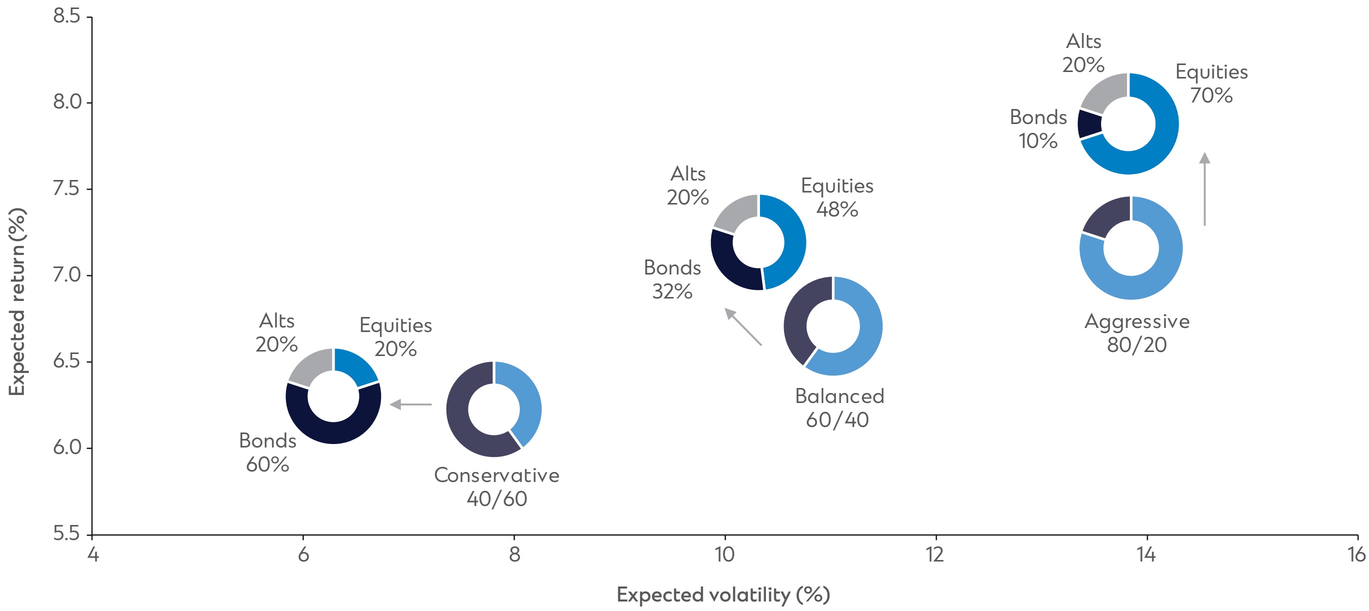
Alternative investments typically require longer investment periods. In return, the longer holding periods tend to be rewarded with higher risk-adjusted returns. JP Morgan's 2024 report compared risk-adjusted returns of three hypothetical traditional portfolios and portfolios with multi-alternatives exposure. The results indicate that alternative investments have the potential to increase returns, reduce volatility and strengthen resilience.

Fig. 3

Alternatives can reduce risk and improve returns

A diversified multi-alternatives allocation may reduce risk, improve returns or achieve a balance of both

2024 Long-term capital market assumptions



Portfolio	Expected return (%)	Expected volatility (%)
Conservative	6.5	7.7
Balanced	7.0	10.6
Aggressive	7.4	13.6
Conservative + 20% Alts	6.5	6.2
Balanced + 20% Alts	7.3	10.2
Aggressive + 20% Alts	7.8	13.6

Source: Standard Chartered, JP Morgan Asset Management (2024)

Types of alternatives

Below are some prominent types of alternative investments that can lend a unique dimension to a classic portfolio.

Hedge funds

These are actively managed strategies that use risky strategies to generate outsized returns. These funds pool money from qualified investors and invest in a range of assets including stocks, bonds, commodities, derivatives, currencies and digital assets, often via very specific types of investment strategies.

Global Market Insights values hedge funds' global AUM at around USD 5.3trn in 2024 and projects a CAGR of about 4% between 2025 and 2034. Increased investments in digital assets and technological advancements have been key drivers for the rapid growth of hedge funds. The rise in quantitative and algorithmic strategies given the backdrop of AI offers nuanced strategy development for optimising portfolio performance.

Typically, the cost associated with hedge funds is high, as they charge management (1% and upwards) and performance (a percentage of profits) fees.

Fig. 4

Major types of hedge fund strategies

	Description	Key features
Long/short equity	Buys undervalued stocks while simultaneously shorting overvalued ones to capitalise on price discrepancies	Seeks market-neutral exposure, has lower volatility than long-only equity portfolio
Event-driven strategies	Invests in companies undergoing specific events such as M&A and restructuring	Merger arbitrage and distressed are examples of such strategies
Relative value arbitrage	Leverages price or spread inefficiencies between securities	Fixed income, convertible and statistical are types of arbitrage approaches
Global macro	Invests based on macro and geopolitical trends	Invests across multiple assets and geographies
Managed futures	Invests in future contracts across various assets	Uses systematic trading that relies on technical analysis
Quantitative	Invests in opportunities identified using machine learning algorithms	Employs high-frequency trading and systematic trend trading to generate higher returns
Multi-strategy	Combines various hedge fund strategies	Offers exposure to diverse strategies based on market conditions

Source: Standard Chartered

Cryptocurrencies

A cryptocurrency is a virtual currency that use cryptography for security and operate on decentralised networks based on blockchain technology. Some popular cryptocurrencies are Bitcoin (BTC), Ethereum (ETC), Litecoin (LTC), Ripple (XRP) and Cardano (ADA).

The cryptocurrency market is estimated to increase at a CAGR of 11.1% over 2021-2028. The asset class can offer a wide range of investment opportunities and avoid exposure to traditional currencies. However, volatility has typically been quite high for this asset class; also, several platforms and wallets have been vulnerable to hacking. Regulatory uncertainty looms large over these assets in many countries. It is important to evaluate these aspects carefully before choosing to invest in digital assets.

Commodities

The global AUM of commodities stands at approximately USD 608bn. Gold continues to have a significant presence within the commodities landscape and is a popular hedge against inflation, but other major commodities include:

- **Hard commodities:** Natural resources that are mined or extracted such as precious metals, oil and natural gas
- **Soft commodities:** Agricultural products such as spices, wheat, coffee, sugar and livestock
- **Environmental commodities:** Emission allowances, renewable energy certificates, carbon offsets and water rights

The commodities market is crucial for policymakers as volatility in this market often has an outsized impact on an economy's stability. These markets are complex and affected by numerous factors that require careful analysis for successful investing. In recent years, there has also been a growing emphasis on sustainable practices in commodity production to address climate change challenges.

Private equity

This is one of the many investment options available in the private capital markets category. Here, an investor invests directly (or via private equity funds) in a private company in exchange for equity. These investments are often made by private equity firms, venture capitalists or angel investors.

Investments in private equity have gained traction in recent years due to their historical ability to generate high returns even in a low-interest environment. A report by CalPERS (2024) found that returns from private equity investments over a 5 – 10-year period has outpaced every other asset class. Growing interest in sustainable investing has led several private equity firms to integrate environmental, social and governance (ESG) metrics as part of their evaluation criteria. This has enabled them to attract socially conscious investors. Many firms/investors are also leveraging artificial intelligence and data analytics to scout for opportunities and manage risk effectively.

Fig. 5

Types of private equity strategies

	Structure	Key features
Venture capital (VC)	Invests in early stage companies	– Long term – Capital locked until exit – Potential for very high returns
Leveraged buyout (LBO)	Acquisition of companies using debt	– Medium to long term – Capital locked until exit – High leverage – Potential for outsized returns
Growth equity	Invests in mature companies seeking expansion	– Longer term – Limited liquidity – Potential for outsized returns
Real estate private equity (REPE)	Invests pooled funds in real estate projects	– Longer term – Limited liquidity – Higher returns for opportunistic strategies
Fund of funds	Invests in other private equity funds	– Relatively lower returns due to higher fees – Long term – Limited liquidity

Source: Standard Chartered

Private debt

The global AUM of private debt market is valued at USD 1.62trn as of 2023, reflecting a 17% increase over the previous year. These are loans offered to private companies that have limited access to other forms of capital. The asset class has emerged as an attractive investment for sophisticated investors and institutions as they tend to offer more attractive yields than traditional debt and offer meaningful diversification.

Fig. 6

Types of private debt strategies

	Structure	Key features
Commingled private debt funds	Pooled investments managed by professionals; fixed investment period (1-5 years); limited liquidity	– Diligent sourcing and underwriting of loans – Provides liquidity
Business development companies (BDCs)	Registered investment vehicles; 5+ years lock-in; public BDCs offer liquidity, private BDCs lower liquidity	– Focus on small to mid-sized company – Subject to market volatility (for public BDCs)
Middle market collateralised loan obligations	Issued by private debt managers or large credit platforms, less liquid, flexible term	– Pools various loans into a single security – Minimum requirement is lower
Separately managed accounts	Limited liquidity, flexible term	– Higher capital outlay – Customisable – Direct relationship with managers
Small business investment companies	Limited liquidity, longer lockup	– Finances small businesses – Assets rolled into BDC structure for growth

Source: Standard Chartered

Collectibles

Grand View Research values the global collectibles market at approximately USD 295bn in 2023 and expects it to grow at a CAGR or 5.5% over 2024-30. This asset class encompasses many items including sports memorabilia, fine wine, vintage cars, fine art, watches, fine jewellery and designer bags. They often evoke personal memories and sentiments. A survey by Fladgate LLP (2023) indicates that around 68% of investors perceive passion investments to be less volatile than traditional investments. Almost 90% of high-net-worth individuals are open to the idea of diversifying their portfolios with passion investments.

Limitations of alternative investments

Alternative investments face a very different set of limitations and risks compared with traditional asset classes. It is important to be aware of them to make an informed decision.

Lack of transparency

Regulation around alternative investments are not always as stringent as those for traditional investments. Usually, registration with a central authority such as the Securities Exchange Commission (SEC) provides more information to investors about an asset, including historical performance, risk factors and deal sheets. This can help to assess the risk-return profile of the asset with greater accuracy. Alternative assets largely lack this type of transparency, though those purchased via alternative investment platforms or indices can be relatively more transparent and regulated.

Valuation challenges

Public investments' market price is determined by demand-supply dynamics and macroeconomic factors. They also have an intrinsic value that can be determined with the financial information available. However, alternative investments' market price and intrinsic value are highly subjective. Given the limited availability of information, valuing them can be quite challenging. The value of assets such as designer bags, contemporary art or classic cars may vary depending on the appraiser. Most alternatives do not have centralised and regulated benchmarks, but some are easier to appraise as they are actively traded on a recognised exchange.

Illiquidity

Most alternative investments are not actively traded. Many alternatives such as hedge funds, private equity and private debt funds require lock-in of five or more years. Passion investments are often long term in nature, their value appreciates slowly and are often viewed as assets intended to be passed on for generations. However, a few alternatives such as commodities or secondaries (investors buying existing private equity interests from others) that trade on public or private secondary markets provide a reasonable level of liquidity.

High fees

Most investments in this asset class involve more complex fee structures than traditional investments, which can affect overall returns. It is important to assess investments based on post-expense returns.

Fig. 7

Types of alternative asset management fees

	Description	Typical structure/range
Management fee	Charged as a percentage of AUM, covers operational costs	Is a percentage of AUM or committed capital
Performance fee	Charged based on fund's profits over the hurdle rate	Is a percentage profits more than the hurdle rate
Hurdle rate	Minimum rate to be achieved before performance fee becomes applicable	Usually defined in per annum terms above a specified level
Redemption fee	Any redemptions before lock-in are subject to penalty or fee	Is a percentage of amount withdrawn
Setup/initial fee	One-time costs to setup fund or investment; includes legal and administrative costs	May depend on type of fund, size and complexity

Source: Standard Chartered

Due diligence in alternatives

Due diligence is an absolute necessity in financial decision-making; in the complex world of alternative investments, it is all the more critical. This process involves verifying information, identifying risks and keeping up with your wealth goals. In alternatives, where transparency is limited, thorough due diligence builds confidence and helps mitigate risks efficiently.

Types

For alternative assets, due diligence can be done from several perspectives, focusing on different aspects of performance, alignment and risk. Here's a quick look at the main types and a breakdown on what each one covers.

Fig. 8

Types of due diligence

	Description
Investment	Assesses strategy, structure, track record, past performance (if any) and alignment with goals
Financial	Reviews financial statements, business models, operational efficiency and valuations
Operational	Evaluates fund operations, governance, risk controls and third-party integrations
Legal and regulatory	Verifies registrations, contract compliance with laws and investor right protection protocols
Technology and cybersecurity	Examines technology infrastructure, data protection protocols and certifications

Source: Standard Chartered

Approach

Every investment opportunity within the alternatives world requires a tailored approach to due diligence. For instance, due diligence for a private equity opportunity focuses on evaluating the business model, management teams, valuations and possible exit options. Contrarily, for a hedge fund, the emphasis would be on assessing the manager's expertise, investment process, liquidity terms and risk controls.

Here are some practical steps to start navigating this process:

- Understand the investment strategy and method of return generation. Check the investment's structure, transparency, liquidity profile and terms regarding investor protection. Ensure that these fit your long-term investment goals.
- Analyse the historical performance (if applicable) or do a comparative study to assess the investment's ability to pan out as expected. Before you dive in, do a little homework; check the credibility of the investment team or management and their track record. A minimum three-year track record is often considered a reliable indicator.
- Ensure that fees and expenses are explicitly mentioned and are competitive for the type of alternative investment. Confirm that independent, transparent and robust valuation methodologies are used.
- Examine contracts, litigation history and compliance with relevant laws and regulations. This is particularly important for assets such as cryptocurrencies where regulations continue to evolve.
- Assess the liquidity, operational, market, legal and counterparty risk exposures. Diversify investments across several alternative assets and strategies. Be aware of the exit options and proactively chalk out an exit strategy to ensure profitability of the investment.

The due diligence process for alternative investments can be quite complex, intensive and time consuming. Investors may have to hire a specialised expert to help assess investment opportunities. A professional can provide deep insights and a structured analysis, helping investors make informed decisions and manage risk more efficiently.

Constructing an alternatives portfolio

Now that we have gathered enough information about alternative investments, it's only logical that we look at the method to build an alternatives portfolio in a structured way. There is no 'one-size-fits-all' formula, but a common starting point is to allocate a relatively small portion to alternatives and then gradually increase it over time.

Ensure that each addition fits the larger investment strategy. Building an alternative asset portfolio requires careful consideration of the following aspects:

Account structures

Creating accounts for alternative assets is relatively complex as it may involve establishing entities such as private funds, trusts or special purpose vehicles to address specific tax, legal and operational requirements. It is important that investors understand the impact of these structures on their liability exposure, reporting obligations, transparency and fees. It is easier to stay compliant and manage investments efficiently when account structures are aligned with investor profiles and regulatory limits.

Goal-based allocation

Investing in alternative assets should be guided by over-arching portfolio goals such as preservation, income, thematic investing or growth. Depending on the objective, certain alternative assets may be better suited than others.

- If you are focused on preservation of wealth, allocate capital to low-risk alternatives such as gold, real estate or hedge funds offering absolute return. They help preserve capital while offering adequate liquidity and low downside risk.
- Use income generating opportunities such as REITs, private credit and infrastructure funds to establish a steady cash flow. Most such opportunities offer stable income at moderate liquidity and risk levels.
- Thematic opportunities tend to focus on specific trends such as ESG, healthcare innovation or emerging technologies. These opportunities may be packaged as private equity, private credit or alternative investment funds with specific investment objectives. While evaluating such assets, consider sector fundamentals, past returns, manager expertise and alignment with long-term trends. Accredited or sophisticated investors seeking higher growth with higher risk and illiquidity appetite can consider these opportunities.
- Niche or growth opportunities involve exploring under-researched or less explored market segments, such as carbon credits, collectibles or emerging market funds. However, their specialised nature often demands more thorough due diligence and the need to customise contracts owing to unique risk exposures and illiquidity. Carefully vetting each opportunity and understanding its complexities are important steps before including these assets in a portfolio.

Liquidity and exit options

Alternative assets can range from highly liquid options such as digital gold and commodities to less liquid options such as hedge funds, venture capital and real estate. By strategically putting together a set of investment options, investors can tailor their portfolios to specific liquidity timelines. It's also important to plan how and when to sell alternative investments. A few alternatives such as private equity or private credit may provide periodic redemption or formal secondary markets exit options. An investor can consider these investments if locking up funds for longer periods seem unfeasible. Mostly, however, investing in alternative assets requires a long-term investment horizon.

Overall, a well-constructed alternatives portfolio needs tailored structuring, goal-based investing, thorough due diligence, careful risk assessment and proactive exit planning to get the best out of this method of investing.

Risk controls in alternatives

Alternative investments tend to be high-risk, high-reward. They are, therefore, more suitable for sophisticated investors. Investing in these assets requires a good understanding of their unique risk exposures and applying relevant risk controls for downside protection. We look at some such controls below.

Risk oversight in alternatives is a structured approach to identify, assess, monitor and manage unique risk exposures. The framework includes regular checks on the portfolio's performance, alignment with compliance and reporting rules, and running different scenarios and stress tests. This approach helps in spotting problems early and mitigating them efficiently.

Specialty insurance provides tailored coverage for unique risks that come with certain alternative assets such as collectibles. For instance, purchasing specialty insurance for a Patek Philippe watch provides protection against loss, theft and accidental damage. The coverage is based on the watch's appraised value and the insurance contract can be tailored to fit the specific preferences of the owner.

Some alternative assets may mean investing in offshore opportunities, which calls for a holistic **governance framework**. Sophisticated investors often have access to institutional due diligence, exclusive investment opportunities and governance support through their investment advisory team. However, supporting this with a personalised governance framework can help the investor to align investments with their values, goals and risk appetite. It also facilitates informed decision making and helps in monitoring investments independently. A personal governance framework should include:

- an investment policy statement that chalks out the objectives, risk tolerance levels, liquidity needs and asset preferences. It can also include conflict of interest rules and compliance guidelines based on employer policies. A pre-investment screening checklist that covers fund structure, credentials, strategy, and fees and expenses can also be included.
- monitoring and reporting protocols, which should cover the frequency of performance reviews, governance updates and risk metrics. An alternatives portfolio with offshore exposure may need to address the needs associated with cross-border regulations.
- an exit and liquidity strategy to meet unexpected cash needs. Diversifying across assets with various liquidity profiles, maintaining cash buffers and stress-testing portfolios can balance long-term commitments with short-term flexibility.
- depending on your preference, ESG and sustainability filters may be added to ensure that the investments align with your values.

Investing in alternatives, especially in cryptocurrencies, digital assets and offshore funds, demands a detailed understanding of cyber risks. As part of due diligence, assess **cybersecurity and data protection** measures by considering the asset's IT infrastructure, investor protection framework and incidence response plans. Regular monitoring is necessary to address and manage evolving threats. Based on the level of digital exposure, consider availing **cyber insurance** as it can provide an added layer of protection.

Investors should understand that risks in the alternatives landscape are continuously evolving; accordingly, risk controls also need to be regularly reviewed and updated. A robust alternatives portfolio with dynamic risk management practices can enhance long-term wealth outcomes by providing adaptability and resilience across market phases.

Emerging trends

The alternative investment landscape is evolving rapidly against the backdrop of emerging technology, shifting investor inclinations and macroeconomic circumstances:

There is a growing trend of democratisation of alternative investments through crowdfunding, digital asset exchanges and online investment platforms. The typical entry barriers, such as high minimum investments, are also undergoing a revolution. For example, Masterworks allows investing in art with amounts as low as USD 15,000.

With market capitalisation of cryptocurrencies reaching an all-time high of USD 2trn, it is apparent that the digital asset space is garnering significant attention. The recent regulatory approval by the US to allow Bitcoin as part of mainstream investing funds has resulted in increased inflow to this asset class.

Blockchain technology, artificial intelligence and decentralised finance (DeFi) are transforming the alternatives space. The use of blockchain technology for secure transactions and smart contracts, artificial intelligence for identifying better opportunities and data-analytics driven risk mitigation strategies are some examples of use cases.

Across many economies, regulatory efforts and investor activism are driving rapid integration of ESG practices across asset classes including alternative investments.

Conclusion

Alternative investments are increasingly becoming essential elements of modern investment strategies, especially given the shifting correlation between stocks and bonds.

While they lend meaningful diversification and resilience to the portfolio, they also require meticulous due diligence and risk assessment.

As the alternative investment landscape evolves, it is important to understand the nuances and customise such investments to align with personal goals and risk profiles. Investors can counter market uncertainties and create sustainable wealth by leveraging alternative investments thoughtfully.

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