PIO NOTES

2026

Alternative Investments For Long Term Capital

Acuity Partners LLP

Africa's Private Client Service Firm

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Executive Perspective

The conventional framework of portfolio construction being a balanced allocation between equities and fixed income is facing its most significant test in generations. For decades, this approach delivered dependable, risk-adjusted returns. Equities provided growth, bonds offered stability, and together they formed the foundation of institutional and private portfolios globally.

That framework began to crack in 2022.

In a rare and consequential convergence, both global equities and fixed income declined sharply in the same year. Public markets experienced simultaneous drawdowns that challenged long-standing assumptions around diversification and correlation. For institutional allocators and well-informed private investors, the signal was clear: diversification built solely on public markets no longer behaves as expected in periods of systemic stress.

While certain markets, including Nigeria's equity market, have shown resilience at various points, reliance on equities and bonds alone has become increasingly insufficient. Inflation, currency volatility, monetary tightening, and geopolitical uncertainty now transmit across asset classes with greater speed and intensity. The result is that assets traditionally expected to offset one another are increasingly influenced by the same macroeconomic forces.

This has not resulted in the abandonment of traditional assets. Rather, it has accelerated a structural shift already underway.

Alternative investments which was once the preserve of large endowments, pension funds, and sovereign institutions have become integral components of modern portfolios. Their expansion reflects deeper changes in capital markets: persistent yield compression in developed economies, regulatory evolution following the global financial crisis, and the steady maturation of private-market infrastructure.

According to Preqin, global private capital assets under management exceeded $1.7 trillion by 2024, representing a multiple increase from pre-crisis levels. This growth is not a temporary response to volatility but a reflection of how capital is being reallocated toward assets that offer differentiated return drivers, lower correlation to public markets, and exposure to real economic activity.

To understand this shift fully, it is necessary to look beyond asset classes and examine the underlying forces directing capital. These include structural financing gaps, demographic expansion, regulatory evolution, and the increasing role of private capital in addressing needs that traditional financial intermediaries can no longer meet efficiently.

Emerging markets, whether defined by geography or by sector maturity, sit at the centre of this reallocation. They offer return profiles and diversification benefits that are increasingly difficult to achieve in saturated developed markets, particularly for investors with long-term horizons and patient capital.

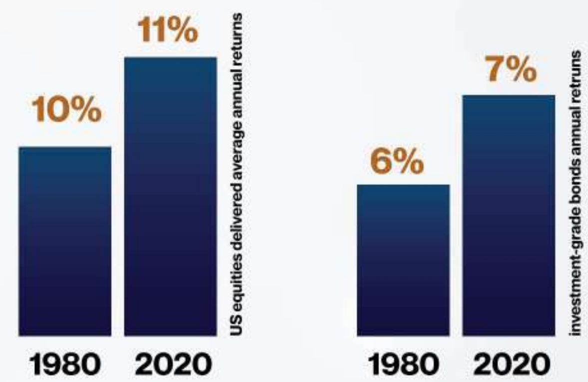
SECTION 01

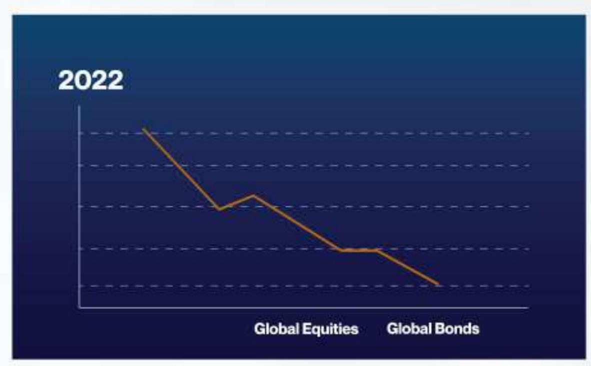
The Structural Limits of **Traditional Assets**

The dominance of equities, bonds, and real estate within global portfolios was never accidental. These asset classes rose to prominence because they offered what investors valued deeply: liquidity, transparency, regulatory oversight, and demonstrable long-term returns.

For much of the past four decades, the data reinforced this structure.

> From 1980 to 2020, US equities delivered average annual returns in the range of 10–11%, while investment-grade bonds returned approximately 6–7% (Fig 1.0). Crucially, the correlation between the two asset classes remained low or negative for extended periods. During major equity drawdowns, between 2000–2002 and during the global financial crisis of 2008, bond allocations reduced portfolio volatility and preserved capital. Real estate complemented this mix by offering long-term inflation protection and stable income through rental yields.
>
> This empirical relationship formed the intellectual backbone of modern portfolio construction.
>
> **That relationship broke down decisively in 2022.**





Global equities declined by approximately 18%, while global bonds fell by over 15%, marking one of the most severe years on record for fixed income investors.

The correlation between stocks and bonds turned sharply positive, undermining the defensive role bonds were expected to play at precisely the moment inflation surged to multi-decade highs. Real estate values also came under pressure as rising interest rates, compressed yields and reset pricing assumptions across markets. The outcome was a rare but consequential outcome: the simultaneous decline of all major traditional asset classes.

This episode did not invalidate traditional assets, but it exposed their growing sensitivity to the same macroeconomic forces.

A Nigerian Perspective on the Same **Structural Shift**

Historically, a similar allocation framework functioned in Nigeria, albeit for different reasons and under distinct market dynamics.

Between 2010 and 2020, Nigerian equities delivered uneven but periodic outsized returns. Years such as 2013 with gains of approximately 47% and 2017 with gains exceeding 42% were driven largely by liquidity cycles, foreign portfolio inflows and currency adjustments. Fixed income instruments, particularly Federal Government bonds and Treasury bills offered double-digit nominal yields for much of the decade, providing income stability and capital preservation in a high-inflation environment. Real estate, especially prime residential and commercial assets in Lagos functioned as an implicit currency hedge, with pricing implicitly in dollars and supported by structural housing deficits

“ Over the past five years, that balance has weakened materially. ”

Equity market performance has become increasingly concentrated in a narrow group of stocks, while broader market participation has struggled to generate real returns after inflation. Fixed income has gradually lost its defensive role. Despite higher nominal yields, real yields have remained deeply negative, with inflation averaging above 20% in recent years. At the same time, rising interest rates have pressured real estate valuations, as rental growth failed to keep pace with funding costs and household purchasing power weakened.

In effect, Nigeria’s traditional asset classes have become exposed to the same underlying macroeconomic risks: inflation, currency depreciation, fiscal strain, and policy tightening. The diversification benefits that once existed between them have narrowed significantly.

Global Confirmation of a **Broader Trend**

This experience is not unique to Nigeria.

Institutional allocation to alternative investments has expanded steadily over the past decade, reflecting a recognition that traditional assets alone no longer deliver sufficient diversification. McKinsey's Global Private Markets Review shows that private-market assets under management have grown at an estimated 14% annually since 2013, driven by increased exposure to private equity, private credit, infrastructure, and real assets. IMF Investors' 2025 Global Investor Barometer reports that over one-third of institutional portfolios are now allocated to private markets, with further increases expected.

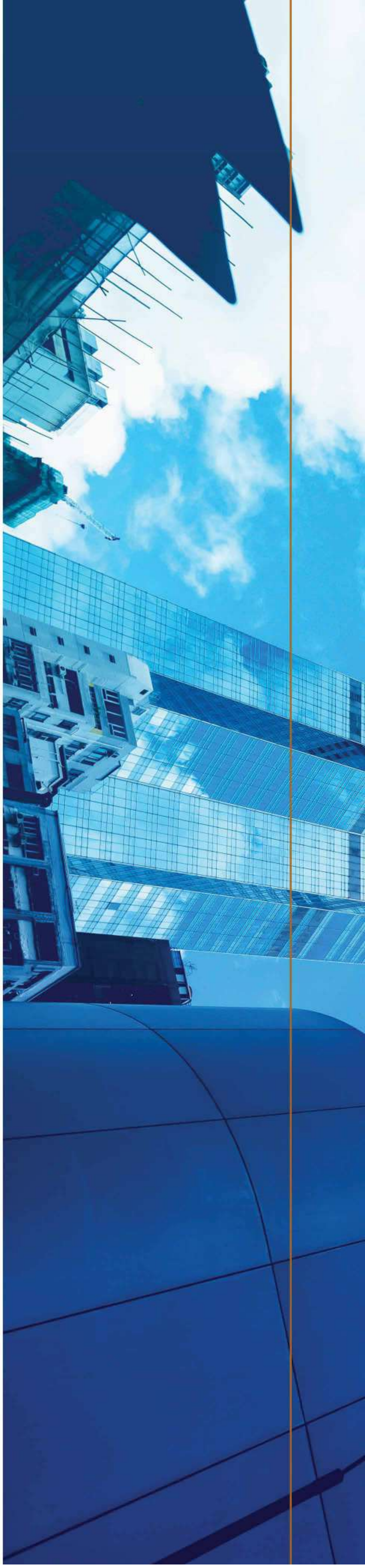
On the development side, the International Finance Corporation's Managed Co-Lending Portfolio Program has mobilised over $16 billion from global institutional investors into emerging-market private lending, underscoring the scale and durability of institutional demand for alternative capital beyond traditional equities and bonds.

Today, a substantial proportion of institutional portfolios globally allocate meaningfully to private markets, with expectations of further growth.

However, recent macroeconomic volatility has further highlighted the structural limitations of traditional assets. According to IMF analysis, equities remain highly sensitive to interest-rate cycles and liquidity shocks, delivering strong long term returns as evident by global equity markets compounding at roughly 8–10% per annum over the past three decades, but with pronounced cyclical drawdowns during periods of tightening. We noticed this during the period of the pandemic wave when central banks flooded markets with liquidity; equity valuations surged, only to correct sharply when monetary tightening began in 2022.

Bonds, historically viewed as portfolio ballast, have struggled to preserve purchasing power in an environment of persistent inflation. In several developed economies, real yields were negative throughout 2022 and 2023, eroding the foundational role fixed income once played.

Real estate markets have also faced growing constraints and valuation disconnects. Bank for International Settlements research indicates that in many global cities, property prices in have become increasingly detached from median household incomes, raising sustainability concerns and limiting accessibility for new investors. Urbanization and demographic tailwinds that once supported valuations in mature markets are no longer as reliable as they once were.



Implications for **Portfolio Construction**

The conclusion is not that traditional assets like equities, bonds, or real estate have lost relevance. Rather, their correlation patterns, yield characteristics, and risk profiles no longer provide sufficient diversification on their own. Modern portfolio construction increasingly requires complementary exposures – assets that behave differently across market cycles, derive returns from contractual or operational cash flows, and are less dependent on public-market liquidity conditions.

SECTION 02

THE EVOLUTION OF ALTERNATIVES: FROM CRISIS RESPONSE TO STRATEGIC CORE

The global financial crisis of 2008 marked an inflection point in capital allocation.

As financial systems destabilised and confidence in traditional intermediaries weakened, central banks responded with unprecedented monetary interventions. Policy rates were driven toward zero, liquidity flooded global markets, and yields across government securities compressed sharply. While these measures stabilised markets, they also altered the long-term return environment in fundamental ways.

For investors with long-duration obligations, the implications were immediate. Fixed-income instruments that had historically underpinned capital preservation and income generation no longer provided sufficient real returns. A sovereign bond yielding 2% could not meet pension liabilities, endowment spending requirements, or multigenerational capital objectives. The challenge was not temporary; **it was structural**. This environment catalysed a decisive reallocation of capital.

Private markets, long present but previously peripheral for most allocators, began to absorb a greater share of institutional capital. Private equity, venture capital, and direct lending offered access to return streams that were less dependent on public-market pricing and more closely tied to operational performance, cash flows, and negotiated terms. For investors prepared to commit patient capital, these strategies offered both yield and diversification.

Initially, access remained limited. High minimum investments, complex structures, and long lock-up periods restricted participation largely to sovereign wealth funds, pension schemes, and university endowments. Over time, however, the ecosystem evolved.

Post-crisis regulatory reforms reshaped banking activity, particularly in credit provision. As banks retreated from certain forms of lending due to capital and risk constraints, private capital stepped into the gap. Advances in technology and financial infrastructure improved deal sourcing, risk assessment, and reporting. Globalisation of capital markets enabled funds to deploy capital efficiently across borders, particularly into emerging and frontier markets - Asia, Africa, the Middle East, and Latin America.

What followed was not merely growth in alternative assets, but a redefinition of their role.

The Modern Alternatives Universe

Today, alternative investments represent a broad and increasingly institutionalised universe, encompassing a range of strategies designed to access differentiated sources of return.

Private Credit & Direct Lending

Non-bank lending to businesses and projects has expanded rapidly. These investments are typically structured with negotiated covenants, security packages, and floating-rate features, providing income resilience and reduced sensitivity to public debt markets. From an estimated $300 billion prior to the global financial crisis, private credit assets under management exceeded $1.7 trillion by 2024.

Private Equity & Venture Capital

Ownership in non-public companies provides exposure to growth before businesses reach public markets, if they do at all. Increasingly, value creation occurs earlier in a company's lifecycle, making private markets a primary venue for long-term capital formation rather than a stepping stone to listing.

Real Assets

Investments in infrastructure, energy, commodities, agriculture, and natural resources provide tangible exposure to essential economic activity. These assets often offer inflation linkage and long-duration cash flows, characteristics that have regained importance in recent years.

Structured and Bespoke Financing

Structured products combine elements of credit, collateral, and contractual cash flows to produce tailored risk-return outcomes. These structures are frequently used by family offices and private investors seeking capital protection alongside measured upside participation.

Impact & ESG-Oriented Infrastructure

Capital deployed into assets with measurable environmental or social outcomes has expanded materially. Blended finance structures, supported by development finance institutions, have unlocked significant investment into energy transition, transportation, and climate-resilient infrastructure.

Invoice & Receivables Financing

Short-duration strategies addressing working-capital needs, particularly for small and medium enterprises have become increasingly relevant. These investments generate predictable cash flows with limited exposure to market volatility and are particularly well suited to economies where small and medium enterprises are underbanked.

The common thread connecting these categories is their ability to access return streams unavailable through public markets, whether through illiquidity premiums, structural advantages, or direct exposure to underbanked sectors and geographies.

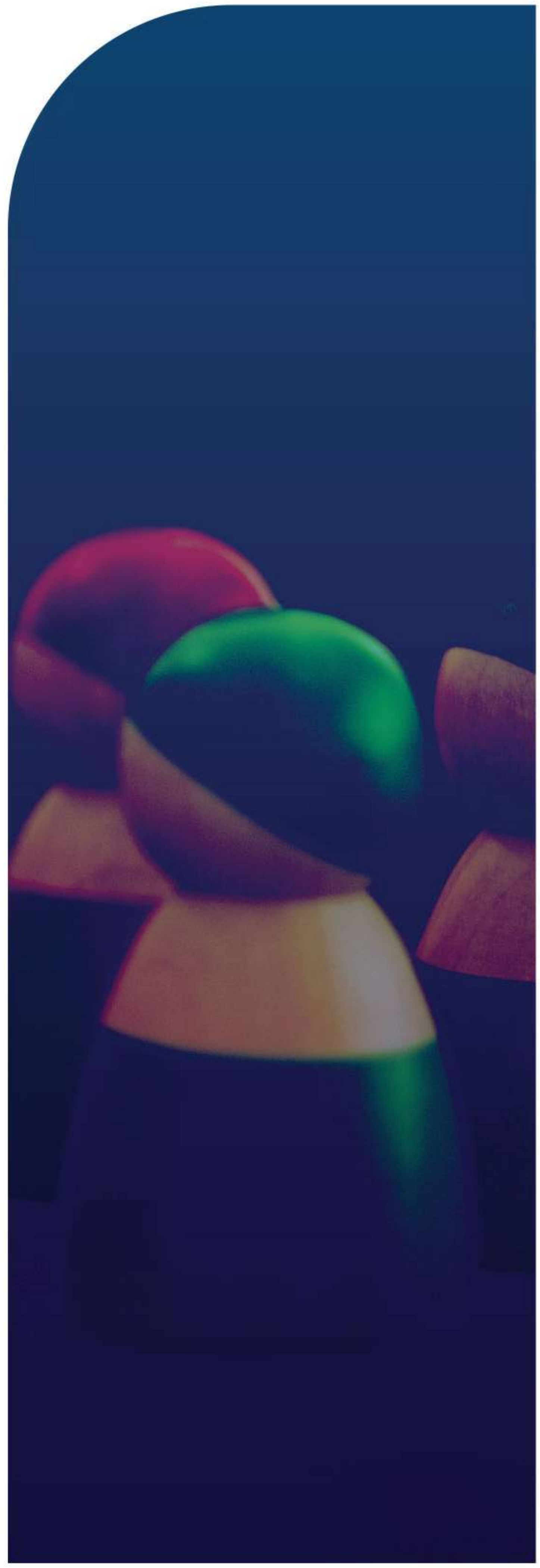
FROM TACTICAL ALLOCATION TO STRATEGIC CORE

Initially, many investors approached alternatives tactically, viewing them as opportunistic tools to enhance yield in a low-rate environment. Over time, experience and data reshaped that perception.

As private-market infrastructure matured and track records lengthened, alternatives demonstrated their ability to contribute meaningfully to portfolio resilience. Illiquidity premiums became more quantifiable. Risk dispersion across managers and strategies became better understood. Governance and transparency standards improved, particularly among institutional-grade managers.

As a result, alternatives transitioned from supplemental allocations to strategic components of portfolio construction.

Institutional portfolios today increasingly reflect this reality. Private markets now account for a substantial share of long-term allocations, with exposure spanning private credit, infrastructure, real assets, and growth capital. This evolution reflects confidence not only in the return potential of alternatives, but in their role as stabilising elements within diversified portfolios.



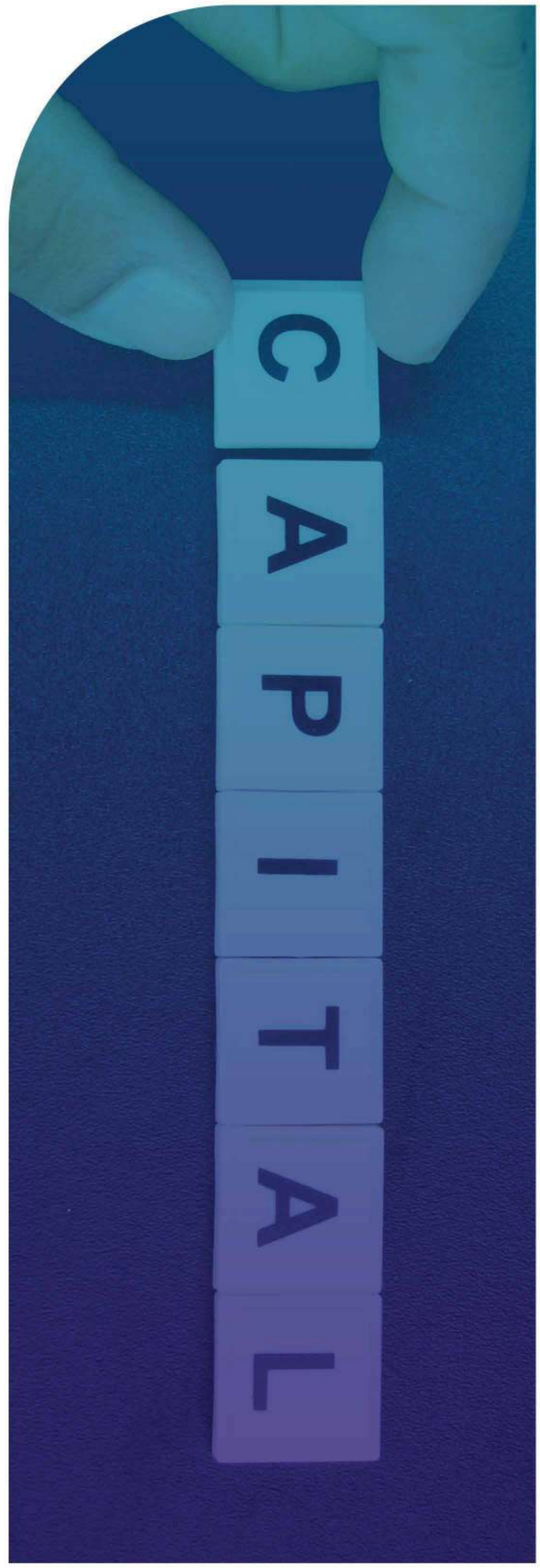
RELEVANCE FOR LONG-TERM CAPITAL

For long-horizon investors, particularly families stewarding capital across generations, the appeal of alternatives lies in alignment. Returns are earned through patience rather than timing. Cash flows are derived from contracts, assets, and operations rather than sentiment.

Risk is assessed at entry and managed through structure rather than assumed to diversify automatically.

In an environment where public markets respond rapidly to global liquidity conditions, alternative investments offer a degree of insulation — not from risk, but from volatility driven by short-term capital flows.

This evolution marks a structural shift in how capital is deployed globally. Alternatives are no longer defined by what they are not; they are defined by what they do — provide access to durable, differentiated sources of return in a changing world.



SECTION 03

EMERGING MARKETS:

— WHERE CAPITAL MEETS OPPORTUNITY —

The growing role of alternative investments cannot be separated from the rise of emerging markets as engines of capital demand and return generation.

At a fundamental level, the logic is straightforward. Younger economies require capital to build infrastructure, expand productive capacity, support private enterprise, and accelerate technology adoption. Traditional banking systems, constrained by balance-sheet limits, regulatory capital requirements, and risk concentration rules, are unable to meet this demand fully. The resulting financing gaps create space for private capital to operate with flexibility, structure, and selectivity.
This dynamic has become increasingly pronounced over the past decade.

Between 2015 and 2024, private-capital flows into emerging markets accelerated materially as market infrastructure improved and regulatory environments matured. Institutional investors, once cautious, began to view selected emerging markets not as peripheral allocations but as strategic components of long-term portfolios. The appeal lay not in speculative upside, but in entry valuations, demographic momentum, and the opportunity to deploy capital into real economic activity with measurable cash flows.

Over long periods, asset-class performance reinforces this logic. Public equities have historically delivered the highest absolute returns, while bonds and real estate have played complementary roles in stability and income. However, real assets and private-market strategies have demonstrated particular resilience in inflationary environments, where contractual revenues, asset-backed structures, and pricing power matter more than market liquidity. This has renewed interest in markets where growth is driven by fundamentals rather than financial engineering.

AFRICA'S PLACE IN THE ALLOCATION SHIFT

Africa occupies a distinctive position within this global reallocation of capital.

The continent combines rapid population growth, accelerating urbanisation, and expanding consumption with persistent capital shortages across infrastructure, housing, healthcare, logistics, and small- and medium-scale enterprise financing. These needs are structural rather than cyclical, and they extend well beyond the capacity of public budgets and traditional financial institutions.

At the same time, Africa has experienced a steady rise in high-net-worth individuals and family capital seeking alternatives to traditional asset classes. With public markets offering limited depth and fixed income delivering negative real returns in many jurisdictions, investors are increasingly drawn to opportunities that offer both income and alignment with long-term economic development.

In South Africa, relatively mature capital markets support an active private-credit ecosystem, often structured through partnerships involving development finance institutions and local banks. In Nigeria, financing constraints have catalysed growth in fintech lending, receivables finance, and structured trade credit. Kenya's mobile-money infrastructure has enabled entirely new credit models, underpinned by transaction data and digital payment rails.

These developments are not isolated innovations; they reflect a broader shift toward private capital as a core provider of financing in economies where demand materially exceeds supply.

PARALLEL DEVELOPMENTS BEYOND AFRICA

Similar dynamics are visible across other emerging regions.

In the Middle East, particularly the United Arab Emirates, private capital has become increasingly central to real estate and infrastructure financing as traditional bank lending reaches regulatory limits. Developers and operators have turned to private placements, Sukuk issuance, and structured facilities to fund projects. Rental yields in cities such as Dubai remain attractive by global standards, supported by population inflows, business relocation, and tourism growth. Capital has responded accordingly.

In Asia, markets such as India and Southeast Asia continue to attract substantial private-market investment, driven by technology adoption, manufacturing expansion, and infrastructure needs. Venture capital and growth equity are complemented by private credit and project finance as businesses scale beyond early-stage funding.

Latin America presents a related case. In countries such as Mexico and Brazil, private credit has expanded as banks de-risk and tighten lending standards. Capital is increasingly deployed into asset-backed lending, infrastructure, and trade finance, supported by large domestic markets and export-oriented sectors.

Across regions, the pattern is consistent. Financial needs have outgrown the capacity of traditional intermediaries.

Private capital has stepped in to bridge that gap.

RISK, RETURN, AND **STRUCTURAL ADVANTAGE**

Emerging-market alternatives offer higher potential returns, but those returns are not without risk. Regulatory evolution, currency volatility, and political uncertainty require careful navigation. However, these risks are not uniform, nor are they unmanageable.

For investors with local insight, strong structuring capability, and disciplined underwriting standards, emerging markets offer a structural advantage. Entry valuations are often more attractive than in developed markets. Competition is less crowded. Returns are driven by fundamentals rather than leverage alone.

Importantly, many alternative strategies in emerging markets are designed to prioritise capital protection. Short-duration receivables finance, asset-backed lending, and contracted infrastructure projects reduce reliance on exit timing and public-market sentiment.

For long-term capital, particularly family capital seeking durability rather than velocity, these characteristics are increasingly compelling.

STRATEGIC IMPLICATIONS

The case for emerging-market alternatives is not predicated on optimism; it is grounded in necessity.

Infrastructure must be built. Trade must be financed. Businesses must operate. Where traditional systems cannot provide capital at scale, alternative capital fills the void. For investors willing to engage thoughtfully, this creates an opportunity to earn returns while participating in real economic development.

Emerging markets are no longer peripheral to global portfolios. They are central to how capital is allocated in a world where growth, demand, and demographic momentum increasingly reside outside developed economies.

SECTION 04

CURRENT MARKET DYNAMICS: 2025 AND BEYOND

Several observable trends are reinforcing the role of alternative investments within long-term portfolios. These trends are not cyclical anomalies; they reflect deeper shifts in how capital responds to inflation, credit constraints, and structural demand across both developed and emerging markets.

For allocators focused on durability rather than short-term dislocation, these dynamics provide important signals.

Commodities Reassert Their Role as Portfolio Anchors.

After a prolonged period of relative underweighting, commodities have re-emerged as relevant components of diversified portfolios. Inflationary pressures, geopolitical fragmentation, and supply-chain reconfiguration have restored the strategic value of exposure to tangible assets.

Precious metals, particularly gold, have remained resilient amid shifting central-bank policy expectations. Beyond metals, exposure to energy, agricultural products, and industrial materials has increased as investors seek assets whose value is linked directly to physical demand rather than financial leverage.

In African markets, this trend is especially pronounced. Commodity-linked investments in agriculture, energy, and extractive industries align closely with domestic production capacity and export demand. Agribusiness-focused private funds have continued to attract capital, reflecting the continent's role in food supply chains and the necessity of improving productivity, storage, and logistics.

In Nigeria, energy-linked instruments and natural-resource-backed structures are increasingly viewed as partial hedges against currency depreciation and inflation. For example, Nigeria's agribusiness-focused private funds managed over $450 million in 2024, while oil-linked derivatives and natural resource funds are attracting institutional capital as hedges against local currency depreciation and inflation.

Similar patterns are evident in Kenya and Ghana, where agricultural commodity funds benefit from both domestic consumption and regional trade. While commodities are inherently volatile, their low correlation to financial assets and linkage to real economic activity make them relevant anchors in inflation-sensitive environments.

Private Credit Continues to Expand

Private credit has emerged as one of the most structurally important segments within alternative investments.

As public debt markets grapple with interest-rate volatility and regulatory constraints, private lending offers negotiated terms, structural protections, and flexibility unavailable in traded instruments. For borrowers, private credit provides access to capital where traditional banks are constrained. For investors, it offers income stability and downside protection when structured conservatively.

Africa's Development finance institutions and global fund managers are increasingly deploying capital into private credit across SMEs, logistics, fintech, and healthcare sectors. In Nigeria alone, private credit funds deployed approximately $1.2 billion in 2024, addressing financing gaps in SMEs that traditional banks cannot serve.

Kenya's mobile-money ecosystem has further accelerated innovation in this space, enabling data-driven underwriting and short-duration credit solutions tied to transactional cash flows. These models have reduced default risk while expanding access to financing for previously underserved businesses.

Private credit's appeal lies not only in yield, but in control — control over terms, security, and duration.

Real Estate Financing Shifts to Private Capital

Across global markets, real estate finance is undergoing a structural transition.

As banks reach exposure limits and regulatory thresholds, developers increasingly rely on private capital through structured debt, private placements, Sukuk, and project-specific financing vehicles. This shift has created new entry points for investors seeking exposure to real estate through credit and development finance rather than outright ownership.

In the Middle East, particularly the UAE, this dynamic has been highly visible. Strong population inflows, business relocation, and tourism growth have supported rental demand, while private capital has stepped in to finance development where bank lending capacity is constrained.

Similar patterns are emerging across African cities. In Lagos, Nairobi, and Accra, mixed-use developments, logistics hubs, and commercial projects are increasingly funded through private capital and blended finance structures. These arrangements offer investors enhanced yield profiles relative to traditional mortgages, while supporting urban infrastructure and economic activity.
This evolution reflects pragmatism rather than speculation. Capital flows toward where financing is required and risk can be structured appropriately.

Infrastructure and Climate Capital Acceleration

Multilateral institutions and development finance organizations have mobilized significant capital into sustainability-linked infrastructure. These investments deliver measurable environmental outcomes while generating returns through regulated revenue streams or long-term offtake agreements. European infrastructure fundraising, in particular, has shown strong momentum.

In Africa, climate and renewable energy projects are attracting record investment. For example, Africa's renewable energy funds raised over $2.1 billion in 2024, targeting solar, wind, and hydro projects, often with blended finance from DFIs like IFC, AfDB, and CDC Group. Transportation and water infrastructure Transportation corridors, ports, and water systems continue to receive private funding of over $1.5 billion as governments seek partnerships to close infrastructure gaps. These projects generate returns through regulated tariffs or contracted revenues, making them particularly suitable for patient capital.

Infrastructure investments underscore a broader theme: returns generated through necessity rather than discretion tend to endure.

Supply-Chain and Invoice Finance Gain Prominence

The IFC and World Bank document persistent micro, small, and medium enterprise financing gaps across emerging markets. Traditional banks struggle to serve this segment efficiently due to risk, scale, and cost considerations. This structural need creates steady demand for receivables and invoice financing, which deliver short-term, predictable cash flows attractive to yield-seeking allocators.

By financing confirmed receivables and short-term trade flows, these strategies generate predictable cash flows with limited exposure to market volatility. For investors, duration is short, correlation is low, and capital is recycled efficiently.

In Nigeria, only about 5% of SMEs have access to formal bank credit, yet innovative fintech platforms and invoice-finance funds are beginning to bridge this gap. C2FO and IFC initiatives have unlocked $25 million in receivables finance for Nigerian SMEs in 2024, facilitating working capital access in logistics, retail, and manufacturing. Kenya and South Africa have similar trends, where mobile money and digital invoice platforms are enabling faster, lower-risk access to short-term credit for SMEs.

What These Trends Signal

Taken together, these market dynamics reflect a broader recalibration of capital.

Investors are prioritising assets tied to real economic demand, contractual cash flows, and structural necessity. Volatility has reinforced the importance of income resilience and downside protection. In this environment, alternative investments offer pathways to deploy capital with intention rather than speculation.

For African markets, these trends align closely with development needs and demographic momentum. Capital is flowing not because of excess, but because of demand.

SECTION
05

RISK FRAMEWORK: UNDERSTANDING THE TRADE-OFFS

Alternative investments offer differentiated return potential, but they also introduce risks that require deliberate evaluation. For long-term investors, particularly those allocating capital across multiple years, understanding these trade-offs is essential.

The objective is not to eliminate risk, but to ensure that risk is appropriately priced, structured, and aligned with investment horizons.

Illiquidity & Capital Lock-Up

Unlike publicly traded securities, many alternatives lack secondary markets. Private equity funds typically involve lock-up periods of seven to ten years, while private credit and real-asset strategies often restrict redemptions for three to five years.

This illiquidity constrains flexibility but provides compensation in the form of illiquidity premiums, which can add meaningfully to long-term returns. The discipline lies in matching illiquid allocations to capital that is not required for near- or medium-term liquidity needs.

Regulatory and Jurisdictional Risk

Alternative investments operating across emerging markets are subject to evolving regulatory environments. Policy shifts, tax changes, capital controls, and foreign-ownership rules can affect asset performance and capital mobility.
Effective structuring, legal foresight, and local insight are essential to mitigating these risks and ensuring that returns are not compromised by regulatory uncertainty.

ESG and Compliance Evolution

As environmental, social, and governance standards tighten globally, alternative investments in real assets or emerging regions may face heightened regulatory scrutiny. What complies with current standards may not meet future requirements, introducing tail risk into long-duration investments.

Concentration & Structural Risk

Some alternative vehicles concentrate capital in few positions to maximize returns. A UBS-managed fund reportedly held 30% exposure to a single issuer group, highlighting how invoice-financing and private-credit structures can carry significant concentration risk without proper diversification protocols. Prudent portfolio construction avoids excessive concentration and prioritises structural alignment.

Valuation and Transparency Considerations

Unlike publicly traded assets, private investments are not priced daily. Valuations rely on periodic appraisals, cash-flow models, and comparable transactions, introducing a degree of subjectivity.

While this can smooth reported performance, it requires investors to assess valuation methodologies carefully and to recognise that underlying volatility may not be immediately visible. Transparency, consistency, and independent oversight are critical in this context.

Manager Selection and Execution Risk

Outcomes in private markets are heavily influenced by manager capability. Asset selection, structuring discipline, governance standards, and alignment of incentives all materially affect performance.

Return dispersion between top- and bottom-performing managers is significantly wider in private markets than in public equities. Rigorous due diligence and ongoing monitoring are therefore non-negotiable components of successful alternative allocations.

Liquidity Mismatch

Funds offering periodic redemptions while holding illiquid assets create structural vulnerabilities. During stress periods, this mismatch can force valuation freezes, redemption gates, or delayed liquidity—precisely when investors may need access to capital most.

A DISCIPLINED APPROACH TO RISK

Effective risk management in alternatives rests on process rather than prediction. Comprehensive due diligence, diversification across strategies and managers, alignment between liquidity and investment horizon, and preference for experienced sponsors form the foundation of sustainable outcomes.

When these principles are applied consistently, alternative investments can enhance portfolio resilience without compromising capital integrity.

SECTION

06

IMPLEMENTATION CONSIDERATIONS FOR STRATEGIC ALLOCATORS

Alternative investments offer differentiated return potential, but they also introduce risks that require deliberate evaluation. For long-term investors, particularly those allocating capital across multiple years, understanding these trade-offs is essential.

The objective is not to eliminate risk, but to ensure that risk is appropriately priced, structured, and aligned with investment horizons.

Portfolio Context Matters

Alternative investments function best as complements to traditional assets rather than substitutes. Liquid public-market exposure remains essential for flexibility and near-term obligations, while private strategies are suited to patient capital with longer horizons.
A balanced approach preserves optionality while enhancing resilience.

Geographic and Sector Diversification

Concentration increases vulnerability. Allocations spread across asset types, sectors, and geographies reduce reliance on any single market or economic outcome.

Exposure across private credit, real assets, infrastructure, and growth capital — and across regions such as Africa, the Middle East, and select emerging markets — improves portfolio stability and return consistency.

Manager Due Diligence Is Non-Negotiable

In private markets, manager quality is decisive. Track record, governance standards, operational capability, and alignment of interests materially influence outcomes.

Due diligence should extend beyond performance history to include risk management processes, valuation discipline, and transparency. Relationships with experienced sponsors and co-investors add an additional layer of comfort.

Understand Fee Structures and Economics

Alternatives typically carry higher fees than public markets, often 1-2% management fees plus 10-20% performance participation. These costs are justified only where net returns exceed comparable risk-adjusted alternatives.

Clear understanding of management fees, performance participation, and structural economics is essential, particularly over multi-year investment horizons where compounding effects are significant.

Liquidity Planning & Commitment Pacing

Capital committed to private strategies should align with realistic liquidity expectations. Illiquid allocations are best suited to capital not required for five to ten years.

Staggered commitments across vintages and strategies help manage cash flows and reduce timing risk.

Maintain Realism About Returns

While top-performing alternative strategies can outperform public markets, average outcomes tend to converge over time after accounting for fees, selection risk, and volatility.

Return assumptions should be conservative and grounded in fundamentals rather than headline performance. The objective is consistency and capital preservation alongside growth, not excess..

Positioning for Long-Term Stewardship

Effective implementation reflects stewardship rather than opportunism. Portfolios designed to endure across cycles prioritise structure, discipline, and alignment over speed or leverage.

When alternatives are deployed thoughtfully, they contribute meaningfully to long-term compounding and portfolio resilience.

SUMMARY

A MATURING ASSET CLASS IN A CHANGING WORLD

Alternative investments have evolved from niche strategies into integral strategies of modern portfolio architecture. This transformation reflects structural shifts in global capital markets rather than temporary dislocations. Persistently low real yields in developed economies, the maturation of private-market infrastructure, and the growing role of private capital in addressing real economic needs have reshaped how long-term investors allocate capital.

Traditional assets remain essential. Equities continue to drive long-term growth, fixed income provides income and stability where real yields permit, and real estate offers exposure to tangible value. However, their correlation patterns and sensitivity to macroeconomic forces have changed. On their own, they no longer provide the breadth of diversification required in an environment characterised by inflation, currency volatility, and policy-driven market cycles.

Alternative investments address this gap.

By accessing return streams tied to contractual cash flows, real assets, and operational performance, alternatives introduce sources of resilience that are less dependent on public-market liquidity. For patient capital, they offer the potential for enhanced risk-adjusted returns, improved diversification, and alignment with long-term economic activity.

Emerging markets sit at the centre of this allocation shift. Demographic growth, infrastructure needs, and expanding private enterprise continue to outpace the capacity of traditional financial systems. Private capital has become a necessary partner in bridging this divide. For disciplined investors, this creates opportunities grounded in necessity rather than excess.

These opportunities, however, demand rigor. Illiquidity, valuation complexity, manager dispersion, and regulatory evolution require thoughtful structuring and careful oversight. Success in alternative investments is not driven by access alone, but by process, patience, and alignment.
The most significant change is one of perception. Alternative investments are no longer viewed as opportunistic or peripheral. They represent a rational and increasingly essential response to a world in which growth, demand, and capital formation are more widely distributed across asset classes, regions, and structures.

For families and institutions focused on stewardship across generations, the question is no longer whether to engage with alternatives, but how to do so thoughtfully and consistently. When implemented with discipline, alternative investments provide flexibility, durability, and access to opportunities that traditional assets alone cannot deliver.

The allocation paradigm has shifted. Well-informed investors are responding accordingly.

CLOSING NOTE

This paper reflects the investment philosophy that underpins a disciplined Private Investment Office approach: one that prioritises capital preservation, thoughtful risk-taking, and long-term compounding. In a changing world, portfolios built with intention, structure, and patience are best positioned to endure.

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Africa's Private Client Service Firm