Survey Report

The State of Alternative Investments in Wealth Management

2023

We evaluate the results of the second annual CAIS-Mercer alternative investment survey and provide key takeaways for advisors hoping to differentiate their business with alternatives.

November 2023

How Advisors See Alternatives in 2023

The second annual alternative investment survey, conducted in partnership with Mercer in September and October 2023, seeks to understand how financial advisors are thinking about alternative investments in today's market environment.

Has this year's macroeconomic environment influenced advisors' views on alternatives? Or do longer-term business and investment objectives continue to prevail for advisors considering allocating to alternative asset classes? What challenges persist for advisors seeking out alternatives for their portfolios?

To expand upon our inaugural survey, we included questions that delved deeper into our respondents' asset allocation approach and their perspectives on specific alternative asset classes, including why they choose to incorporate them in client portfolios and whether and how they plan to shift their allocations in the next couple of years.

Overwhelmingly, our 2023 survey results suggest that the trends established last year are set to continue, regardless of recent macroeconomic shifts. Indeed, if advisors' current allocations to alternatives are an indication, the transition from a traditional 60/40 portfolio to a more three-dimensional portfolio—one that includes public equities, fixed income, and alternatives—appears to be underway.

The advisors we surveyed are turning to alternative asset classes, especially private debt, real estate, and private equity. Through these allocations, many hope to achieve core portfolio objectives for their clients such as enhancing returns, diversifying risk, supplementing income, or preserving capital.

About CAIS

As the champion of the independent advisor, CAIS is democratizing access to and education about alternative investments, empowering advisors to engage and transact with leading asset managers and bank issuers on a massive scale. CAIS delivers industry-leading technology, operational efficiency, and world-class client service throughout the pre-trade, trade, and post-trade experience. Founded in 2009, CAIS, a fintech leader, supports over 32,000 advisors who oversee more than $4 trillion in network assets. Since its inception, CAIS has facilitated over $25 billion in transaction volume. For more information, visit caisgroup.com.

About Mercer

Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries, and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy, and people, with 86,000 colleagues and annual revenue of over $20 billion. For more information, visit mercer.com.

Survey Methodology

We conducted our survey over a seven-week period, between Sept. 12, 2023 and Oct. 30, 2023. We collected many responses from attendees during the second annual CAIS Alternative Investment Summit, a three-day, invite-only industry event in Beverly Hills, CA. The remaining responses came via email outreach and platform promotion to professionals who are part of the CAIS network.

The findings in this report are based on survey responses from a total of 260 financial advisors, and the number of respondents for each question varied. Financial advisors were defined as all respondents who identified their firm as an independent RIA, broker-dealer affiliated practice, family office, bank and trust, or another type of advisory or investment consulting firm. Every respondent included in these results also said they help make asset allocation and/or fund selection decisions for clients and/or their own firm.

The survey focused on gathering data for the benefit of the independent wealth channel. In fact, 68% of our respondents self-identified as independent RIAs, while most of the remaining respondents said they were affiliated with a broker-dealer or family office. To further focus on the experience of the independent financial advisor, we excluded survey responses from asset managers.

Note that due to the survey's focused number of respondents, the sample is not necessarily representative of the broader wealth management industry.

About Our Respondents

Exhibit 1

Firm Type

Results are based on 260 responses.

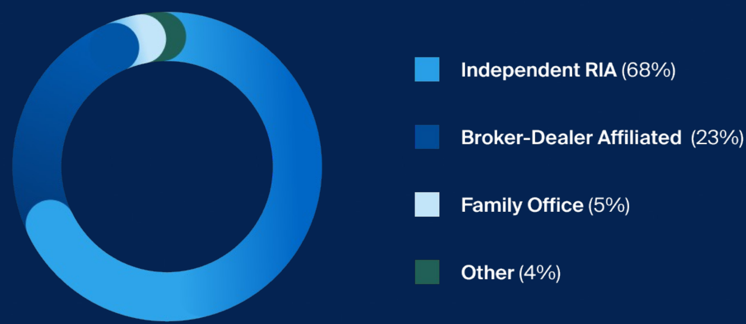


Exhibit 2

Total Investable Assets for Typical Client

Results are based on 259 responses.

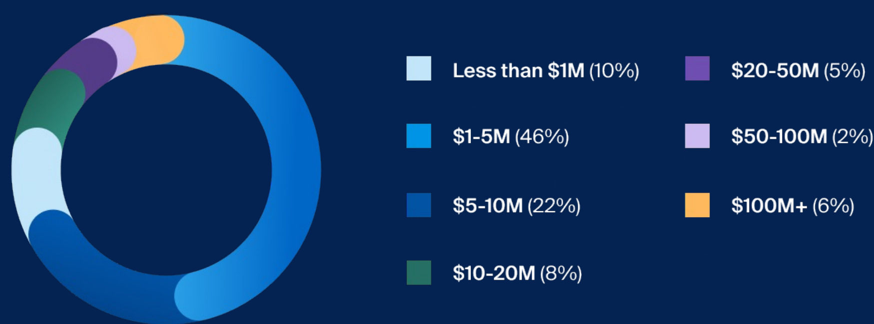
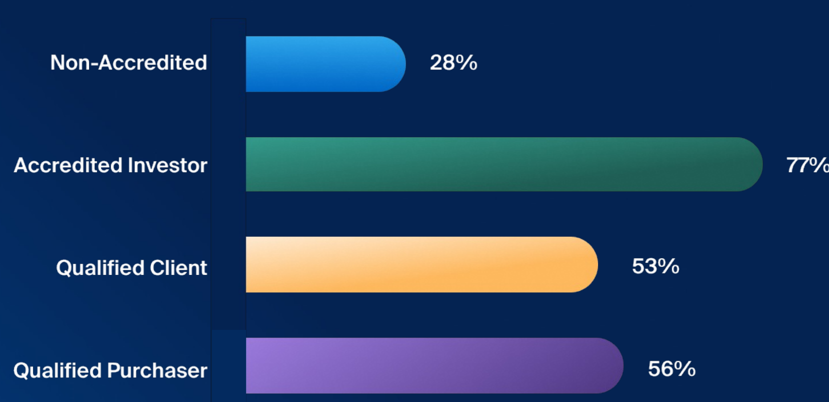


Exhibit 3

Client Accreditation Levels

Results are based on 259 responses. Respondents could select all that apply.



Advisor Challenges in the Current Macroeconomic Environment

As we head into the end of 2023, financial advisors and their clients in the United States find themselves in a macroenvironment defined by "higher for longer" interest rates, potentially decelerating inflation,[1] noteworthy geopolitical tensions with the Israel-Hamas conflict and an ongoing war in Ukraine, as well as an upcoming presidential election year. US public equities sold off in the third quarter following a bull market earlier in the year, while the 10-year US Treasury yield hit its highest level since 2007 in late October.[2] Finally, the continued health of the job market and the resilience of the US economy—with the annualized growth rate for Q3 2023 beating expectations at 4.9%—may have surprised those who anticipated a harder landing coming into this year.[3]

In the current environment, more than half of the surveyed advisors (53%) indicated that achieving total return goals is a high-level challenge. A smaller but still meaningful percentage of advisors thought it was as challenging to lower risk with lower correlation asset classes (43%) or protect against drawdowns (42%). Meanwhile, generating sufficient real income appeared to be only a moderate challenge for the majority (51%) of advisors.

Exhibit 4

Most Challenging Objectives in the Current Environment

Results are based on 260 responses.

	High	Moderate	Low
Lowering risk with lower correlation asset classes	43%	44%	13%
Achieving total return goals	53%	39%	8%
Generating sufficient real income	27%	51%	22%
Protecting against drawdowns	42%	47%	11%

How Advisors Allocate to Alts Today

A significant majority (62%) of the advisors surveyed indicated they allocate between 6% and 25% of a client portfolio to alternatives. Nearly one-third (32%) surveyed allocate more than 15%, and one in 10 allocates more than a quarter. Just under 4% of the advisors do not consider any alternatives.

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Exhibit 5

Current Allocations to Alternatives

Results are based on 260 responses.

Why might have these advisors incorporated alternatives into their portfolios? More than three-quarters (78%) of advisors surveyed have their clients top of mind, reporting that access to alternatives helps their clients meet their goals and objectives—some of which we'll cover in the next section of the report.

Most (83%) of the advisors believe alternatives give them a competitive advantage, saying that this access differentiates their practice from peers. A majority also looked to access alts to win new clients (59%) or gain wallet share with existing clients (51%). Less than 1% said that access to alternatives didn't offer any business advantage.

Exhibit 6

How Access to Alternative Investments Potentially Helps Advisors' Businesses

Results are based on 259 responses. Respondents could select all that apply.

While not specifically surveyed, ease of access to alternatives may also be contributing to the participation by financial advisors, which aligns with industry efforts to facilitate access to alternatives for this group. Improvements cover many areas including alternative investing technology, operational support, educational resources, research coverage, etc. Responses from our 2022 survey indicated that a majority of asset managers planned to roll out new products for the wealth channel.[4]

Comparing Asset Classes: Allocations and Objectives

Certain alternative asset classes—namely private debt, real estate, private equity, and structured notes—made up a larger proportion of our respondents' current client portfolios than others. Close to half (45%) of advisors who responded said that they currently allocate between 6% and 20% of a client portfolio to private debt; real estate followed with 41% of advisors allocating within the same range. Meanwhile, a third of advisors (33%) said they allocate 6% to 20% to private equity, and just over a quarter (26%) said they allocate within the same range to structured notes.

Natural resources, infrastructure, hedge funds, and digital assets all saw relatively lower current allocations, with the majority of advisors allocating between 0% and 5% or not allocating to these asset classes at all.

Percentage of advisors surveyed that currently allocate between 6% and 20% to each alternative asset class

45%	Private Debt
41%	Real Estate
33%	Private Equity
26%	Structured Notes

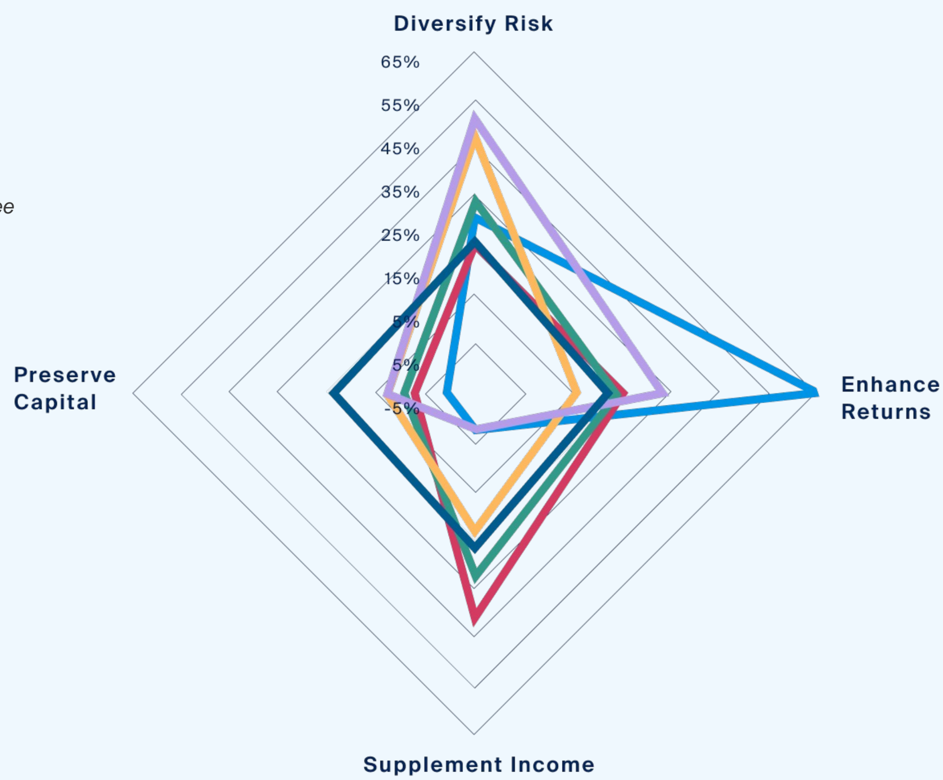
To better understand their thinking about current and future allocations, we asked the surveyed advisors which of four common investment objectives they seek to achieve when allocating to each asset class. These objectives included diversifying risk, enhancing returns, supplementing income, and preserving capital.[5]

Certain objectives stood out for each asset class. For instance, advisors (65% of responses) appeared interested in enhancing returns more than any other objective when allocating to private equity. Advisors said they turned to private debt to supplement income (41% of responses) in their portfolios more than to diversify risk or enhance returns.

Exhibit 7

Asset Class Objectives

Results are based on 246 responses. See footnote 5 for more information.



	Diversify Risk	Enhance Returns	Supplement Income	Preserve Capital
Private Equity	31%	65%	2%	1%
Private Debt	26%	25%	41%	7%
Real Estate	34%	24%	32%	9%
Infrastructure	48%	16%	23%	13%
Hedge Funds	51%	33%	2%	13%
Structured Notes	26%	22%	27%	24%

Diversifying risk, meanwhile, was top of mind for advisors who allocate to hedge funds (51%) and infrastructure (48%). Advisors were more split on their rationale for allocating to real estate, with diversifying risk (34%) and supplementing income (32%) each composing roughly a third of the responses. Advisors who allocated to structured notes seemed to pursue all four of these objectives in relatively equal measure, illustrating the potential versatility and flexibility of structured notes.

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Planning With Alternatives Into 2025

In the next 12 months, 85% of surveyed advisors whose clients are now allocated to alternatives expect to increase allocations to one or more alternative asset classes. The majority (68%) of these advisors intend to increase allocations to private equity and/or private debt within the year, while only 2% will decrease allocations to either.

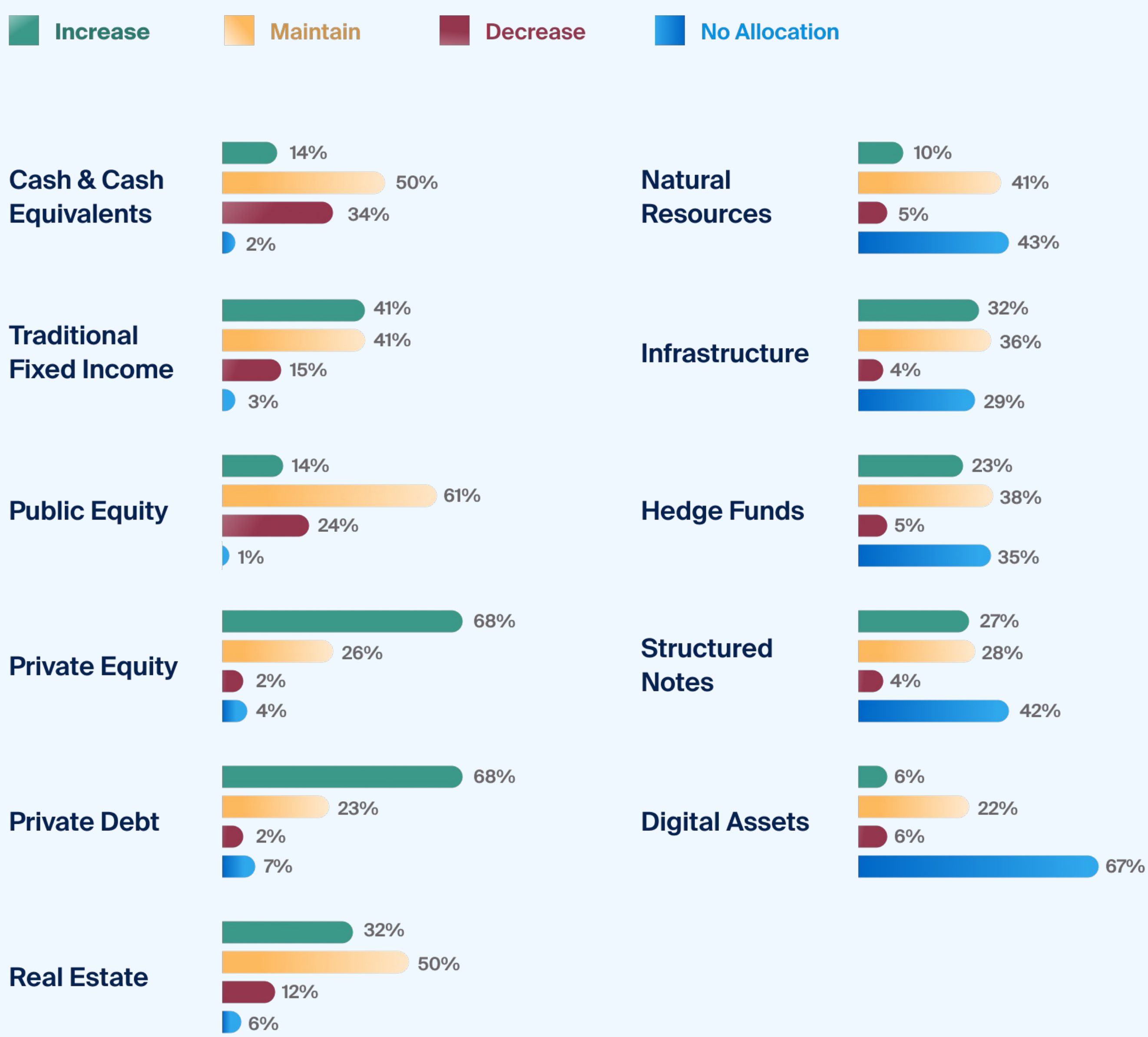
Half of surveyed advisors plan to maintain their current private real estate allocations, while nearly a third (32%) expect to increase them. Though 29% of respondents do not plan to have clients allocated to infrastructure in the next 12 months, 32% plan to increase their infrastructure allocation and 36% intend to keep it as is.

Roughly a quarter of surveyed advisors plan to increase their allocations to hedge funds (23%) or structured notes (27%) in the next year. Fewer advisors plan to increase allocations to natural resources (10%) or digital assets (6%); instead, more advisors (43% and 67%, respectively) do not plan to allocate to either.

Exhibit 8

Asset Allocation Changes in Next 12 Months

Results are based on 244 responses.



Looking roughly two years out to the end of 2025, more than half (51%) of advisors estimated that they will allocate more than 15% of clients' portfolios to alternatives. Almost all advisors (95%) with current alternatives allocations plan to stay invested in these asset classes, allocating 6% or more by the end of 2025.

Advisors whose clients had relatively smaller portfolios—those with total investable assets of less than $5 million—tend to skew a bit lower in terms of target alternatives allocation on a relative basis, but the majority of advisors intend on allocating more than 10% to alts in the next two years regardless of the assets of their typical client.

As clients' total investable assets increase, advisors expect their anticipated alternatives allocations to increase as well. For instance, 66% of advisors with clients who have less than $5 million in total investable assets intend to allocate more than 10% to alternatives by the end of 2025; 90% of advisors whose clients have more than $50 million in investable assets said they would allocate more than 10%. This data could support findings in other wealth management industry surveys that suggest that higher-net-worth clients are more open to investing in alternatives.[6]

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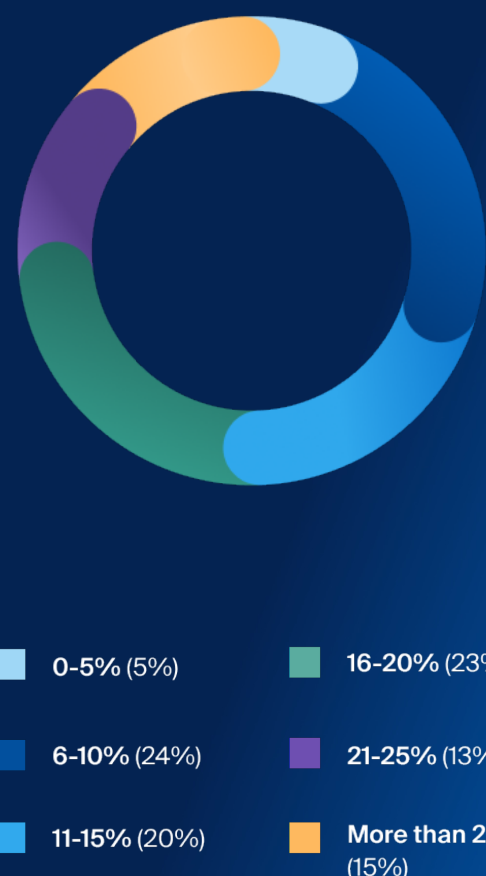
Exhibit 9

Allocations to Alternatives by End of 2025

Results are based on 248 responses. Note that those who do not consider alternatives for their portfolios did not answer this question.



Addressing Challenges to Alternative Investment Adoption

Though most advisors appear ready to allocate more to alternative investments, they continue to face challenges. More than half (55%) of advisors said that high levels of paperwork and administration challenged their adoption of alternatives. Lack of liquidity—the leading challenge from our 2022 survey—again posed a challenge for many (47%).

Exhibit 10

Challenges for Financial Advisors in Adopting Alternative Investments

Results are based on 253 responses. Respondents could select up to three challenges from the list provided.

More than a third (35%) of advisors saw due diligence and compliance concerns as a barrier to investing in alternatives, while a lack of understanding by the advisor or their clients remained an obstacle for 28% of advisors. Outsized risk relative to other asset classes or better return opportunities elsewhere ranked lowest among advisors.

As mentioned earlier in this report, **a large majority (83%) of advisors believe access to alternatives differentiates their practice from peers**; yet, if demand for alternatives continues, access alone won't likely be a sufficient differentiator going forward. Here we offer some considerations for advisors seeking to overcome common challenges and build or maintain their edge in the coming years.

How Do Alts Fit Into Advisors' Value Propositions?

To stand out in a competitive market, independent financial advisors will need to communicate a clear value proposition. If access to alternatives has more recently become a bigger part of their services, it may be wise to update current or prospective clients on their evolution. What steps has an advisor taken to learn about alternative asset classes or strategies? What are some new proof points that can demonstrate their alts experience? What relationships or partnerships have they established in the alternative investment industry? Intentionally sharing answers to these kinds of questions may be relevant when retaining existing clients or attracting prospects.

Are Advisors' Thinking About the Long Term?

The majority (85%) of our survey respondents intend to increase allocations to alternative asset classes in the next couple of years. Yet, doing so all at once may not be prudent. Instead, advisors can consider aiming to reach allocation targets over time. Through diversification, advisors can seek to strengthen their portfolios with exposure to a mix of macroeconomic environments.

How Might Advisors Address Liquidity Constraints?

Liquidity issues still seemed to challenge nearly half (47%) of surveyed advisors this year. The alternative investment industry is transforming quickly, and more and more asset managers are recognizing their opportunity to serve independent financial advisors with new alternative investment vehicles that seek to align with a range of liquidity needs. Advisors can learn about experienced alternative asset managers who are adapting their existing strategies and offering new fund structures that aim to address the liquidity challenges common among advisors.

How Might Advisors Reinforce Their Research?

More than a third (35%) of advisors cited due diligence and compliance concerns as a challenge this year. Due diligence, in particular, can be time-consuming and resource-intensive for firms of all sizes, especially as the number of managers and strategies available for consideration increases. However, given the relatively high performance dispersion across alternative strategies,[7] due diligence is not a step that can be ignored or taken lightly. If a practice's internal resources are already spread thin, outsourcing manager research to experienced third-party firms who specialize in alternatives may be one way to overcome this challenge. Or if manager selection is a firm's specialty, they might instead consider leaning on a trusted partner to support strategic asset allocation efforts, freeing up internal teams to focus on the kind of research they do best.

What Can Advisors Look for in an Operational Partner?

Our survey results again demonstrated that operational issues like paperwork or administrative tasks can be a barrier for most advisors (55%) in adopting and scaling alternatives across their practice. To make alternative investing easier and more efficient, advisors might consider finding a partner with experience in alternative investment technology and operations. By seeking out a platform that provides dedicated, end-to-end support across the entire alternative investing journey, advisors can start to centralize and streamline their workflows—potentially making it more likely to achieve the scale they desire.

Want to explore how alternative investments and structured notes might help your practice?

Contact us info@caisgroup.com
or visit caisgroup.com for more insights.

1. Tom Lauricella, “Q3 2023 In Review and Q4 Market Outlook,” Morningstar, Oct. 2, 2023
2. David Lebovitz, “Is good news bad news?” J.P. Morgan Asset Management, Oct. 6, 2023
3. Jeff Cox, “U.S. GDP grew at a 4.9% annual pace in the third quarter, better than expected,” CNBC, Oct. 26, 2023
4. CAIS and Mercer, “The State of Alternative Investments in Wealth Management,” November 2022
5. Note that advisors were encouraged to select “N/A” if they did not plan to invest in a specific asset class. They could also select “Other” in addition to the objectives provided. Responses to both “Other” and “N/A” were excluded from the percentage calculations; since respondents could select more than one objective per asset class, the denominator used for these percentages is the total count of all objectives selected for each asset class.
6. Cerulli Associates, “High-Net-Worth Investors Embrace Alternative Investments,” Jan. 17, 2023
7. Andrew Snyder, Linge Sun, and Nicholas Reade, “Performance dispersion in alternative asset classes,” CAIS, Nov. 18, 2022

DISCLOSURES