Advisor Alternatives Interest Holds Steady Across Market Rebound

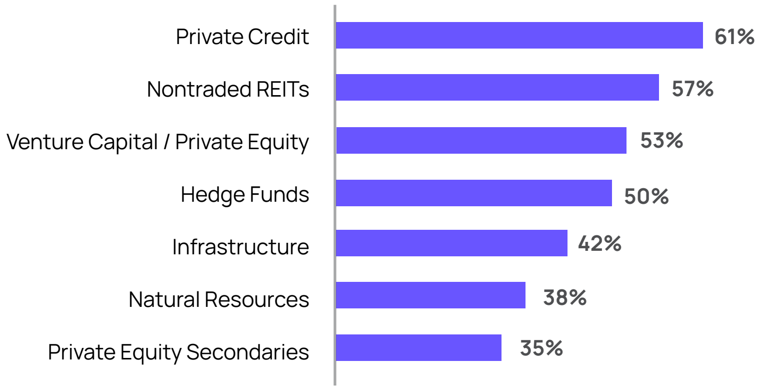
Alternative investments have become an increasingly important part of the portfolios of asset managers, advisors, and investors in recent years, buoyed by multiple parties seeking to diversify. Investors have sought out asset classes and strategies that can provide other sources of return as fixed income and equity correlations grew closer over the course of 2022. Fund providers, meanwhile, look to non-traditional strategies to help compete against the pressure of passive investments, both through generating higher fee revenue and by providing something that simple market beta exposure cannot.

Results from the recently released ISS MI Advisor Pulse Series: December 2023 help uncover the nuances of this interest through a survey of over 800 advisors conducted in November. While the percentage of surveyed advisors investing in alternatives has remained steady at 43%, compared to 42% during last year's survey, advisors are more likely to change the specific strategy they seek out, creating opportunities for managers who were specializing in something besides last year's favorites.

Macroeconomic trends appear to have had a strong effect in driving advisor interest in the strategies in which they are most likely to invest client dollars. Following a difficult year for traditional fixed income markets, private credit became the most popular alternative strategy. 61% of advisors stated that they invested client dollars in the strategy, up from 54% last year. While areas like commercial real estate have seen large declines in valuation, nontraded REITs remain a significant source of client dollars into alternatives. The option had been the highest ranked alternative strategy last year, cited by 60% of advisors. It slipped to second place in 2023 but 57% of advisors still said they invested client dollars in the strategy.

Private Credit Rises to Most Popular Strategy After 2022's Bond Rout

Percent of advisors investing client dollars in specific strategies



Source: ISS MI: Advisor Pulse Series December 2023

Alternatives remain an attractive area for asset managers because of their higher management fees, alpha-generating potential, and for the kinds of clients they bring in. Amongst surveyed advisors, those who invested in alternatives were more likely to have books of business above $250 million at 44%, compared to 24% amongst those who did not invest in alternatives. Additionally, "high net worth" and "experienced and sophisticated" investors are the primary personas for whom advisors recommend alternatives. 85% of advisors said they were likely or extremely likely to suggest them to high-net-worth investors, with 57% of them having chosen extremely likely. A similar proportion stated their likelihood of doing the same with experienced investors at 86%, 54% of whom chose "extremely likely."

Fund providers still have a number of hurdles to tackle when entering or expanding their presence in alternative markets. Those without prior experience will have to decide between spending extensive resources to build up their expertise and partnering with or even acquiring dedicated alternatives specialists. The higher dispersion within non-traditional strategies will also more strongly separate the winners and losers. Asset managers should, however, be able to count on a steady stream of interested and experienced investors and advisors looking for sources of diversification.

For more information on our Advisor Pulse Series, visit our landing page.

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