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Alternative investment funds (AIFs) are proving increasingly attractive to investors seeking to diversify their portfolios by adding asset classes with long term track records of generating attractive and non-correlated returns.

“While the scale of the Irish funds industry is well known with assets under administration of €3.8 trillion and approximately half of these assets domiciled in Ireland, what is less well known is that 23 per cent of the assets of Irish domiciled funds are categorised as alternative assets,” said Martin Lally, managing director at Key Capital Investment Management Limited.

“Alternative investment funds or AIFs have seen steady growth in recent years. These are regulated investment funds that are suitable for well-informed and professional investors,” said Lally.

“The flexibility provided by these funds facilitates investment in a broad range of asset classes including private equity, real estate, hedge funds, infrastructure and commodities. The leading managers in these asset classes have demonstrated an ability to generate attractive returns across market cycles”

Lally said there are several reasons why alternative funds are positively positioned to continue to see strong growth.

“Firstly, we are living in a low yielding environment where there has been a significant contraction in bond yields. This makes investors more willing to consider alternative asset classes,” he said.

“Secondly, within the alternative assets category there are a number of asset classes and investment strategies that have demonstrated a track record of outperformance over traditional asset classes,” said Lally.

“Thirdly, regulatory changes such as the introduction of the Alternative Investment Fund Managers Directive (AIFMD), are seeking to harmonise conditions and requirements on the structure and operation of alternative investment fund managers (AIFMs).”

“Also, alternative assets tend to respond differently to market conditions compared with traditional asset classes. So by including them in an investment portfolio you get the attractive long term return profile and the added benefit that this return profile is typically uncorrelated to traditional asset classes.”

According to Lally, investors are seeking fund managers that can offer exposure to an attractive asset class, a credible

investment strategy and transparency within a robust regulatory framework.

“The most important priority for an investor is to understand the attractiveness of the asset class being invested in and the investment strategy of the fund manager” he said.

“Can the fund manager demonstrate to the investor that the asset class has a stable long term attractive return profile and does the investor believe that the approach being used to invest in the asset class is appropriate?”

He said transparency was hugely important particularly since the financial crisis when many investors did not fully understand the investment strategy of the funds they were invested in.

“A transparent onshore regulated structure provides investors with comfort that there are highly regulated service providers; ranging from administrators, custodians, auditors and investment managers, overseeing their assets,” he said.

Key Capital’s approach to asset management is based on a thorough and detailed understanding of the dynamics specific to each asset class invested in.

“Key Capital has long standing experience in a variety of alternative asset classes, having launched five dedicated alternatives funds. Most recently we have launched our second private equity fund,” said Lally.

“Private equity we believe is one of the most interesting alternative asset classes. It benefits from an auditable track record of leading managers who have invested over a timeframe of at least 20 years and across multiple investment cycles,” he said.

While historically private equity has been an asset class only accessible to institutional investors, given that these funds are typically structured as limited partnerships, Lally said Key Capital had been able to utilise its relationships with global private equity managers and the Irish alternative fund structure to make private equity an investable asset class for non-institutional investors.

“The flexible structure facilitates investment in less liquid and often longer term asset classes. This opens up these asset classes and their attractive historic return profile to investors that may previously have had limited or no exposure to them. This in turn helps investors to build more balanced investment portfolios with greater diversity.”