MACKENZIE
Investments

What are alternative investments?

Alternatives can often add value to a portfolio because the primary drivers of their performance can be different from those that drive traditional investments.

Everyone knows about traditional investments like stocks and bonds, and many people invest in them directly or through mutual funds and ETFs. But traditional investments represent only part of the investing landscape.

Alternative investments include **specific assets** (e.g., commodities, real estate), **strategies** (e.g., using derivatives, shorting and leverage) and **private markets** (e.g., private debt, private infrastructure, private equity). Alternatives can often add value to a portfolio because the primary drivers of their performance can be different from those that drive traditional investments. Potential benefits of alternative investing include improved diversification, enhanced risk-adjusted returns, less volatility and downside protection.

Given their non-traditional characteristics, alternative investments can often be used to improve a portfolio's risk-return profile. They can target similar returns as traditional investments (or better), but may deliver those returns in a different pattern. This diversification can help reduce overall risk in a portfolio. Having such different characteristics is highly valuable, as shifting macroeconomic conditions and complex geopolitical issues continue to present new challenges in navigating markets.

We believe today's investor needs alternative approaches to help complement their traditional investments, and Canadians are increasingly turning to alternative investments.

Alternative investments include:

Alternative strategies

Primarily defined by their activities (use of leverage and/or long/short)

Aim for:
- Return/yield enhancement
- Risk reduction
- Replication of illiquid markets in liquid form

Alternative assets

Primarily defined by their holdings

- Commodities, currencies, liquid tradable versions of infrastructure and real estate
- Non-traditional and/or niche types of fixed income and equity securities
- Generally, less correlated or uncorrelated to traditional investments

Private markets

Primarily defined by limited short-term liquidity and structured entry/exit procedures

- Private debt, private equity, direct investment in illiquid assets like infrastructure or real estate
- Offers diversification opportunities not available through public markets