US CAPITAL GLOBAL
ASSET MANAGEMENT & CORPORATE FINANCE

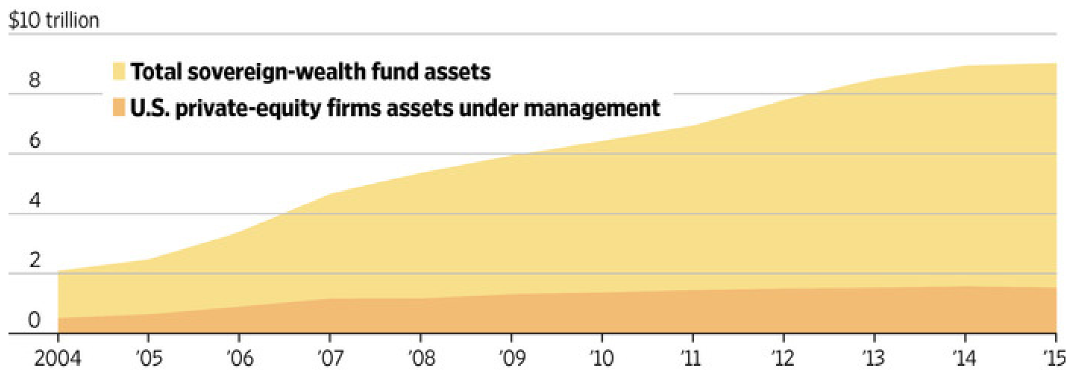
The Top 5 Reasons to Invest in the Non-Conventional Investment Sector Today

Jeffrey Sweeney, Chairman and CEO at US Capital Global, and Charles Towle, Managing Partner at US Capital Global, share the firm's unique investment perspective on "investment-grade" alternatives.

The current economic landscape is marked by modest returns and **increased market volatility**.[1] In this landscape, focusing on best practices in alternatives, especially private credit securities, has the potential to deliver higher returns in exchange for a little less liquidity, not increased risk. Investors will each have their own unique set of needs, but here are five reasons for registered investment advisors (RIAs), family offices, and individual investors to diversify into private equity and private debt.

1. Rapid growth in alternative securities

We are witnessing an **explosion in private investment capital**.[2] As more money has accumulated in private-equity firms and sovereign-wealth funds, companies are tapping them for capital and **delaying going public**,[3] sometimes delivering sizable early investment gains to private rather than public investors.



Sources: The Wall Street Journal, Sovereign Wealth Fund Institute, PitchBook.

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2. Wide selection of "investment-grade" alternatives

There is often a misconception that alternatives are inherently risky. This is usually the result of a failure to differentiate between different kinds of alternatives. At US Capital Global, we distinguish between "investment-grade" and "non-investment-grade" alternatives.

"Investment-grade" alternatives, for example, typically have the following characteristics:

- Performing underlying assets with maturity and going-concern attributes
- Strong, competitive position in their industry with diversified base
- General financial coverage as a secondary form of security

By contrast, "non-investment-grade" alternatives have the following features:

- Angel round, venture round, or seed round
- No substantive market penetration
- Regulatory uncertainty and other significant risks
- Lack of coverage

Importantly, "alternatives" do not imply unregulated investments; there is plenty of regulation around alternatives. It just means these investments are not as liquid as public securities.

3. Reduced portfolio volatility

It's very difficult to predict exactly when a pullback or correction in the equity markets will happen. When there's a drop in the equity market or the bond market, what happens to your other positions? If they are all moving in the same way when there is a shock, then your portfolio construction is not very effective.

Stocks and bonds generally represent 70–80% of investors' holdings. Investors therefore need to look for assets that are not correlated to stocks and bonds. Institutional investors have been leading this movement to alternatives for many years. Private equity and private credit also allow investors to **identify idiosyncratic, isolated alpha and try to hedge out the broad market beta**.[4]

4. Potential for enhanced overall returns

Investment-grade alternatives combine low volatility with superior, risk-adjusted net returns of 8–15%. They also usually offer distributable realized income. While non-investment-grade credit alternatives have the potential for higher returns, they also have a far higher risk profile.

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Alternatives allow investors to focus on securing idiosyncratic alpha opportunities and not just to rely on broad market beta. For example, **US Capital Global Investment Management's private investment funds** generally have a preferred return in favor of Limited Partners of at least 8% per annum (net, not gross). In other words, we don't accept any share of profits until investors first receive their minimum net return.

In addition, we can offer investors exclusive access to hundreds of privately traded equities in select late-stage, pre-IPO companies. Through our registered broker dealer network, our investors can choose from hundreds of privately traded equities on a secure SEC-registered alternative trading system that delivers exchange-like functionality. These late-stage secondary investment opportunities are typically closed off to investors outside of institutional venture capital.

5. RIAs can retain their advisory position over alternative assets

Generally, RIAs don't receive a commission from alternative asset allocations because it conflicts with their role as fiduciaries. Increasingly, however, custodian products are becoming available that allow the issuer to list and the advisor to select alternatives, with the advisors maintaining their advisory position over the assets during the lifetime of the investment—and with the RIA rightly charging an appropriate advisory fee for providing such ongoing services. Such fees are generally set up to be a percentage of assets under management and can cover both retirement and non-retirement assets and public and private alternative assets alike. This addresses some of the challenges RIAs historically have had with alternatives.

Recommended strategy: focus on investment-grade alternatives

To achieve optimal results, we focus on investment-grade alternatives, applying the following best practices:

1. Allocate 15–20% of one's investable assets to investment-grade alternatives to boost total AUM returns by several hundred basis points annually.
2. Do careful due diligence on the sponsor or use only broker-dealer underwritten securities or fund placement agents.
3. Mitigate the risk of size through diversification and careful oversight.
4. For more widely diversified portfolio risk, use funds and experienced fund managers.

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Many investors shouldn't be making single-home, single-note, single-trustee, or single-equipment investments. It's far more prudent they invest in one or more private investment funds, just like they invest in mutual funds or ETFs. When selecting a private fund, you need to assess the skill and experience of its key players—the fund manager, fund administrator, broker dealers, accountants, attorneys, etc. This will provide the data RIAs need to make an informed decision on behalf of their clients not only on suitability but also on sponsor risk.

US Capital Global and its private investment funds

Headquartered in San Francisco, **US Capital Global** is a private financial group that leverages a track-record of successful fund management and asset-based finance. Working with its registered investment banking affiliate, US Capital Global Securities LLC, the group offers both independent investors and institutional investors an opportunity to invest in a variety of private investment funds designed for different risk tolerances and investment objectives.

To learn more, email Patrick Steele at psteele@uscgs.com or call +1 415-889-1010.

__Jeffrey Sweeney__ and __Charles Towle__ are investment professionals and fund managers with decades of experience in direct lending and corporate finance for small to lower-middle-market businesses. Jeffrey Sweeney is Chairman and CEO at US Capital Global (__www.uscapglobal.com__) and founder of US Capital Global Investment Management, LLC, an innovative fund manager headquartered in San Francisco, CA.

1. Luke Kawa, "Global Market Volatility Now a 'Made in the U.S.A.' Phenomenon," Bloomberg, May 2, 2018 (accessed online October 2018).
2. "The rise and rise of private markets," McKinsey & Company, February 2018 (accessed online October 2018).
3. Maureen Farrell, "America's Roster of Public Companies is Shrinking Before Our Eyes," The Wall Street Journal, January 6, 2017 (accessed online October 2018).
4. "How Much Further Can Global Growth Fly?" Franklin Templeton Investments, Q3 2018 (accessed online October 2018).

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