



# Understanding Alternatives

*four pillars to unlocking the power  
of alternative investments*

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**Richard P. Slaughter™**  
**Associates**

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## UNDERSTANDING ALTERNATIVES

For decades, affluent investors built their wealth through a diversified portfolio of stocks and bonds. Over time, they added more international exposure alongside their domestic holdings to enhance diversity, in some circumstances including real estate investments (both residential and commercial) as their non-stock or bond exposure. However, today's market environment has fundamentally shifted the investment landscape, and conventional portfolios just described are less likely to deliver the desired results, especially for high- and ultra-high-net-worth investors.

Finding true diversification has become increasingly difficult, with many traditional assets moving together in lockstep. In recent years we've seen stocks and bonds, both domestic and international, become correlated, meaning that achieving a genuinely diversified portfolio requires evolving strategies to meet the same results. With traditional asset allocation models facing challenges from volatile interest rate environments, elevated market valuations, and persistent uncertainty around inflation, investors are finding it increasingly difficult to reduce risk while still achieving expected returns through conventional approaches alone.

Meanwhile, institutional investors like university endowments and pension funds have been quietly allocating 20-50% of their portfolios to alternative investments, achieving superior risk-adjusted returns for years. The question isn't whether alternatives belong in sophisticated portfolios — it's how to implement them strategically. The greatest mistake affluent investors make when investing in alternatives on their own isn't choosing the wrong strategies — it's implementing them in isolation.

At Richard P. Slaughter Associates, we recognize that the key isn't simply adding alternatives to a portfolio. It's understanding how different alternative strategies work together to create a cohesive investment approach that can generate alpha, enhance income, protect principal, and provide true diversification.

This guide explores our [four pillars of alternative investing](#) and, more importantly, how they complement each other to build robust portfolios designed for today's challenging markets.

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*The greatest mistake affluent investors make when investing in alternatives on their own isn't choosing the wrong strategies — it's implementing them in isolation.*

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# THE FOUR PILLARS OF ALTERNATIVE INVESTING

## Pillar I: Generating Alpha

### What is Alpha?

Alpha represents returns above what would be expected given the level of risk taken. Essentially, it's the value added by skilled management beyond what you could achieve through passive market exposure. Two of the more common strategies for generating alpha are through private equity and distressed credit investments.

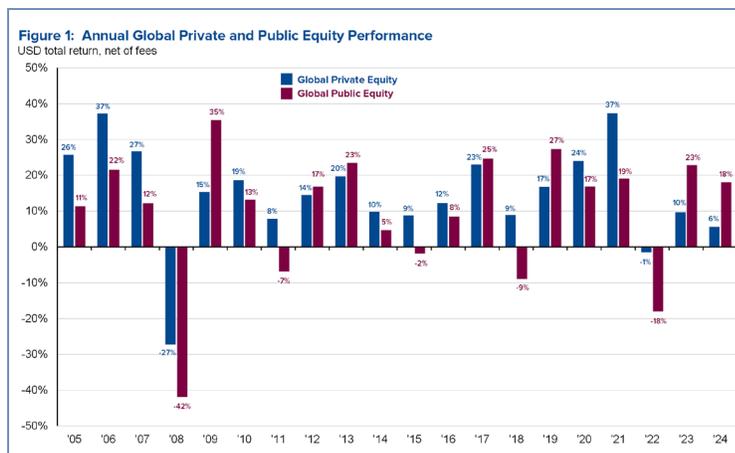
### Private Equity

Private equity (PE) represents one of the more compelling opportunities for high-net-worth investors to access returns unavailable in public markets. By investing in companies before they go public or taking public companies private, skilled managers can implement operational improvements, strategic initiatives, and capital structure optimization that simply isn't possible in the public markets.

While PE brings more risk to the equation, the alpha generation compared to the public markets, is substantial (see annual return comparison from 2005-2024 in figure 1). This outperformance comes from several sources:

- **Operational Value Creation:** Private equity managers work directly with management teams to improve operations, expand into new markets, and optimize business models
- **Multiple Arbitrage:** Buying companies at lower valuations in private markets and selling at higher public market multiples
- **Leverage Optimization:** Using debt strategically to enhance equity returns while maintaining prudent risk levels

For high-net-worth investors, PE offers the opportunity to participate in the growth of tomorrow's market leaders before they become household names.



Annual Avg. '05 - '24

**Global Private Equity** 15%  
**Global Public Equity** 10%

Chart is illustrative of past performance and does not guarantee future results.

### Distressed Credit

While private equity focuses on equity ownership, distressed credit targets companies experiencing financial difficulties, offering the potential for alpha when these situations resolve favorably. Distressed credit strategies typically fall into two categories:

- **Distressed Debt:** Purchasing the debt of companies trading at significant discounts due to financial stress
- **Special Situations:** Investing in complex corporate events like bankruptcies, restructurings, or spin-offs

The key to distressed credit is timing and expertise. Skilled managers can identify situations where temporary problems are being priced as permanent impairments, creating opportunities for outsized returns as companies recover or restructure successfully.

These strategies often perform best during market dislocations when traditional investors are forced to sell, creating opportunities for patient capital to generate substantial alpha.

### Long/Short Equity Strategies

While private equity focuses on outright ownership, long/short equity strategies generate alpha through skilled security selection on both sides of the market. These strategies go long undervalued securities while shorting overvalued ones, creating multiple sources of potential return. Long/short equity strategies typically fall into two categories:

- **Fundamental Long/Short:** Deep research-driven approaches focusing on company-specific factors and relative valuations
- **Sector-Focused Long/Short:** Specialized strategies targeting specific industries where managers have particular expertise

The key to long/short success is identifying relative value differences between securities. Skilled managers can exploit situations where similar companies trade at significantly different valuations despite comparable fundamentals, creating opportunities for alpha as these pricing gaps converge.

These strategies often perform best during volatile market periods when traditional long-only investors struggle, as the ability to profit from both rising and falling securities provides multiple paths to generating positive returns.

## Pillar II: Income Enhancement

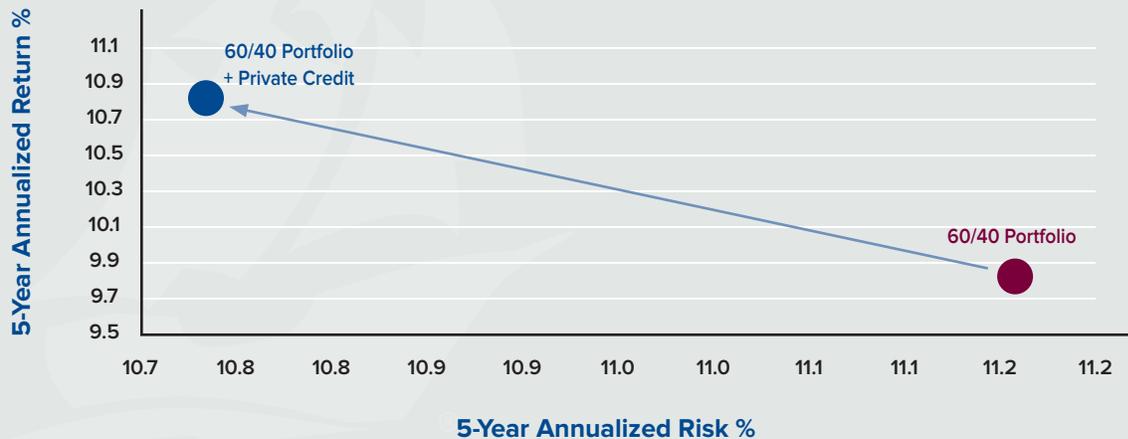
Income enhancement strategies focus on generating consistent cash flow and yield above what's available in traditional fixed income markets. In today's environment of elevated interest rates and bond market volatility, these alternatives provide attractive income streams while offering better risk-adjusted returns.

### Private Credit

The private credit market has exploded in recent years, with further growth from \$2.1 trillion today to an estimated \$4.5 trillion by 2030. This growth is driven by companies staying private longer and seeking alternatives to traditional bank financing.

Private credit involves lending directly to companies, typically middle-market businesses, that often fall into a "financing gap" too large for traditional small business lending but too small for syndicated bank markets.

Figure 2: On a five-year horizon, adding private credit to a 60/40 portfolio can offer higher returns with lower risk.



Source: Morningstar & Preqin data from 3/31/2020-3/31/2025. Private Credit is derived from the Preqin Private Debt Index. Appraisal based private market indices often exhibit smoothed returns. To make comparisons with more liquid securities, we apply Geltner (AR(1)) unsmoothing to the quarterly index series. The Preqin Private Debt Index quarterly series was unsmoothed by BlackRock to mitigate appraisal smoothing and improve comparability to liquid securities. The resulting series is model-based, non-investable, and differs from the official index. Preqin® and the Preqin Private Debt Index are trademarks of Preqin Ltd. The unsmoothed series described herein was derived by BlackRock from Preqin data; Preqin has not endorsed any derived series or conclusions. The performance quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance quoted. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

**Key advantages of private credit include:**

- **Higher Yields:** Due to higher risk, yields are often a product of the prime rate plus a few percentage points spread, creating better yields than traditional fixed income products.
- **Floating Rate Structure:** Typically tied to the prime rate plus a spread, they are designed to produce a higher yield than the broad public fixed income market even in a declining yield environment.
- **Seniority in Capital Structure:** Private credit typically sits senior to equity, providing better downside protection
- **Low Correlation:** Private credit has shown roughly zero correlation with traditional bond indices, providing true diversification

The diversification benefit was particularly evident in 2022, when direct lending was up about 6 percent for the year while traditional investment-grade bonds suffered their worst year in history, declining approximately 15 percent due to rising interest rates.

**Figure 3: Private credit assets offer a unique correlation to the public markets.**

	1	2	3	4	5	
<b>S&amp;P 500 TR USD</b>	1	1.00				
<b>Bloomberg US Agg Bond TR USD</b>	2	0.29	1.00			
<b>ICE BofA US High Yield TR USD</b>	3	0.86	0.43	1.00		
<b>ICE BofA US Corporate TR USD</b>	4	0.63	0.87	0.76	1.00	
<b>Preqin Private Credit</b>	5	0.76	-0.02	0.78	0.39	1.00

**KEY: 1.00 = Perfect Correlation | -1.00 = Perfect Inverse Correlation | The more you approach 0.00, the less correlation exists.**

Source: Morningstar & Preqin data from 3/31/2020-3/31/2025. Private Credit is derived from the Preqin Private Debt Index. Appraisal based private market indices often exhibit smoothed returns. To make comparisons with more liquid securities, we apply Geltner (AR(1)) unsmoothing to the quarterly index series. The Preqin Private Debt Index quarterly series was unsmoothed by BlackRock to mitigate appraisal smoothing and improve comparability to liquid securities. The resulting series is model-based, non-investable, and differs from the official index. Preqin® and the Preqin Private Debt Index are trademarks of Preqin Ltd. The unsmoothed series described herein was derived by BlackRock from Preqin data; Preqin has not endorsed any derived series or conclusions. The performance quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance quoted. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

## Real Estate

Real estate has long been a cornerstone of wealth building, but discerning investors are moving beyond traditional Real Estate Investment Trusts (REITs) or the single-family investment property in a local suburb to access opportunities in private real estate markets. Professional real estate investing typically follows a risk-return spectrum across four distinct categories:

### Core Real Estate

(Lowest Risk, Steady Returns)

These are high-quality, income-producing properties in prime locations with stable, long-term tenants. Core properties typically offer:

- Steady cash flow with bond equivalent yields
- Minimal leverage (typically 0-30 percent debt)
- Class A office buildings, retail centers, and apartment complexes in major metropolitan areas
- Predictable income streams with built-in rent escalations

### Core Plus Real Estate

(Moderate Risk, Enhanced Returns)

These properties require modest improvements or repositioning to enhance value:

- Steady cash flow plus moderate underlying appreciation
- Light value-add opportunities such as renovations, lease-up, or improved management
- Properties in secondary markets or those requiring minor capital improvements
- Moderate leverage (typically 30-60 percent debt)

### Value-Add Real Estate

(Higher Risk, Growth-Oriented Returns)

These investments involve significant operational improvements or repositioning:

- Higher overall return achieved through substantial value creation
- Multifamily housing developments and apartment complex renovations
- Office-to-residential conversions in urban markets
- Properties requiring major capital improvements, lease-up, or repositioning
- Higher leverage (typically 60-75 percent debt)

### Opportunistic Real Estate

(Highest Risk, Maximum Return Potential)

These are development projects or distressed situations requiring substantial capital and expertise:

- Ground-up development projects and major redevelopments
- Qualified Opportunity Zone investments offering significant tax advantages
- Distressed properties requiring complete repositioning
- Development of industrial and logistics facilities serving e-commerce growth
- Significant leverage (typically 70-85 percent debt)

### Real Estate (cont.)

Qualified Opportunity Zones deserve special mention as they can span multiple categories while offering unique tax benefits. These investments in designated economically distressed communities provide capital gains deferral and potential tax-free growth, making them particularly attractive for investors with substantial unrealized gains.

Figure 4: Real Estate Investment Risk Profiles.



**Opportunistic Investments:**

- Ground up development with high debt

**Value-Add Investments:**

- Moderate-to-high risk
- High upside, but considerable capital needs

**Core-Plus Investments:**

- High-quality tenants
- Slightly inferior location

**Core Investments:**

- High-quality locations
- High-quality tenants
- Comparable to bond investments

Chart is illustrative of past performance and does not guarantee future results.

## Pillar III: Principal Protection with Upside

Principal protection with upside strategies allow investors to participate in market gains while limiting or eliminating downside risk. Depending on how these instruments are structured, they can be tailored for conservative investors seeking capital preservation, aggressive investors wanting enhanced market participation, or something in between.

### Structured Notes

For investors seeking participation in market upside while protecting against downside risk, structured notes offer compelling solutions. These instruments combine elements of principal preservation with the growth of equity markets.

Structured notes work by linking returns to the performance of an underlying index, stock, or basket of securities while providing various levels of downside mitigation. Common structures include:

- **Principal Protected Notes:** Seek to return initial investment while providing upside participation
- **Barrier Notes:** Offer enhanced upside participation with downside mitigation unless the underlying asset falls below a specified barrier level

A compelling example is an absolute plus enhanced return structure (shown in figure 5 on next page):

- **Between 0 percent and positive returns:** Investor receives 200 percent participation in gains (e.g., if underlying rises 10 percent, investor gains 20 percent)
- **Between 0 percent and -15 percent:** Investor receives the absolute value of the loss as a gain (e.g., if underlying drops 10 percent, investor gains 10 percent)
- **Beyond -15 percent:** Investor returns move with the index, starting from 0 percent at the -15 percent threshold and declining further with additional index losses
- **Structure Benefits:** Enhanced upside participation through 200 percent leverage on gains while converting moderate losses into positive returns.

### Structured Notes (cont.)

This structure provides both enhanced market participation on the upside and downside within a specific range, making it suitable for investors seeking amplified returns with measured risk exposure.

Figure 5: Absolute Plus Enhanced Return Structured Note Chart.

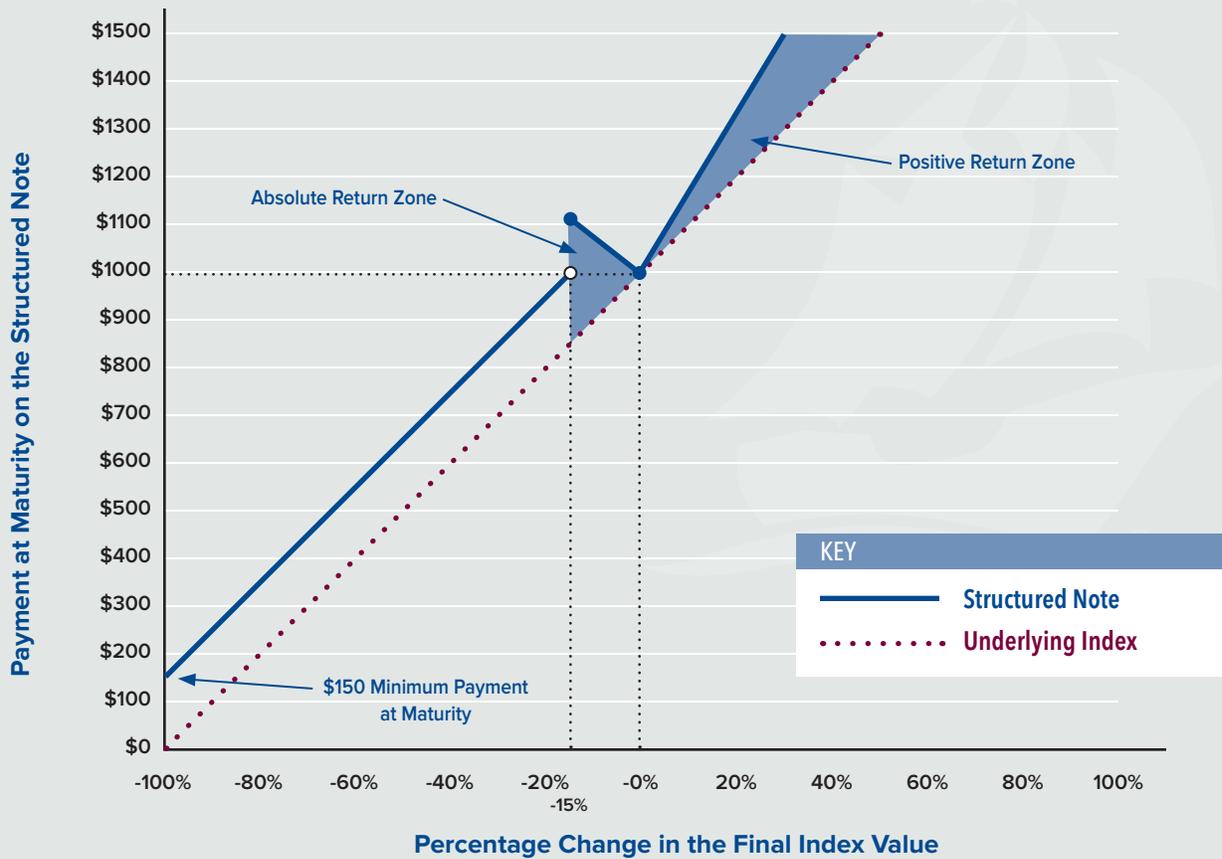


Chart is illustrative of past performance and does not guarantee future results.

*This absolute plus enhanced return structure provides 200% participation in market gains while converting losses between 0% and -15% into positive returns, demonstrating how structured products can amplify upside potential while providing downside mitigation within specific ranges.*

## Pillar IV: Portfolio Diversification

True portfolio diversification goes beyond simply owning different asset classes, it requires investments that perform independently of traditional market movements. In an era where stocks and bonds increasingly move together, these strategies provide returns that are uncorrelated to broader market trends.

### Hedge Funds

Hedge funds represent one of the most misunderstood categories of alternative investments. While popular media often focuses on high-profile failures or outsized returns, the reality is that hedge funds serve a specific and valuable role in affluent portfolios: providing returns that are uncorrelated to traditional markets.

A prime example of this diversification benefit in action is merger arbitrage strategies. Consider when Company A announces it will acquire Company B at \$100 per share, but Company B's stock only rises to \$95. This \$5 gap exists because of execution risk — the deal might take months to close, could face regulatory hurdles, or might fall through entirely.

A merger arbitrage fund purchases Company B's stock at \$95 while simultaneously buying put options to protect against downside risk if the deal fails. Assuming the deal closes successfully, the fund captures the \$5 spread over the deal timeline — generating returns that have no correlation to broader market movements, inflation, or interest rates. Whether the overall market rises or falls has no bearing on whether this specific corporate transaction completes successfully.

The most valuable hedge fund strategies for portfolio construction include:

- **Market Neutral Strategies:** Generate returns regardless of overall market direction by taking both long and short positions
- **Event-Driven Strategies:** Profit from corporate events like mergers, acquisitions, or restructurings
- **Global Macro:** Take advantage of macroeconomic trends across currencies, commodities, and interest rates
- **Relative Value:** Exploit pricing inefficiencies between related securities

### Infrastructure

Infrastructure investments provide exposure to essential assets that form the backbone of economic activity: roads, bridges, airports, utilities, telecommunications networks, and energy facilities.



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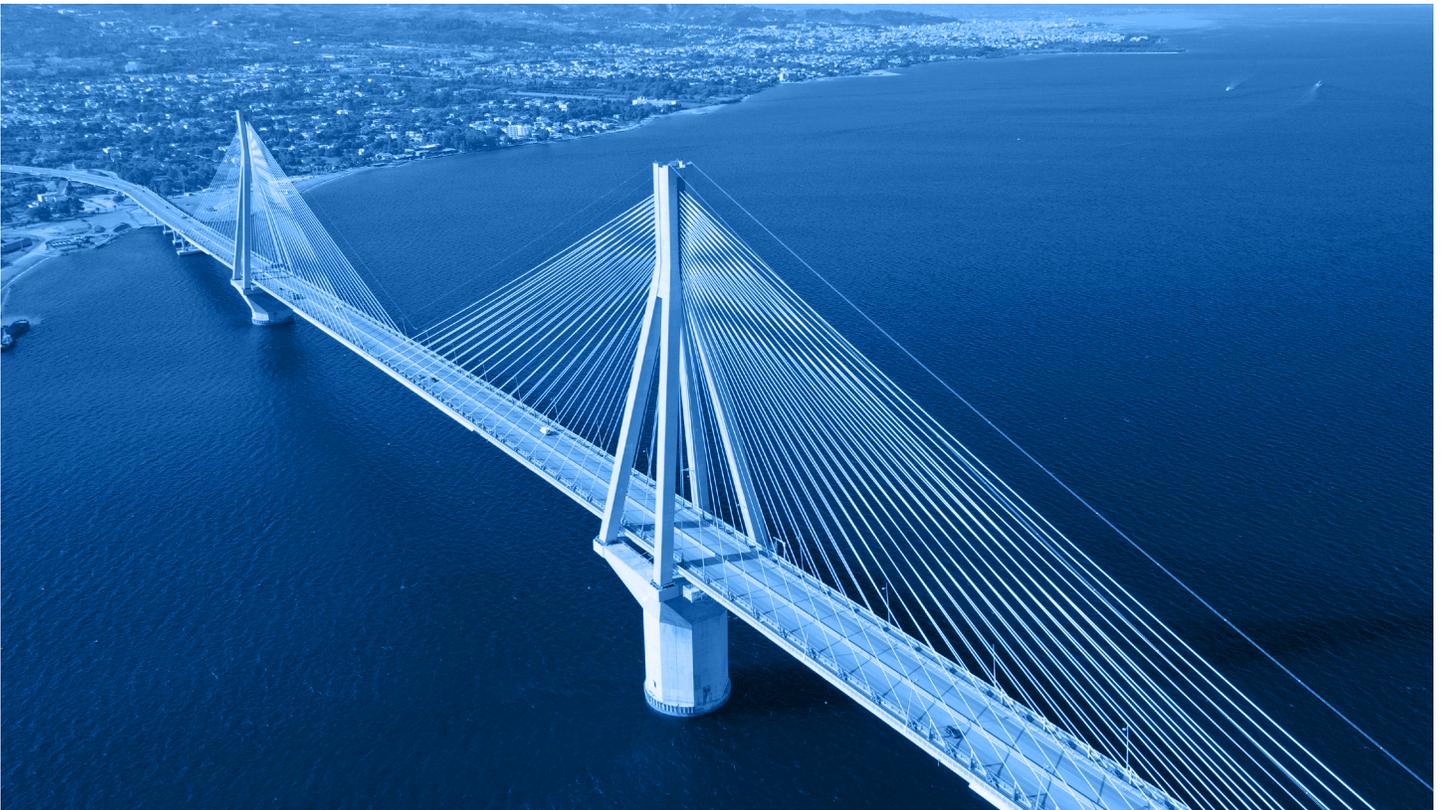


### Infrastructure (cont.)

These investments offer several compelling characteristics:

- **Steady Cash Flows:** Infrastructure assets typically generate predictable, long-term cash flows through user fees, tolls, or regulated utility rates
- **Inflation Protection:** Many infrastructure investments have built-in inflation adjustments through their pricing mechanisms
- **Essential Nature:** Infrastructure assets provide services that are difficult to substitute, creating natural barriers to competition
- **Long Investment Horizons:** Infrastructure investments align well with the long-term wealth building objectives of high-net-worth families

From traditional infrastructure like toll roads and utilities to digital infrastructure like cell towers and data centers, these investments provide portfolio stability and inflation protection that's increasingly valuable in today's environment.





# THE POWER OF INTEGRATION – WHY COHESIVE STRATEGY MATTERS

Too often, investors approach alternatives as individual opportunities: “Should I invest in this private equity fund?” or “Does this real estate deal make sense?” While these are important questions, they miss the bigger picture of how alternatives work together to create superior portfolio outcomes.

## **The Piecemeal Problem**

Consider two investors, each allocating 30 percent of their portfolio to alternatives:

### **Investor A (Piecemeal Approach):**

- Invests in whatever alternative opportunities come across their desk
- 15 percent in a private equity fund recommended by a friend
- 10 percent in a real estate syndication they heard about at a conference
- 5 percent in a hedge fund their previous advisor recommended

### **Investor B (Cohesive Approach):**

- Develops a strategic alternative allocation based on their specific objectives
- 8 percent in private equity for long-term growth
- 7 percent in private credit for current income
- 5 percent in structured notes for principal protection with upside
- 5 percent in low-volatility hedge funds for diversification
- 5 percent in infrastructure for inflation protection

Both investors have the same 30 percent alternative allocation, but Investor B has created a portfolio where each alternative strategy serves a specific purpose and complements the others.

## Real-World Integration Examples

***The Income-Focused Portfolio*** — A retired executive seeking 6 percent annual income might combine:

- Private credit (generating 9-11 percent current yield)
- Core real estate (providing 4-6 percent current yield plus appreciation potential)
- Infrastructure debt (offering steady, inflation-protected income)
- Low-volatility hedge funds (providing uncorrelated returns to smooth overall portfolio volatility)

***The Growth-Oriented Portfolio*** — A successful entrepreneur in their 40s might emphasize:

- Private equity (for long-term wealth building)
- Growth-oriented real estate (value-add and development strategies)
- Structured notes (allowing aggressive positioning with downside protection)
- Event-driven hedge funds (capturing alpha from corporate activities)

***The Capital Preservation Portfolio*** — A family office managing multi-generational wealth might focus on:

- Core private credit (senior, secured lending)
- Core real estate (stable, income-producing properties)
- Principal-protected structured notes
- Market-neutral hedge funds

The key insight is that each portfolio uses different alternative strategies, but within each portfolio, the strategies work together to achieve the specific objectives of that investor.



# IMPLEMENTATION – THE POWER OF SCALE AND EXPERTISE

## Access Through Scale

With nearly \$1 billion in assets under management, Richard P. Slaughter Associates provides clients with access to institutional-quality alternative investments that are typically unavailable to individual investors. This scale advantage manifests in several ways:

- **Manager Access:** Top-tier alternative investment managers often have minimum investments of \$1-10 million and accept only a limited number of investors
- **Due Diligence Resources:** Proper evaluation of alternative investments requires extensive due diligence capabilities that are cost-prohibitive for individual investors
- **Diversification:** Rather than making large commitments to single strategies, our scale allows for diversification across multiple managers and strategies within each alternative category
- **Negotiating Power:** Larger commitments often result in better fee structures and terms



**Objective Setting:** Before considering any alternative investment, we work with clients to clearly define their objectives.

STEP

- *What role should alternatives play in the overall portfolio?*
- *What is the target return and acceptable risk level?*
- *What is the appropriate time horizon?*
- *Are there any liquidity requirements or constraints?*

**Manager Selection:** Within each strategy, we conduct extensive due diligence to identify the most skilled managers for:

STEP

- *Track record analysis across multiple market cycles.*
- *Investment process evaluation.*
- *Risk management assessment.*
- *Operational due diligence.*

**Integration with Traditional Assets:** Alternatives don't exist in isolation.

STEP

- *How do alternative allocations impact traditional stock and bond allocations?*
- *What is the overall portfolio risk and return profile?*
- *How does the integrated portfolio perform across different market scenarios?*

## The Strategic Implementation Process

Successful alternative investment implementation follows a disciplined process:

**Strategic Allocation:** Based on objectives, we develop target allocations across the four

STEP

- *How much should be allocated to alpha generation vs. income enhancement?*
- *What level of principle protection is appropriate?*
- *How much portfolio diversification is needed?*

**Implementation and Monitoring:** Alternative investments require ongoing attention, including:

STEP

- *Timing of capital commitments.*
- *Performance monitoring and reporting.*
- *Rebalancing as strategies mature.*
- *Tax optimization strategies.*



# NEXT STEPS – BUILDING A COMPREHENSIVE PORTFOLIO

The case for alternative investments in sophisticated portfolios is compelling, but implementation requires expertise, access, and a strategic approach.

## Questions to consider:

- What percentage of your portfolio is currently allocated to alternatives? Most high-net-worth investors may consider allocations between 20 and 40 percent toward alternatives depending on their specific circumstances.
- Are your current alternative investments working together strategically? Or are they simply individual opportunities that came your way?
- Do you have access to institutional-quality alternative investment opportunities? Many of the best alternative investments are not available to individual investors.
- Who is conducting due diligence on your alternative investments? The difference between skilled and unskilled managers in alternatives is often substantial.
- How do your alternative investments integrate with your traditional portfolio? Alternatives should complement, not complicate, your overall investment strategy.

“  
*Alternatives should complement, not complicate, your overall strategy.*  
”

## The Richard P. Slaughter Associates Difference:

Our approach to alternative investments is built on three principles:

- 1. Integration:** We don't view alternatives as separate from your traditional portfolio. We view them as essential components of a comprehensive wealth management strategy.
- 2. Access:** Our scale and relationships provide access to institutional-quality alternative investments typically unavailable to individual investors.

- 3. Expertise:** Our team has decades of experience evaluating, implementing, and monitoring alternative investment strategies across all market cycles.

### Ready to Explore Alternatives?

If you're interested in learning how alternative investments might enhance your portfolio, we invite you to schedule a consultation. We'll review your current portfolio, discuss your objectives, and explore how a strategic approach to alternatives might help you achieve your wealth management goals.

The world of investing has evolved far beyond traditional stocks and bonds. The question isn't whether alternatives belong in your portfolio, it's whether you're implementing them strategically to achieve your specific objectives.

At Richard P. Slaughter Associates, we combine deep expertise, trusted partnerships, and an expansive range of tools — that may, or may not include alternatives — to build a fully personalized strategy. Your tailored strategy not only helps you grow and preserve wealth, it aligns your financial resources with your life goals.

We call this our ***True Wealth Management Process***: a comprehensive, four-part system that adapts to life transitions, changing markets, economic conditions, and tax laws while always keeping your personal objectives at the center.

Call us today to discover your path to true wealth success.



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