



Alternative Investments

and the rise of private debt

January 2024

Zagga



Shares, bonds and cash are the three traditional investments. Everything else - from rental property to cryptocurrency to stamp collecting - falls into the category of 'alternative investment'. The alternative investment category covers an enormously wide range of assets.



Private equity /venture capital

Such as buying a stake in a start-up.



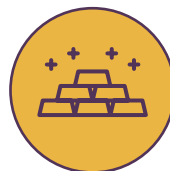
Private debt

For example, peer-to-peer lending.



Real estate

Including commercial building syndicates.



Commodities

Such as gold and oil.

Although most New Zealanders will not be familiar with the term 'alternative assets', many Kiwis are already invested in alternatives. For example, they might own residential investment properties, or shares in a private investment fund.

The growth of alternative investments and private debt

Alternative investments have been around since the 1850s¹, but became considerably more popular after the global financial crisis of 2008. Growth accelerated as interest rates stayed low for the next decade, leading investors to search for superior returns as a way to smooth out volatility and inflation affects. Technology has also helped – digital trading platforms have made it easier and

more affordable for individuals to invest in a wide range of assets.

Despite rising interest rates, the enthusiasm for alternative investment does not seem to be abating, and the search for relatively safe alternatives with better-than-sharemarket returns continues.

Global alternative assets under management (USD)²



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1. <https://www.preqin.com/academy/lesson-1-alternative-assets/past-present-future-of-the-alternative-assets-industry>
2. <https://www.preqin.com/global-report>

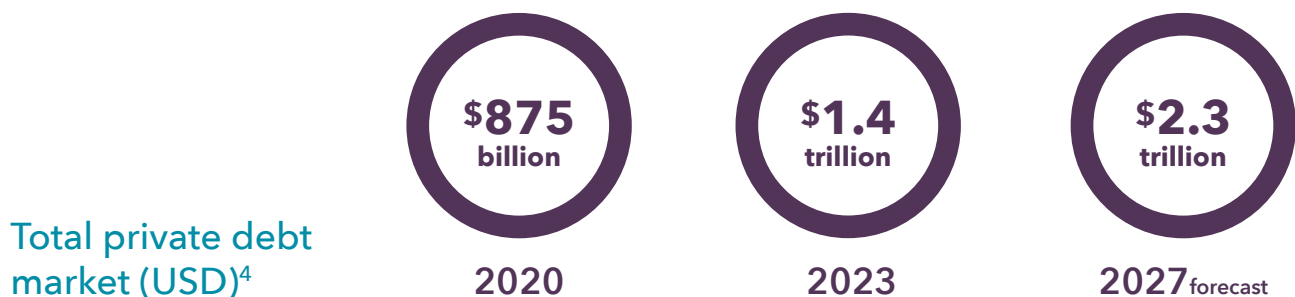
The rise of private debt investment

Alternative investment has been increasing across various asset types, and one of those is private debt. This the category into which Zagga loans fall.

Private debt covers a range of non-bank lending, including peer-to-peer loans, private loans to businesses, and subprime lending. After the global financial crisis, new regulations were introduced for banks which limited their ability to lend as freely as they had previously done. Private lenders stepped in to fill the void, leading to the development and growth of private debt investment.

Private debt is the third most popular alternative investment asset, behind private equity and venture capital³. Private debt investments, like traditional fixed income investments such as term deposits, pay a regular return. However, the returns tend to be higher with private debt to compensate investors for the relatively higher risk.

Like alts more generally, the popularity of private debt investing has been on the rise globally, as digital platforms now allow for a wide range of non-bank lending, accessible to a much wider audience than ever before.



Private debt is popular because it provides investors with diversification, access to assets they couldn't otherwise invest in, and higher returns when compared to stocks and bonds.

3. <https://www.vistra.com/insights/private-debt-explained-and-why-it-continues-attract-investors>

4. <https://www.morganstanley.com/ideas/private-credit-outlook-considerations#F1>

The advantages and disadvantages of alternative investments

Alternative assets tend to have some characteristics in common.

Compared to conventional assets, they have four major advantages:



The potential for much higher returns

Returns in the share market are typically around 5% to 8% a year over the long term. Alternative investments aim to provide far higher returns.



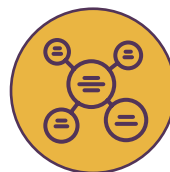
Typically less correlated to the share market

While traditional assets tend to gain or lose value in line with the share market, alternatives move more independently.



Extremely diverse types of investments

Alternative investments are a way to own interesting assets that are not always available on the share market, and potentially be more hands-on with choosing and managing them.



Ideal for providing portfolio diversification

Their low market correlation and higher returns make alternatives a way to add diversification to a well-balanced investment portfolio.

However, alternative assets also have some disadvantages, typically including:



Relatively higher risk

With higher potential rewards come higher risks, and alternatives are overall more risky than traditional assets.



Typically lower liquidity

In many cases alternative assets cannot be rapidly liquidated and investors may be tied in for a certain period.



Not always available to all investors

Some alternative investments are limited to institutional investors or high net worth individuals.

These pros and cons will vary depending on each individual investment, so anyone considering investing in alternatives will need to weigh up these factors carefully each time. This is an area where a financial advisor can be valuable, as they can do the research and help investors understand why and how a particular alternative asset could fit into their specific portfolio.

Zagga's advantages compared to riskier alternative assets

Zagga provides direct private debt investment secured by physical properties. It has some of the typical advantages and disadvantages of other types of alternative assets.

Advantages and Disadvantages

- Higher returns than traditional fixed income investments – current⁵ annual returns for Zagga investors are between 8% and 10%.
- A higher risk profile when compared to traditional investments like bonds and cash, due reliance on borrowers.
- Loan performance is not correlated with share market performance.
- Loans have lower potential liquidity than conventional investments as funds are committed for the term of a loan. However, Zagga's loans can be sold on their secondary market to other investors.

However, Zagga differs from riskier alternative investments in a few key ways

- Zagga is regulated by the Financial Markets Authority. It has held a peer-to-peer lending licence since 2015 and is a registered member of Financial Services Complaints Limited, as is its trust company.
- Zagga's loan investments are all secured by first ranking mortgages over the borrowers' residential or commercial property.
- Loans are not limited to institutional investors or high net worth individuals. Any person, company or trust that has been identity verified and holds a New Zealand bank account can access this investment.
- Investors can choose individual loans, which allows them to tailor their selections to fit their risk profile and diversify by location and project type. Loans are not pooled, meaning no contagion risk across loans.

Because Zagga loans pay a regular return to investors, this also sets them apart from speculative alternative investments such as cryptocurrency. Rather than hoping for the value of an asset to rise and then selling it, a Zagga loan provides a reliable income stream throughout the term of the loan.

5. Annual returns as at January 2024.

How do alternative investments fit into a well-balanced portfolio?

Alternative assets are typically designed to make up a smaller proportion of any portfolio, due to their higher risk profile when compared to traditional investments. Financial experts tend to recommend a 5% or lower allocation to alternative assets

for individual investors, although research shows the very wealthy tend to allocate considerably more than 5% to alternatives⁶.

Maximising returns and spreading risk

The proportion of a portfolio allocated to alternative assets can provide diversification, boost returns, and spread risk by not being correlated with the share market. Some alternative assets are considered more predictable than others, with a more established track record for performance. These include:



Private equity

Though highly risky, returns can be enormous.



Private debt

A fast-growing sector of the alternative assets market where investors lend money and earn interest from borrowers.



Private property investment

Including commercial building syndicates.



Forestry

Very low correlation with markets.



Gold

Long considered a hedge against inflation.

Ideally, a portfolio's alternative assets should be chosen extremely carefully to maximise diversity and minimise unnecessary risk. A financial advisor is invaluable here in assisting investors to choose assets that fit their risk tolerance and long-term financial goals.

6. <https://www.fool.com/research/high-net-worth-alternative-investments/>

Is Zagga a good fit for your portfolio?

Private debt investment in a Zagga loan is suitable for investors who:

- Are looking for diversification in their portfolio.
- Would like higher returns than they can achieve in shares and bonds.
- Are after a regular income.
- Wish to invest a proportion of their total portfolio in an alternative asset class.

To know whether any alternative investment is right for you, speak to your financial advisor. They can provide tailored advice to suit your situation.

For more information

Simply call or email us; we would love to hear from you.

We're available any time.

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Zagga