Alternative Investments

INVESTOR GUIDE

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Diversify your portfolio

with venture capital, private equity and property

Superior returns. Tax efficiency. Reduced volatility.

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Who is the guide for?

This guide has been produced with sophisticated investors and high-net-worth individuals (HNWIs) in mind. Whilst a useful explorative resource for any individual seeking to expand their investment knowledge, the topics covered will appeal primarily to experienced investors considering investment into alternative asset classes.

What constitutes a sophisticated investor?
A sophisticated investor is an individual who has a considerable level of experience investing, working within the investment industry or operating at an executive level. For example, if an investor has made several venture capital investments, worked for a private equity firm or has experience as a director of a company with an annual turnover of at least £1 million, they would be classed as a sophisticated investor.

What constitutes a high-net-worth individual?
A high-net-worth individual is someone who earns £100,000 or more a year or owns at least £250,000 of assets (excluding a primary home or pension). For example, if an individual owned £250,000 in the value of shares or an additional property with equity of £250,000 or more, they would be classed as a high-net-worth individual.

Why is this relevant?
Many alternative asset classes involve a high risk/high return investment strategy, and so fully understanding the potential risks of these investment types is crucial. Whilst providing potential to generate significant financial returns, capital is at risk, and so investors should ensure both a developed understanding of the risk/reward profile of alternative investment opportunities and a sufficient level of disposable income exist prior to investment.

In this guide:

For investors seeking higher target returns than those offered by traditional investments, increased portfolio diversification, potential to benefit from generous tax reliefs, and scope to generate positive impact, alternative investments could provide considerable opportunity.

This guide highlights some of the most prominent alternative asset classes, their associated benefits and risks, and the routes that experienced investors can follow to access them.

Norm Peterson

Growth Capital Ventures
Chief Executive Officer

01.

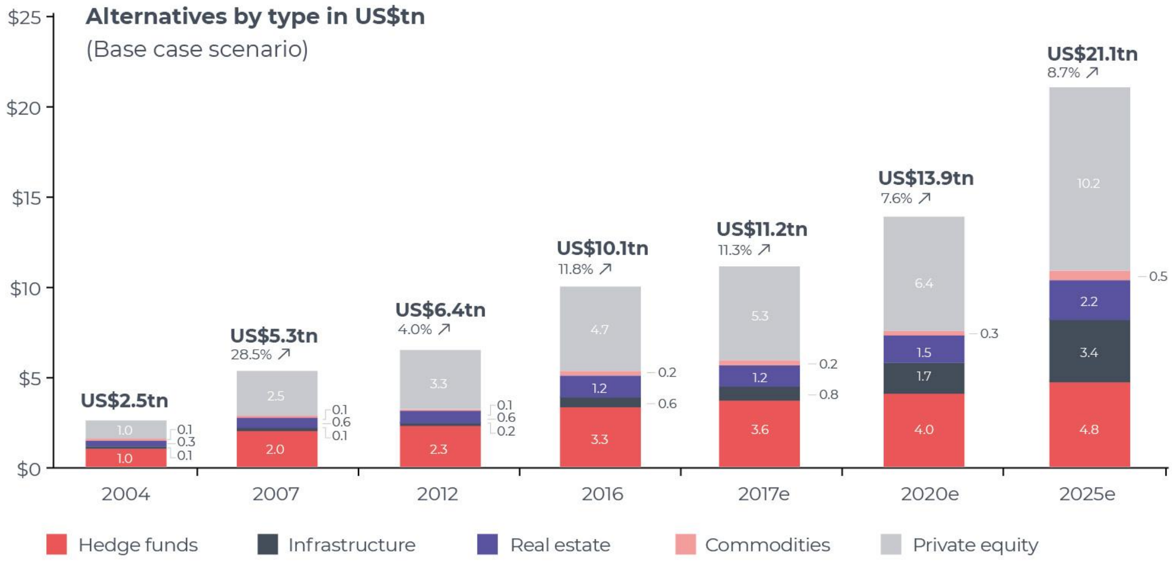
Introducing alternative investments

Experiencing rapid growth, particularly over the last two decades, alternative asset classes are forming increasingly larger portions of many investors' portfolios.

Alternative investments are financial assets that do not fall into the categories of traditional equities, bonds or cash investments. Some examples of alternative asset classes include private equity (PE), venture capital (VC) and property investments.

Illustrating the growth in popularity of alternatives in recent years, VC financing alone in the UK in Q1 2022 totalled over $9 billion, up from $2.5 billion in Q1 2018, according to a survey by KPMG and PitchBook.

- Alternative assets under management (AUM), as a whole, are valued at approximately $15 trillion in 2022.
- Looking towards 2025, PwC forecasts over $21 trillion to be allocated to alternative asset classes, with PE receiving almost half of this total, as displayed on the graph below.



Note: Sums may not equal the totals shown due to rounding. Numbers in the ovals represent CAGR.

Source: PwC Asset and Wealth Management Research Centre analysis. Past data based on Lipper, Hedge Fund Research and Prequin

Data Source: KKR 2021

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An alternative route for investors to build wealth

For private investors aiming to build their wealth, alternative asset classes could provide a compelling opportunity.

Over the past two decades, institutional investors, on average, have consistently increased their portfolio allocation to alternative assets. According to KKR, families holding over $1 billion in assets under management have 'from 51-54% of their total assets in some type of alternative product'.

Furthermore, 81% of institutional investors who participated in a survey conducted by Preqin in 2020 intended to increase their capital allocation to alternative investments before 2025.

Historically, alternative assets could only be accessed exclusively by institutional investors, however, regulatory changes and technological advancements have enabled experienced private investors to follow suit.

This widening accessibility of alternative investment opportunities has led to the average alternative asset allocation for high-net-worth and ultra-high-net-worth private investors reaching 26% and 50% of total investment portfolios in 2020, respectively.

High-net-worth investors allocating, on average, 26% of their investment portfolios to alternative assets in 2020 illustrates the rapid growth in popularity of alternative opportunities, with high-net-worth investors allocating approximately 22% of their total portfolio to alternatives just three years before.

In addition to offering the potential for private investors to achieve portfolio diversification, superior returns, and hedge against inflation, some alternative investments can qualify for UK Government-supported tax wrappers, such as the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and the Innovative Finance ISA (IFISA).

These generous tax benefits are designed to help investors maximise potential upside and minimise downside risk, whilst also providing SMEs and other investment projects with the finance required to start up and scale up.

Especially amidst a turbulent economic landscape in the UK, experienced investors are exploring the potential of many alternative asset classes to further diversify portfolios and target inflation-beating returns.

Specifically, the alternative asset classes of private equity, venture capital and property could offer private investors the potential to target superior returns, potentially with the help of generous tax benefits, whilst also generating significant positive impact and contributing to portfolio diversification.

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What are the main types of alternative investment?

The alternative investment space encompasses a wide range of asset classes, with three of the main types being venture capital, private equity and property.

Venture Capital

A form of private equity investment into early-stage businesses with high growth potential, venture capital (VC) often targets superior investment returns – in many cases above 10x money-on-money. The size of this asset class is highlighted by Statista, with the total value of VC investment in the UK reaching over £30 billion in 2021. Whilst this type of alternative investment can pose inherently high risk levels, generous tax schemes, such as the SEIS and EIS, can help investors to minimise investment risk whilst maximising return potential.

> VC has a history of helping to build world-leading companies. Currently, eight of the ten biggest firms in the world by market capitalisation were built with the help of VC, including Apple, Microsoft and Amazon.
>
> ***Forbes***

Private Equity

Private equity (PE) involves investing into unlisted companies in return for an equity stake. This wider asset class encompasses venture capital, as well as investments into later-stage private companies.

Due to investing in more established businesses, PE can often involve a reduced level of risk. As a result, target returns tend not to be as considerable as those associated with VC.

Property

A well-established asset class, property investments can be a useful portfolio diversifier for experienced investors and can often act as a hedge against inflation.

Investing into property can be achieved via many possible routes including traditional options, such as buy-to-let, and more indirect methods, such as joint venture (JV) property investments, and property bonds (also known as loan notes).

Although slightly less mainstream than VC, PE and property, the following four alternative asset classes could represent other opportunities for private investors to consider.

Peer-to-Peer Lending

Peer-to-peer (P2P) lending generally takes place via online platforms that enable lenders to provide debt finance to individuals, businesses and/or property projects. Investors aim for their P2P loan to be repaid with more favourable interest rates than offered by a savings account.

When investing in P2P loans, the Innovative Finance ISA (IFISA) enables UK investors to invest up to £20,000 per year and receive all returns completely tax-free, ultimately helping to maximise the potential upside of P2P lending. Importantly, P2P lending platforms in the UK have been regulated by the Financial Conduct Authority (FCA) since April 2014.

Hedge Funds

Hedge funds pool together investor capital to invest in a wide range of financial products. The term 'hedge fund' originally came from the investment strategy of 'hedging' against market movements – choosing either long (buy) or short (sell) positions within the market, the aim being to profit regardless of market direction.

As of June 2022, the UK was home to 34 of the largest hedge funds in the world, and Capula Investment Management was the UK's largest, with more than $81.1 billion AUM as of 2022.

Collectables

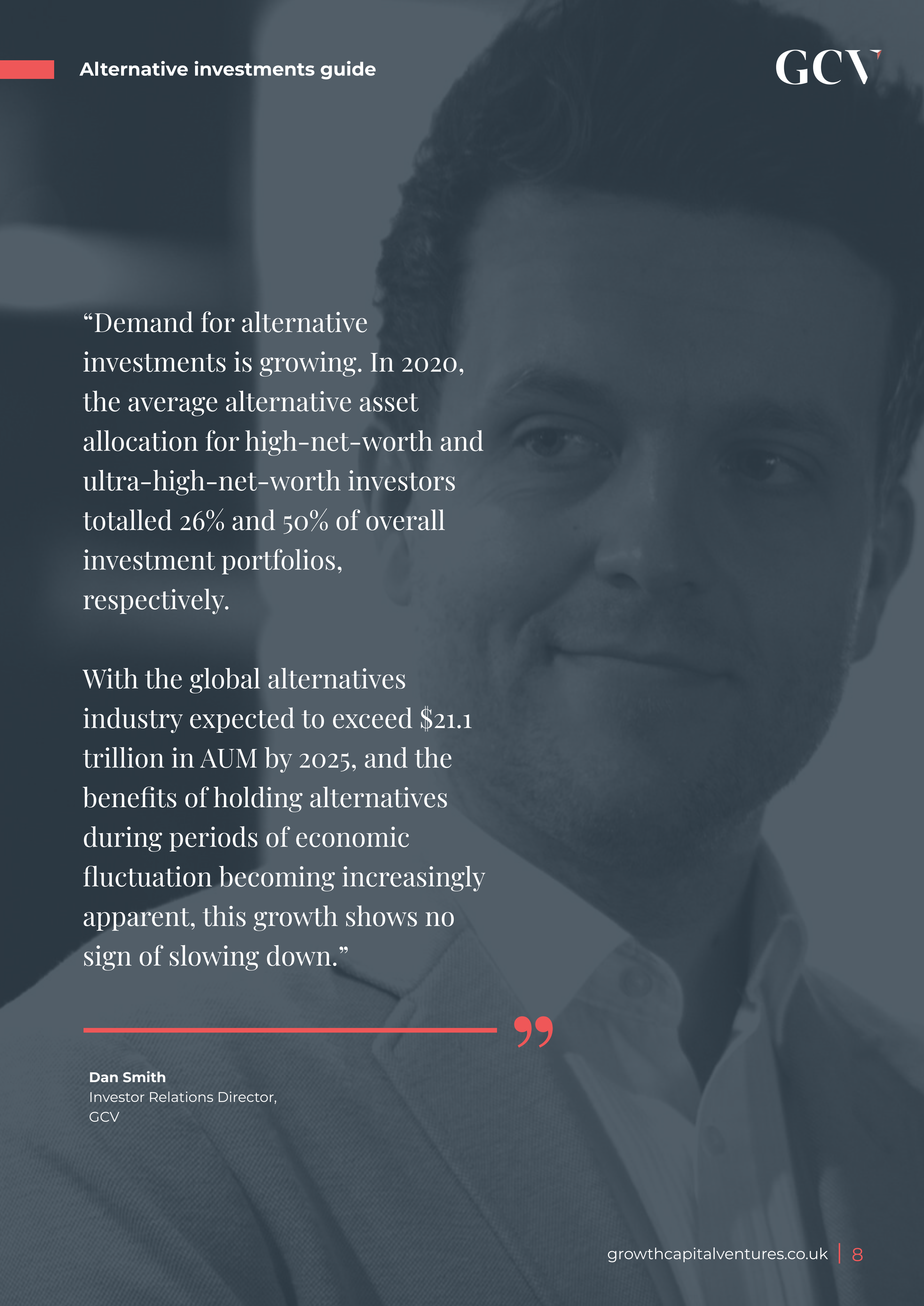
Most often holding value due to popularity or rarity, luxury collectable items increased in value by 123% on average between 2011 and 2021, as reported by the Knight Frank Luxury Investment Index. It was estimated that approximately 4% of HNWIs' total investment portfolios were allocated to collectables in 2012, which increased to 5% in 2020. Some examples of the most common collectables include:

- Fine art
- Wine
- Watches
- Classic cars
- Whisky
- Jewellery

Cryptocurrency

A form of decentralised digital currency designed to function as a medium of exchange, cryptocurrencies use blockchain technology to function without governance from a central body.

Cryptocurrencies are highly speculative and volatile in nature, meaning that potential gains and losses can both be extreme. Investors with large risk appetites may be interested in this area but should note that, in the UK, most forms of crypto assets are currently unregulated by the FCA.



"Demand for alternative investments is growing. In 2020, the average alternative asset allocation for high-net-worth and ultra-high-net-worth investors totalled 26% and 50% of overall investment portfolios, respectively.

With the global alternatives industry expected to exceed $21.1 trillion in AUM by 2025, and the benefits of holding alternatives during periods of economic fluctuation becoming increasingly apparent, this growth shows no sign of slowing down."

Dan Smith
Investor Relations Director,
GCV

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What are the benefits of alternative investments?

From generous tax reliefs to portfolio diversification, alternative investments can offer private investors a range of benefits, many of which are increasingly important during periods of inflation and economic uncertainty.

Portfolio Diversification

Alternative investments can provide private investors with exposure to a broad range of asset classes, sectors, geographies, and company maturity levels, meaning that portfolio diversification can often be easily achieved by investing into alternative asset classes. This could enable investors to distribute overall investment risk in a more calculated manner. Ultimately, diversification may prove to be crucial for investors during times of economic turbulence, particularly during stagflation.

Eligibility for Tax-Efficient Investment Schemes

Specifically regarding venture capital, generous UK tax incentives such as the EIS and the SEIS can provide investors with up to 50% income tax relief, capital gains tax (CGT) exemption, and inheritance tax (IHT) exemption. With these schemes, investors can allocate capital tax efficiently whilst supporting the next generation of game-changing UK businesses.

Other tax-efficient investment vehicles, such as the IFISA, and pension schemes, including SIPPs and SSASs, can help private investors to efficiently invest for their future whilst benefitting from generous tax reliefs.

Superior Returns

Most often, gaining an attractive return is the main objective of investing. Many alternative opportunities target considerable risk-adjusted returns, which are likely to be of increasing importance for investors aiming to maintain portfolio value amidst rising inflation.

Reduced Portfolio Volatility

Often displaying minimal correlation to traditional market movements, alternatives could help to reduce overall portfolio volatility. This may be particularly useful during times of political instability or stagflation, when the value of traditional investments can fluctuate sharply.

Investing for Impact

Whether it's by backing transformative startups or contributing to the development of regional property projects to address the UK housing crisis, alternative investments can provide the opportunity for investors to generate significant positive economic, social and environmental impact.

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What are the main risks associated with alternative investments?

Investing in alternatives can sometimes involve risks relating to reduced liquidity and loss of capital, possibly due to a lack of secondary market trading.

Reduced Liquidity

Some alternative investments can require a holding period of up to ten years before a return is realised. As a result, investors could experience reduced liquidity. It is therefore crucial that sufficient funds are available to withstand this possibility and investors only allocate capital that they can afford to lose, or not access for several years.

Greater Complexity

To combat the potentially more complex nature of alternative investments, it should be ensured that investors conduct thorough due diligence prior to investment to thoroughly understand the nature of the deal, the financial product, and the market.

Potential Loss of Capital

As with all investments, the risk of losing capital is present. Whilst investors can mitigate this possibility, to some extent, by conducting thorough due diligence and utilising the reliefs and exemptions available under tax efficient investment schemes (such as the EIS and SEIS), the loss of capital remains an eventuality every investor should consider prior to investing.

06.

How can I invest into alternative asset classes?

A number of routes can be used to invest in alternatives, from directly supporting an opportunity to delegating the responsibility of capital allocation to an experienced fund manager.

Direct Investment

Investing into an opportunity at the source without any intermediaries is known as direct investment. This approach may be used when a company contacts an investor or informal angel network to pitch for investment. This route may be favoured by experienced investors displaying established relationships with certain companies, or with a strong background or clear desire to invest in a given area.

Funds

Pooling together and allocating investors' capital to a range of companies that are decided by a fund manager, this route can be attractive for investors seeking a relatively minimal involvement strategy. For this investment management service, funds tend to charge investors additional fees, often ranging from 2% to 20%.

Co-Investment Platforms

Unlike funds, co-investment platforms are usually fee-free and enable investors to select from individual opportunities at their own discretion. Also, they differ from direct investments as online platforms can be used as intermediaries. Sophisticated co-investment platforms generally have an expert team who carefully research and select individual opportunities, aiming to enhance potential upside and minimise downside risk.

Online Marketplaces

An online marketplace (or online auction) is an e-commerce website built to connect sellers with buyers. Within the alternatives space, this is mostly relevant for collectables, such as fine art, wine, watches and, more recently, virtual collectables such as non-fungible tokens (NFTs).

Aspects to consider prior to investment:

- Personal investment objectives
- Growth goals and risk appetite
- Current asset allocation
- Tolerance for reduced liquidity

07.

About GCV

Focusing on the three core asset classes of venture capital, property and private equity, GCV Invest provides private investors with access to carefully selected, growth-focused alternative investment opportunities.

What is GCV Invest?

GCV Invest is a platform that currently brings together an online and offline network of over 600 private and institutional investors seeking to co-invest in high-growth, impact-driven opportunities. The investments we offer have the potential to deliver attractive returns for investors, as well as measurable long-term positive impacts for industries and communities.

> "Building and backing ventures that transform industries and communities."

What is our core aim?

Realising high returns for our members whilst generating wider positive change is our core aim. Our platform enables investors to build their wealth by supporting growth-focused companies and transformational projects.

The benefits of investing with GCV

Many of our opportunities are eligible for generous Government-backed tax wrappers, such as the EIS and SEIS. These schemes provide potential for the GCV investor network to benefit from a range of advantages, including up to 50% income tax relief on qualifying investments and capital gains tax exemption on shares.

We target returns of 10x money-on-money (MoM) for venture capital investments, 2.5x MoM for private equity deals over a five-year hold period, and 1.5x MoM for property investments over a two-year hold period.

The portfolio of investment opportunities offered by GCV Invest are extensively researched by our expert investment team, enabling our members to select opportunities from some of the best performing alternative asset classes currently available in the UK.

> "Our focus is to help experienced investors build their wealth by providing access to a small number of carefully selected, growth-focused alternative investment opportunities – within tax-efficient wrappers wherever possible – that reside in our three core asset classes of venture capital, property and private equity."

Craig Peterson
Chief operating Officer,
GCV

Interested?

If you are interested in learning more about alternative investments and the opportunities available with GCV, you can contact us via our website or get in touch with our Investor Relations Director here:

Dan Smith
Investor Relations Director

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About the author

Norm Peterson

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Chief Executive Officer

Connect with Norm:

Norm Peterson, Growth Capital Ventures' Chief Executive Officer, has over 30 years of experience in alternative finance.

Norm has held senior positions in startups, mid-sized SMEs and PLCs operating across a variety of sectors, including finance, telecommunications, infrastructure and property.

Throughout his career, Norm has been involved in raising finance to support business growth and large-scale infrastructure projects.

This experience includes raising seed capital for startups, securing expansion capital (£60m) for an Internet Service Provider (ISP) and development capital for infrastructure projects. Norm is an Approved Person with the Financial Conduct Authority (FCA).

He holds the RICS Postgraduate Diploma in Project Management, studied his MBA at Bradford and completed the Oxford Private Equity Programme, Saïd Business School, University of Oxford.

Norm is also an active angel investor, with a portfolio spanning banking, fintech, HR tech and property and house building.

Growth Capital Ventures

GCV is an FCA-authorised investment firm that operates a private investor network (GCV Invest).

GCV Invest brings together an online and offline network of experienced private investors and institutional investors to co-invest in growth-focused investment opportunities.

We provide access to tax-efficient, impact-driven investment opportunities with the potential to deliver higher returns than traditional investment products.

Facilitating investment across three asset classes, we target 10x money-on-money returns for venture capital opportunities, 2.5x for private equity deals, and 1.5x for property investments.

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