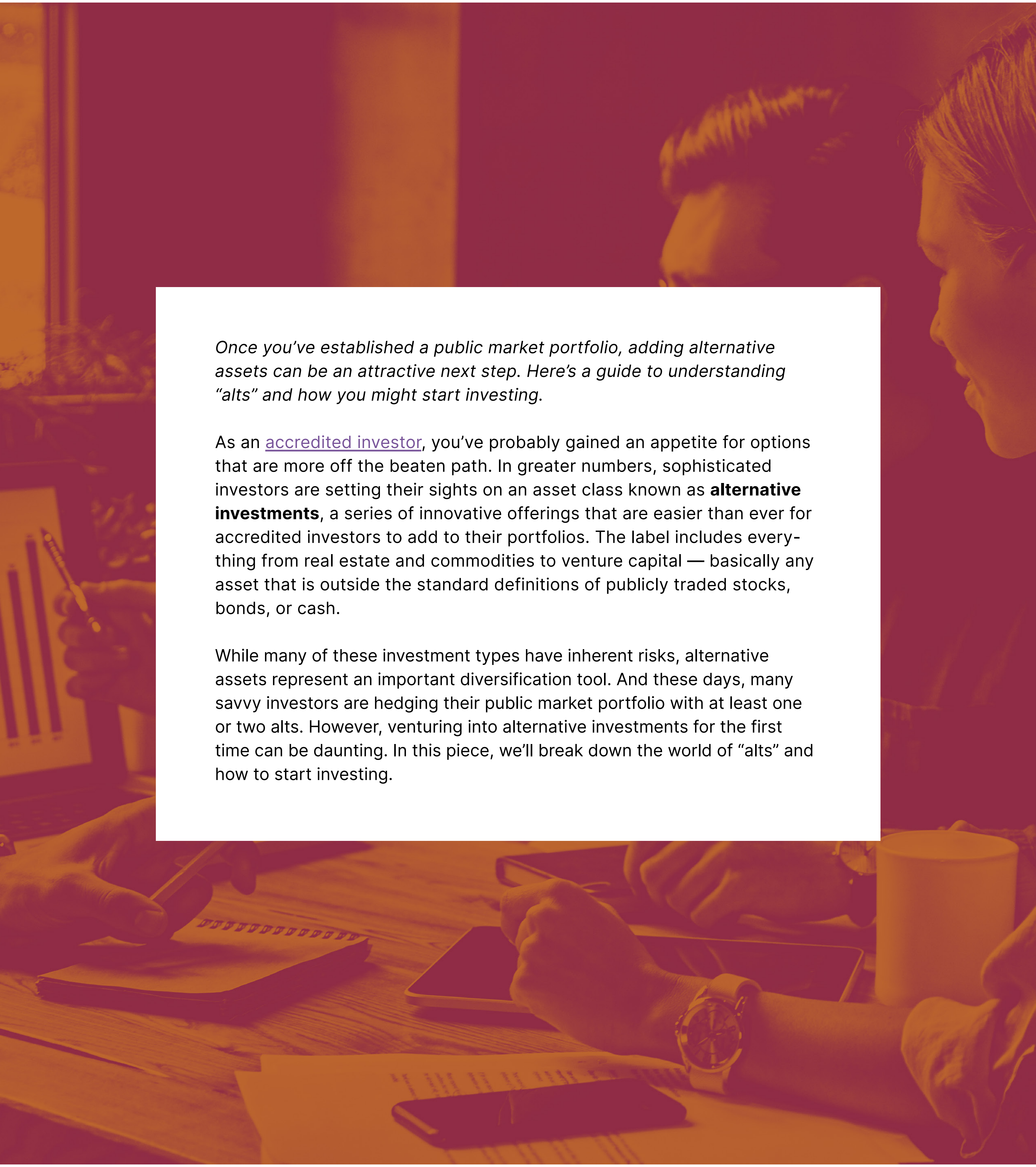
Alumni Ventures

av.vc

Venture 101:

Alternative Investments 101

For Important Disclosure Information, please refer to the Important Disclosure section on page 14 of this presentation.



Once you've established a public market portfolio, adding alternative assets can be an attractive next step. Here's a guide to understanding "alts" and how you might start investing.

As an accredited investor, you've probably gained an appetite for options that are more off the beaten path. In greater numbers, sophisticated investors are setting their sights on an asset class known as **alternative investments**, a series of innovative offerings that are easier than ever for accredited investors to add to their portfolios. The label includes everything from real estate and commodities to venture capital — basically any asset that is outside the standard definitions of publicly traded stocks, bonds, or cash.

While many of these investment types have inherent risks, alternative assets represent an important diversification tool. And these days, many savvy investors are hedging their public market portfolio with at least one or two alts. However, venturing into alternative investments for the first time can be daunting. In this piece, we'll break down the world of "alts" and how to start investing.

What is an alternative investment?

WHAT IS AN ALTERNATIVE INVESTMENT?

Traditional investments are the assets most familiar to the average investor. This includes stocks and bonds, plus the exchange-traded funds (ETFs) and mutual funds that hold them. Because they're bought and sold on public markets, the pricing of traditional investments is transparent and easy to track. Additionally, the Securities and Exchange Commission (SEC) has imposed a wide range of regulations and restrictions on these assets and closely monitors public trading activity. While this doesn't guarantee investors will always see returns from public stocks, it helps ensure they are protected from market manipulation.

On the other side of the fence are alternative investments, a varied set of assets that can be more complex, illiquid, and potentially more lucrative than publicly traded options. This includes the following assets, among others:

- **Commodities:** Physical materials and natural resources like fuel, crops, and precious metals such as gold
- **Collectibles:** Tradeable items with value derived from aesthetic or cultural significance, including art, antiques, cars, and wine
- **Real Estate:** Physical properties or raw land, including traditional property ownership as well as limited partnerships, development corporations, or real estate investment trusts
- **Venture Capital:** Direct investments in private, high-growth companies typically based on an innovative business model or technology

Alternative investment options have grown rapidly, with new opportunities like cryptocurrencies,[1] peer-to-peer investing, and NFTs[2] gaining popularity in the last decade. They can also often have high investment minimums. For that reason, they've historically been the darling of institutional investors like university endowments[3] rather than the average person.

Over the last several decades, endowments at prominent colleges and universities have further leaned into nontraditional asset classes because of their return potential[4] and diversifying power. According to the Yale Investments Office, alternative assets "tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management." Specifically, this includes "illiquid, less efficient markets such as venture capital, leveraged buyouts, oil and gas, timber, and real estate."

1 Ryan Farell, "An Analysis of the Cryptocurrency Industry," *Wharton Research Scholars*, no.130 (May 2015).

2 Robyn Conti and John Schmidt, "What You Need To Know About Non-Fungible Tokens (NFTs)," *Forbes,* updated May 14, 2021.

3 Randy Brown, "Invest Like A University Endowment During A Crisis," *Forbes,* November 3, 2020.

4 Michael W. Azlen and Ilan Zermati, *Investing Like the Harvard and Yale Endowment Funds,* (Amherst, Mass.: CAIA Association, Q3 2017).

Why do sophisticated investors want alts?

WHY DO SOPHISTICATED INVESTORS WANT ALTS?

It's true — alternative investments *can* be opaque, volatile, and illiquid. So why are individual investors increasingly interested in adding them to their portfolios? A recent study showed that ultra-high-net-worth investors (net worth of at least $30 million) committed 50% of their assets to alternative investments in 2020.[5]

For most investors, the answer is portfolio diversification. Purchased wisely, alternative investments can provide exposure to potentially lucrative markets, provide passive income, or serve as a hedge against inflation — or all three. In addition, the specialized fields also allow the mingling of business and passion projects, e.g. art lovers can build their collection with works by up-and-coming painters, while real estate junkies can own vacation property.

5 "Alternative investments in modern portfolios," BlackRock, accessed November 9, 2021.

Alternative investments to consider for the long haul

ALTERNATIVE INVESTMENTS TO CONSIDER FOR THE LONG HAUL

For sophisticated investors with a grasp of intangible and tangible alternative investments, the opportunities are even more expansive. Some startups are even helping investors break into alternative assets. Here are a few alternatives to consider.

Real Estate

Any homeowner can tell you how volatile the real estate market can be. But for savvy investors willing to put in the time, resources, and sweat equity, there can be tremendous opportunity for gains in buying, renting, and selling properties. The U.S. housing market added $11.3 trillion in value during the 2010s[6] — a more than 50% increase in the decade following one of the country's most significant housing downturns. On the commercial side, investors saw a 103% jump in price,[7] particularly in major markets like San Francisco (222%) and Manhattan (182%).

But the real estate market can be extremely turbulent. Just look at the last couple of years. Investors who nailed the timing in 2020 walked away with killer returns from a $2.5 trillion increase in U.S. housing value[8] — the most in a single year since 2005. However, by July 2021, experts began forecasting that the pandemic housing boom was winding down,[9] as home sales and prices declined while inventory increased. By the time you read this, that projection has probably shifted yet again.

6 Zillow, "Recovery Added $11.3 Trillion to U.S. Housing Value in the 2010s," news release, January 17, 2020.

7 Jim Costello, "A Fantastic Decade for US Commercial Real Estate," *RC Analytics*, January 16, 2020.

8 Brenda Richardson, "Housing Market Gains More Value In 2020 Than In Any Year Since 2005," *Forbes,* January 26, 2021.

9 Diana Olick, "Housing boom is over as new home sales fall to pandemic low," *CNBC,* July 26, 2021.

Examples from AV's Portfolio

Some startups are helping individuals invest more effectively in real estate, including Alumni Ventures portfolio company LEX Markets. Accredited and non-accredited investors can use the company's real estate securities marketplace to diversify into commercial properties with the potential to earn passive income and build wealth.

Collectibles

Collectibles allow individuals to combine their personal interests in things like art, antiques, cars, and wine with historically strong returns. Selling at the right time in the best auction house can earn investors an impressive ROI, sometimes well above market value. In 2015, hedge fund manager Kenneth C. Griffin fleshed out his abstract art collection with a $500 million purchase of Willem de Kooning's *Interchange* and Jackson Pollock's *Number 17A*.[10] A few years later, a bottle of 1945 Romanee-Conti with an estimated $32,000 value went for $558,000 at auction.[11]

However, most investors likely can't access the capital, connections, and storage conditions needed to build a valuable collection. Additionally, with the appeal of many collectibles depending on cultural interest, finding a willing buyer is never a guarantee.

Example from AV's Portfolio

Alumni Ventures portfolio company Parlor offers a loan-to-own platform for customers to purchase art from prominent art galleries, potentially as an investment opportunity or simply to spruce up their home or apartment.

10 "What is the Most Expensive Painting of Abstract Art Ever Sold?," *IdeelArt* (blog), September 22, 2016.

11 Robert Frank, "Bottle of wine sells for a record $558,000," *CNBC*, October 15, 2018.

Peer-to-peer lending

In response to the inaccessibility of many alternative investments, peer-to-peer lending — also called social- or crowd-lending — has become a popular, low stakes option for individuals to invest directly in people or businesses in their communities. The lending process is typically a quicker and more simplified experience for both parties. Lenders also have more flexibility compared to other alternatives, as they can decide how much they're willing to loan.

Unfortunately, some of the benefits of peer-to-peer lending favor borrowers more so than investors looking to make a profit. On average, five-year peer-to-peer loans typically carry a 10% lower interest rate than traditional bank loans.[12] Additionally, peer-to-peer lending is relatively new and hasn't been regulated in the same way as established investment options. Depending on the platform, investors may find insufficient safeguards against the risk of default from borrowers.

Example from AV's Portfolio

Startups like SoLo Funds, an Alumni Ventures portfolio company, offer an exchange that connects lenders and borrowers to provide affordable access for small-dollar loans with a set interest rate and payback period.

Cryptocurrencies

Cryptocurrency is a disruptive innovation that is offering an alternative to fiat currencies. As of August 2021, the total crypto market exceeded $2 trillion.[13] Venture investors are taking notice, with more than $17 billion in VC committed to crypto companies in the first half of 2021 alone[14] — more than triple the total dollars invested in the space in 2020.

However, cryptocurrency is a complex asset that can be a challenging asset for individual investors. Since bitcoin was created in 2009,[15] crypto has experienced significant market turbulence and regularly shifting regulations. In an article published in April 2021,[16] regulatory intelligence expert

12 "Pros and Cons of Peer-to-Peer Lending for a Small Business," *Norwich University Online* (blog), October 20, 2020.

13 Arjun Kharpal, "Crypto market tops $2 trillion for the first time in nearly 3 months as bitcoin rallies," *CNBC,* August 16, 2021.

14 Brandon Kochkodin, "Venture Capital Makes a Record $17 Billion Bet on Crypto World," *Bloomberg,* June 18, 2021.

15 John Hyatt, "Decoding Crypto: What Was the First Cryptocurrency and Who Created It?," Nasdaq, August 18, 2021.

16 Todd Ehret, "INSIGHT: U.S. cryptocurrency regulatory path appears long and complex," *Reuters*, April 6, 2021.

Todd Ehret argued that the regulatory landscape for digital assets remains "complex and uncertain" and will probably evolve "slower than some anticipate."

Additionally, due to significant capital requirements, the opportunity for returns strongly favors early investors. According to CNBC,[17] an investor could have purchased 1,000 bitcoins for just $100 in October 2010. Their return in February 2021? Over $48 million. By comparison, an investor trying to break into bitcoin today could pay as much as $63,000 per token,[18] only to lose half their investment value just a month later.[19]

Alumni Ventures' Blockchain Fund allows investors to access this alternative investment while mitigating risk. Investors receive a diversified portfolio of ~20-30 entrepreneurial companies addressing opportunities and challenges in blockchain across various disruptive ventures. In addition, a portion of the portfolio is invested in cryptocurrencies.

Examples from AV's Portfolio

Some early crypto leaders have raised capital at impressive valuations, including Alumni Ventures portfolio companies BlockFi. The company provides diversified financial services for crypto investors, including loans valued against cryptoassets and a crypto trading platform. BlockFi announced a $350 million Series D in March 2021 at a $3 billion valuation[20] — one of the largest to date among blockchain and cryptocurrency startups.

Venture Capital

As a venture capital firm, Alumni Ventures is well acquainted with the pros and cons of this asset class. **Venture capital involves direct investments in private, high-growth companies, ranging from early seed-stage startups to late-stage companies just before they make an initial public offering (IPO) on the stock market.** For risk-tolerant investors, venture capital can be an attractive addition to a diversified portfolio. Until now, venture capital investing was restricted to institutions, ultra-high-net-worth individuals, and large venture firms writing multi-million dollar checks. In 2011, the SEC amended its rules for venture capital, making it easier for individual accredited investors to participate in the asset class.

17 Carmen Reinicke, "Bitcoin hits another record. Here's how much you'd have if you invested $100 in 2009," *CNBC,* February 12, 2021.

18 Ryan Brown, "Bitcoin hits new all-time high above $63,000 ahead of Coinbase debut," *CNBC,* April 13, 2021.

19 Ryan Brown, "Bitcoin plunges 30% to $30,000 at one point in wild session, recovers somewhat to $38,000," *CNBC,* May 18, 2021.

20 Nina Bambysheva, "BlockFi Gets A $3 Billion Valuation With New $350 Million Series D Funding," *Forbes,* March 11, 2021.

The Case For Venture Capital

If you have unlimited time and energy to build a portfolio stocked with multiple alternative investments, that's a hobby you can absolutely take on. But if you're hoping to line your portfolio with accessible investments that might be profitable, there's a strong case to be made for venture capital. Below are just five compelling reasons to consider venture investing:

- **Reduce risk and improve chances for success through diversification.** Owning a large, diversified venture portfolio of at least 30 companies or more provides a strong chance of achieving outsized returns.[21]

- **Access potential gains that you've previously been blocked from.** If you wait until the IPO to invest, it can be a challenging way to make money. You've missed out on all that value creation between early-stage valuations and the IPO price.

- **You could further diversify your portfolio.** Institutional investors, such as universal endowments, put up to 15% of their portfolios[22] in early-stage private companies with high-growth potential. Yale has targeted putting over 23% of its endowment[23] into venture capital for 2021.

- **Get a front-row seat to the innovation economy.** If you love learning about new technologies, innovation, and disruption, becoming a venture investor is an experience that you are likely to enjoy.

- **You can align your investment strategy to your values and passions.** If you're passionate about science, equality, diversity, or even supporting the startups of your alumni entrepreneurial ecosystem, there is a venture capital fund to align your beliefs, values, and priorities. And note that venture capital can give you access to other alts — as we've illustrated throughout with our AV portfolio examples.

Any investor considering alternatives should consult with a financial advisor first. Then if venture capital seems like an attractive alternative for gaining exposure to a variety of innovative companies, we invite you to contact us. Our approach of offering actively managed venture portfolios diversified by stage, sector, and geography at minimums starting at $10,000 might be right for you. To go deeper, read Five Compelling Reasons to Start Venture Investing.

21 Steve Crossan, "Modelling suggests rational venture investors should have bigger portfolios," *Unreasonable Effectiveness*, April 11, 2018.

22 David Shukis and David Thurston, The 15 Percent Frontier, (Cambridge Associates, July 2016).

23 "Investment return of 6.8% brings Yale endowment value to $31.2 billion," *Yale News*, September 24, 2020.

Important Disclosure Information

The manager of the AV Funds is Alumni Ventures (AV), a venture capital firm. AV and the funds are not affiliated with or endorsed by any college or university. These materials are provided for informational purposes only. Offers of securities are made only to accredited investors pursuant to each fund's offering documents, which describe among other things the risks and fees associated with the Fund that should be considered before investing. The funds are long-term investments that involve a substantial risk of loss, including the loss of all capital invested. Past performance is not indicative of future results. Opportunities to invest in any security (of a Fund, of AV or in a syndication offering) is not a guarantee that you will be able to invest and are subject to all terms of the specific offering. Diversification cannot ensure a profit or protect against loss in a declining market. It is a strategy used to help mitigate risk.

AV offers smart, simple venture investing to accredited investors. Specifically, AV provides a path for individuals to own an actively managed diversified venture portfolio with a single investment co-investing alongside experienced VC firms. Traditionally, with limited investment capital and contacts, individual investors have had limited access to desirable deals alongside experienced VC firms, and even if they could access one or more such deals, it would take an inordinate amount of time, money and negotiation to build a diversified portfolio. With AV Funds, investors can choose from a number of funds to make a single investment to gain exposure to a diversified portfolio of investments selected by an experienced manager. AV Funds' simple fee mechanism permits investors to avoid constant capital calls throughout the life of the fund as found in other private investment vehicles.

F50-X0335-221005.01