PGIM INVESTMENTS

ALL-WEATHER ALTERNATIVES

Liquid alternatives have been developing rapidly within the fund industry for years, and for good reason. Liquid alt strategies offer distinct risk-return characteristics and can serve as the all-weather solution for investors who want performance without reliance on the direction of traditional equity and bond markets.

23% Liquid alternatives' share of the global hedge fund market in 2020, up from 13% in 2005[1]

66% Rise in the number of European-domiciled liquid alternative funds between 2010 and 2020[2]

167% Total AUM increase in alternative open-end funds in Europe between 2010 and 2020[3]

Why does interest in liquid alts continue to grow?

Covering all fronts

Liquid alternatives aim to provide differentiated return profiles by investing in asset classes outside of mainstream bonds and equities, or by taking an alternative investment approach that seeks to generate performance whether markets rise or fall. True to their name, they also offer liquidity, often daily, which sets them apart from hedge funds that can only be bought and sold monthly or quarterly.

While each liquid alts strategy seeks to meet a different investor need, all focus on two main principles.

Diversification from traditional market beta

Potential return enhancement

Some liquid alt strategies can also provide downside protection.

Limit beta exposure
Unlike traditional mutual funds, liquid alts can short stocks to limit beta exposure and make them less vulnerable to market volatility.

Reduce interest rate risk
While traditional bond investments are adversely impacted by rising interest rates, liquid alts can short bond duration to enhance returns when interest rates rise.

Enhance diversification
Liquid alts can provide access to strategies that are uncorrelated or even negatively correlated to traditional investments, including futures trading and arbitrage.

Versatility is key

Liquid alts strategies employ a broad range of investment approaches across asset classes designed to meet investor goals for income, growth, and/or opportunistic capital appreciation. Some approaches even combine different strategies to better capitalise on market trends and opportunities.

Liquid alts include strategies for a variety of investment objectives.

Income	Growth	Opportunistic
- Fixed-income arbitrage - Market neutral - Relative value	- Global macro - Long-short equity - Managed futures - Multi alternative	- Bear-market - Event-driven - Non-traditional bonds

Global macro strategies can be the "jack of all trades"

They can combine multiple approaches through robust analysis of crosscurrents from different directional trends and relative value opportunities to help investors gain both capital appreciation and downside protection.

Similar but different

Liquid alternatives are hedge-fund-type strategies. Yet, they are delivered through mutual fund or ETF vehicles, which can offer investors distinct advantages.

The winds of change in the industry are favouring liquid alts.

	Regulation	Fees	Transparency	Liquidity
Liquid alternatives	- Mostly regulated under the Investment Company Act ('40 Act) - Often available in UCITS format	- **1.31%** average asset-weighted fee in 2019 for alternative funds[4]	- Holdings are disclosed at regular intervals	- Investors can usually redeem daily
Hedge funds	- Largely exempt from the '40 Act - May not be UCITS compliant	- **2% + 20%** management fee plus performance fee typical structure[1]	- Holdings are disclosed much less frequently or only when there are large position sizes	- Lock-up and gate provisions

Liquid alternatives are solid stand-alone investments that can thrive through various economic conditions. In light of elevated market valuations, repeated volatility outbursts and very low bond yields, they are becoming more relevant than ever. No matter how harsh the conditions, liquid alts can help investors weather market storms and build a strong, diversified portfolio.

Find out more about liquid alternatives at pgimfunds.com

Diversification does not assure a profit or protect against loss in declining markets.

[1] Preqin. [2] Morningstar data; time period from October 2010 to October 2020. [3] Morningstar data; time period from September 2010 to September 2020. [4] Morningstar: 2020 U.S. Fee Study.