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The myth of alternative assets: it is for investors to seek the truth

Devina Mehra | 27 Aug 2026


The trick always is to strip the jargon and see what one is actually buying.

SUMMARY

Being offered these 'exclusive' deals may make one feel special. But they are often riskier than what their sales pitches reveal or acknowledge. Here's what should guide investors as they evaluate alternative investment options.

As your net worth grows, at some point your financial advisor or the friendly neighbourhood mutual fund distributor or even your bank relationship manager will say that you are now at a stage to look beyond well-known boring asset categories and consider some alternative assets.

They will showcase everything from a portfolio management service (PMS), alternative investment fund (AIF), Gift City schemes for global investing and private credit or venture capital funds to gold bonds, real estate and unlisted shares.

While they couch things in financial terms, you feel a little chuffed that you are being offered products that are meant for ultra-high-net-worth individuals or even family offices.

Much of this advice mixes up structures and asset classes. A mid-cap PMS, for instance, is a direct substitute for a mid-cap mutual fund scheme and should be compared as such. An AIF or Gift City scheme is not an asset category.

What matters is where the structures are investing—in what assets and securities. A comparison between an equity mutual fund systematic investment plan (SIP) and a gold exchange traded fund (ETF) is not an apple-to-apple comparison.

You have to first decide how much you want to allocate to each asset class—yes, that boring asset allocation job again—and then its structure.

Also, much of what is positioned as alternative assets may not be alternative at all. Is investment in a private equity fund not an investment in equities? Is an unlisted stock not a share? The answer to both is 'Of course it is.'

When you invest in shares of unlisted companies—whether through the grey market, venture capital or private equity funds—you still buy a share of a business, just as you do in a public market. This is subject to the same vagaries, with a few serious additional risks.

The major one is illiquidity. In public markets, you can get out of any listed stock in a day or two in most cases. For an unlisted share, it is extremely hard to get an exit unless another fund buys you out or the shares get listed, which usually takes time.

Meanwhile, the company is subject to far fewer regulations for governance and disclosures. Listed companies are subject to stock exchange and Securities and Exchange Board of India regulations, which are much more stringent than those that private companies need to meet.

While fund managers are supposed to monitor developments in unlisted companies, there have been far too many scandals—from WeWork to Byjus—where fund managers were caught napping. In buying unlisted shares on your own, you are totally out on a limb, adding a counterparty risk to what is effectively an unregulated contract.

Similarly, private credit is simply extra-high-risk fixed income.

Then an important point to note with respect to these so-called alternative assets is that often the record you are shown of the returns generated by similar structures may not be replicable.
For example, from the time venture capital funds struck rich by investing in companies like Google, the structure of the industry has changed, with a lot more money chasing the same deals, thus making returns more difficult.

This has happened often in other asset markets too. For example, in the 1980s, there was a junk bond boom in the US. At the root of this boom was an insight that the market was over-compensating for the credit risk of junk bonds and hence there was free money to be made.

But the rush of money into junk bonds changed the characteristics of that market. While earlier most junk bonds were of companies that were once investment grade but had subsequently run into difficulties, once the boom started, companies began to issue bonds that were not investment grade to start with. This completely changed their return and default profiles.

More recently, during the global boom in private credit funds, they were meant to provide regular liquidity. But the only way a fund investing in illiquid assets can provide liquidity is via new money coming in—what is colloquially called a Ponzi scheme. And when new money stopped coming in, the liquidity taps had to be turned off.

Now the same private credit is being touted as the hot new thing in India—in a market that is permanently credit starved. The credit risk taken by private credit funds is worse than what is taken by established banks and financial institutions, as a borrower who can borrow cheaper from a bank will never come to them.

All these assets show paper returns because illiquidity never shows up on a financial statement. At its peak exposure, Yale University's endowment had roughly 95% of its multi-billion-dollar portfolio invested in alternative and non-public markets (such as private equity, venture capital and real estate). There were books written on what a brilliant job Yale had done and many universities like Harvard followed suit.

Then came the Trump administration, cutting off some university funding, and suddenly all the liquidity problems came home to roost. Yale not only had to cut its exposure to non-public assets, it had to do so at a big discount.

The trick always is to strip the jargon and see what you are actually buying. A secret: mostly the boring part of portfolio management is perfectly fine and you don't need fancy gizmos.

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