



Roswell Brinkman & Partners

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## As Asset Management Industry Grows A Search For New Revenue Streams

**Alternative Assets** are very real, much more than “traditional equity or debt returns streams repackaged... and claiming to be different,” a Roswell Brinkman report noted, pointing to a common critique of “alternatives.” But there is nonetheless a trend alive that seeks to find independent, low correlation returns streams not tied to the performance of the common stock market or economy.

Some traditional institutional investors have historically shunned investments that do not focus on the stock market. But, that group wanes as assets devoted to quantitative funds and esoteric investments such as syndicated loans, infrastructure and other investments with **low correlation factors** gain in importance amid an uncertain world.

True Alternatives have returns drivers that perform well regardless of interest rate direction include infrastructure and some syndicated loans.

Newton's Hutchins: pointed out that “**Focus on an alternative investment's low correlation in their performance drivers**” is the new focus seeking non-correlative returns.

**Roswell Brinkman** points out that when evaluating alternative investments, the place to begin the exploration is understanding the nature of the independent returns performance drivers.

Suzanne Hutchins, real return strategy portfolio manager at Newton Investment Management, notes that differentiation of returns stream is what provides clarity. **“We are looking for something genuinely different in the way an investment generates underlying return,” she said, pointing to a non-correlated method of analysis.**

Hutchins laments that the general criticism is accurate that many “alternatives” aren’t that alternative, saying they are, as some investors charge, just “elegantly repackaged” equity or bond investments. **How does one differentiate, then, between the true alternative investment diversifiers and those that are highly correlated to the stock market – particularly during a crisis?**

“It is important to realize (when a strategy’s) underlying returns are essentially driven by the same factors as most other debt or equity investments,” Hutchins, pointing to performance driver analysis, said. “Alternative” strategies tied to stock market or yield curve performance drivers are not alternatives. “Diversification across alternatives may, therefore, prove not diversification at all when financial markets decline.”

Hutchins did not outline a specific process to determine non-correlated investment eligibility in this conversation.

## **Government subsidies driving renewables**

Paul Flood, a multi-asset income manager at Newton, doesn’t look at alternatives from the standpoint of their performance drivers to the same extent Hutchins, but rather **looks at “low economic sensitivity” that** deliver performance through a variety of negative market environments.

For Flood, this means renewable energy due to what he considers “stable cash flows,” as well as a correlation to an inflationary market environment that is positive. Flood acknowledged the dependence on “government subsidies” that he characterized as “robust and stable.”

Saying renewables are a method to “protect your assets against the potential ravages of inflation,” Flood did not model what would happen if government backing under the Trump administration, which recently pulled out of the Paris Accord, would mean to green / renewable revenue projections.

## **Returns streams found in alternatives such as syndicated loans and infrastructure -- all with low correlation and volatility**

Paul Hatfield, chief investment officer for Alcentra, eyes syndicated loans with interest in a noncorrelated basket.

Hatfield, for his part, likes syndicated loans due to their “defensive” qualities, “low correlation to other assets” and the mitigation of duration risk due to floating rate structures.

Often times, loans and sometimes private equity are used to fund infrastructure investments, a trend that has been given life under the Trump administration. Trump has proposed revamping US infrastructure with private funds, which could be a boon for the segment.

Christine Todd, president and head of tax sensitive and insurance strategies at Standish, as well as Steve Waddington, multi-asset manager at Insight Investment, both **advocate for infrastructure in a noncorrelated basket.**

Todd sees **in infrastructure the benefits of low volatility and low correlation, while Waddington likes the reliable revenue streams, sometimes bolstered by a user fee or tax subsidy, particularly when “backed by a government sponsor,” a guarantee that provides “security of returns.”**

The stock market is not the only source of returns streams, particularly in what is becoming a volatile prone market environment masked by current historic low volatility.

### **Syndicated loans and alternative AUM (assets under management)**

In terms of assets in the alternative world, Smith Beaucamp analysts have noted:

*From a scale perspective, the alternative investment industry is large and growing fast. According to recent research by global advisory, broking and solutions company Willis Towers Watson the total global alternative assets under management (AuM) is now US\$6.2 trillion, exponentially higher than the US\$1 trillion AuM the sector recorded in 1999. In turn, global consultancy PwC predicts AuM within the industry could reach US\$13 trillion by 2027. BNY Mellon/FTRemark’s study found emerging markets now make up 31% of institutions’ alternative investment exposure. Although further growth looks limited – the report found investors were planning to allocate 34% of alternative investment to emerging markets.*

**Beyond renewables,** infrastructure, property and rental investment are other alternative asset classes offering a range of direct and indirect access routes to investors. According to data from market analyst Morningstar, open-ended European property funds saw their highest inflows in four years in 2024. In the US, sectors such as municipal bonds and the burgeoning single family rental market also offer diverse and growing opportunities.

*Pension funds are among some of the largest investors in alternatives but other institutions, including sovereign wealth funds and insurance companies retain a healthy appetite for these investments to generate efficient returns to match their long-term liabilities. While retail investors can gain limited access to alternative assets via some fund structures, their typically higher risk profile means they often have greater appeal for institutions and smaller sophisticated investors such as high net worth and family office investors.*

**As the industry grows and yields remain low products like low correlation aspects, infrastructure, syndicated loans, could become a hot new source for (hopefully higher) return streams.**

**Litigation Funding has been an interesting no correlative for institutional investors over recent years with large financial commitments in the space funded by pension funds and insurance companies.**

Contact Roswell Brinkman & Partners for the latest ideas in noncorrelative asset opportunities driving investment returns.

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