

The Super-Rich Are Buying Marinas, Whiskey Barrels, and More Offbeat Investments. Here's Why.

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10 That firm, Ram Financial Group, provides municipalities with cash to run public services, and in return receives fees and interest penalties owed on the lien until the homeowner's taxes are current. The cash flows through to investors until the fund liquidates, unlike most private-equity funds, which lock up investor cash for up to 10 years until the companies it owns are sold or go public.

As private-equity funds begin looking more like traditional investments, family offices looking for an edge are going further afield into off-the-beaten-track asset classes.

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Boat marinas, whiskey aging, wireless spectrum licenses, and other "alternative, alternative" niche assets often perform in ways uncorrelated to stocks and bonds, bringing investors returns that zig when broader public and private markets zag. That's because these investments aren't tethered to the broader financial markets, says Emma Bewley, who runs uncorrelated strategies for Partners
20 Capital, a global firm that provides investment services for family offices.

Family offices handle investing and wealth management for rich families, and often help with budgeting, tax planning, and insurance. Cornue, the chief investment officer of Horowitz Group—the office of a wealthy family that made its money in ready-made concrete—views these inefficient,
25 noncompetitive corners of the market as more lucrative than investing in the latest private-equity fund. Similar asset classes include royalties from oil wells or from pharmaceuticals.

The return Horowitz Group receives on such investments are in line with private markets—about 14% to 20%—"but with much less risk than private equity or venture capital," Cornue says. "Think of
30 it as equity returns for credit-like risk."

Such strategies aren't for the average retail investor. They can take time to find and understand, and minimum investment levels can range from \$250,000 to several million dollars. Even bigger institutional investors shy away from this niche, as they require taking a leap into unproven
35 strategies. And most niche-alternative funds are small, with only \$100 million or less in assets. Pension funds and endowments typically favor bigger funds.

Not all wealthy families are fans, either, according to Dan Golosovker, head of Insights-Analytics at Addepar, a New York-based portfolio technology and data platform. Though some have the sophistication to invest in niche assets, others prefer a long-term approach or a strategy that provides more of a consistent income stream for family members, Golosovker says.

According to Addepar, family offices allocated 41% of assets to alternatives, including private equity and private debt, as of June 2024, and 7% to niche private strategies, which include investments in art funds or crypto.

Horowitz Group, which derived its wealth from Standard Concrete Products, a ready-made concrete business in California that the family sold in 1990, ferrets out these investments because Cornue views traditional private markets as too competitive to generate excess return for the risk. Pension funds and endowments are so large they have to make enormous allocations of \$100 million or more to individual funds, forcing megacap private managers such as Carlyle Group, Apollo Global Management, KKR, and others to compete against one another for business, he says.

"I'm not saying a buyout fund won't outperform the S&P 500. It might. But how will they distinguish themselves from their peers?" Cornue asks. (A buyout fund purchases controlling interests in companies with the intention to improve and then sell the businesses.) Instead, Horowitz Group's strategy is to find asset classes that are "inherently small, which don't attract the attention of big pools of capital."

Horowitz isn't the only family office that views private markets as becoming commodified. "Family offices are desperate to find differentiated asset classes," says Deacon Turner, a senior national managing director at Bernstein Private Wealth.

As a result, they are making an array of unusual, sometimes one-off investments in assets. Other examples include fertility clinics, carbon assets, and entertainment royalties. Cordillera Investment Partners in San Francisco, with \$1.7 billion in assets under management, specializes in offbeat asset classes including land for data centers, wireless spectrum licenses, and whiskey aging.

"We try to find the things that the world hasn't found yet and try to be early to invest in them," says Chris Heller, co-founder and co-managing partner. "When the world finds it, we move on and find the next thing."

Cordillera focuses in two broad areas: specialty finance and highly fragmented small businesses such as boat marinas. In January, Cordillera completed fundraising for a \$62 million specialty-finance fund that buys whiskey barrels from contract distillers and holds them until they have aged at least four years. Cordillera then sells the barrels to craft bourbon makers who bottle and sell it, Heller says. The longer Cordillera owns the barrels, the more lucrative the whiskey becomes.

On the face of it, investing in mom-and-pop boat marinas appears similar to the private-equity strategy of buying lots of similar businesses, such as dental offices. But marinas are individually
80 owned businesses, and the rental income from boat slips isn't affected by economic cycles. (If a boat is repossessed, the bank still needs to keep it somewhere.)

Cordillera's Whiskey Opportunities Fund is a separate entity, but most of the firm's investments are in diversified funds of maybe a dozen uncorrelated asset classes, Heller says.

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Many of these uncorrelated strategies grew out of an extended period before 2021 when global interest rates hovered around zero and investors were seeking strategies that could provide yield. Among the most prominent examples were funds that cropped up to invest in music royalties, and others that invest in litigation finance (where they get a share of profits from any winnings in a legal
90 case).

Aside from seeking uncorrelated returns, many wealthy individuals and families are tired of paying exorbitant fees for standard private-market funds. These typically involve a 2% annual management fee in addition to 20% of a fund's profit above a preset threshold. For that reason, many families
95 invest directly in companies or "as close to directly as they can," Turner says.

This approach allows their money to go further—because they reduce or eliminate fees—and they gain knowledge in a subject. That expertise "goes way beyond a quarterly written report and an industrial call," Turner says. "They want to learn. There's a real thirst for it."

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QUESTIONS

1. How do niche “alternative, alternative” assets (such as boat marinas, whiskey barrels, and wireless spectrum licenses) enhance portfolio diversification compared to traditional private equity and public market investments?
- 105 2. Horowitz Group describes its niche investments as offering “equity returns for credit-like risk.” From an asset management perspective, how should investors evaluate whether these returns adequately compensate for liquidity and operational risks?
3. Unlike many private-equity funds with long lock-up periods, some specialty-finance funds generate ongoing cash flow. How does liquidity structure influence asset allocation decisions for family offices?
- 110 4. Why do family offices target inherently small and inefficient asset classes, and how can limited competition from institutional investors create excess return opportunities?
5. According to Addepar data cited in the text, family offices allocate a significant portion of their portfolios to alternatives. What factors are driving this structural shift toward alternative and niche private strategies?
- 115 6. How do traditional private-market fee models (e.g., “2 and 20”) impact net returns, and why might wealthy families prefer direct or near-direct investments to improve cost efficiency?
7. How did the prolonged low-interest-rate environment before 2021 contribute to the growth of uncorrelated investment strategies such as music royalties and litigation finance?

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MOCK BUSINESS MEETINGS – AGENDA/ DECISION MAKING

1. **Should Our Family Office Allocate Capital to Niche Alternative Assets?**
Your investment committee is considering allocating 10% of the portfolio to niche assets such as marinas, whiskey aging funds, or spectrum licenses.
- 125 2. **Private Equity vs. “Alternative Alternative” Investments: Where Is the Better Risk-Adjusted Return?**
Traditional private equity is becoming crowded and competitive (e.g., firms like Carlyle Group, Apollo Global Management, and KKR).
- 130 3. **Direct Investing vs. Fund Investing: How Should We Reduce Fees and Increase Control?**
wealthy families are tired of high fees and want more direct exposure.