# Today's market requires an alternative course of action

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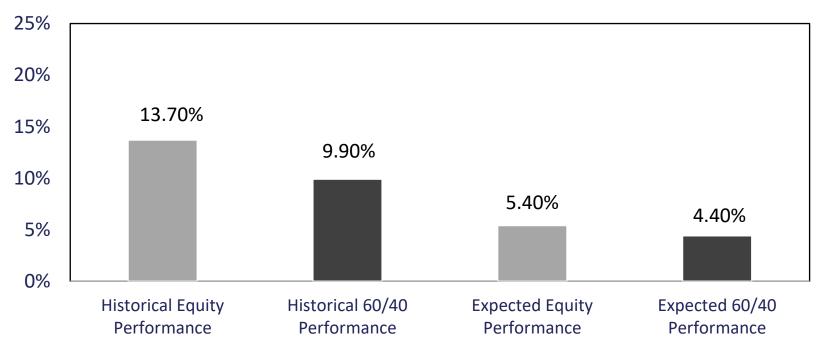
### TODAY'S MARKET ENVIRONMENT

- Capital market assumptions (CMAs) are projecting substantially lower equity returns
- □ Fixed income yields are near generationally low levels, with ~\$18 trillion in negative yielding assets globally at the peak\*
- Correlations remain elevated due to interconnectivity of global markets
- □ Inflation is at the highest level since the early 1980s\*\*
- Changing Fed Policy, raising rates and reducing their balance sheet, leading to a more challenging environment going forward
- Elevated Geopolitical risks (Russian, Iran, China, etc.)



### Long Term Capital Market Assumptions

Are projected to be well below historical averages



<sup>1</sup>US Public Equities = S&P 500 Total Return, US Aggregate Bonds = Bloomberg Barclays US Aggregate Index, 60/40 = 60% US Equities and 40% US Aggregate Bonds <sup>5</sup>Source: Blackrock, JP Morgan, BNY, USS and Morgan Stanley Updated as of June 2020. <sup>5</sup> Source: Facts eard ICapital calculations. Data from Cobber 2010 to September 2020. For illustrative purposes only.

### Capital Market Expectations (10-Year)

Asset Class	Class Expected Return		Past 20 yrs. Annualized returns
US Equity	5.4%	15.1%	5.9%
EAFE	5.3%	15.8%	3.3%
EM	7.0%	20.4%	6.7%
Global REITs	5.7%	17.7%	10.7%
Global Infrastructure	5.6%	15.5%	8.0%
US Govt. Bond	0.8%	4.3%	4.6%
US Investment Grade	2.0%	5.6%	5.2%
US High Yield	4.8%	9.1%	7.1%
Commodities	3.2%	15.0%	1.0%
Oil	3.3%	38.4%	0.0%
Global Private Equity	7.0%	19.5%	10.5%
Global Private Real Estate	5.6%	15.6%	8.7%

### Alternatives May Offer Lower Correlations and Diversification Benefits

#### Correlation matrix, 20-year period. As of December 31, 2021

Asset Class	Index	S&P 500	Bloomberg US Agg Bond Index
	S&P 500	1.00	-0.26
Traditional Assets	MSCI EAFE	0.88	-0.18
	Bloomberg US Agg Bond Index	-0.26	1.00
Global Real Estate	MCREIF Property	0.33	-0.22
Global Real Estate	Alerian MLP Index	0.64	-0.05
Real Assets	Bloomberg Commodity Index	0.45	-0.13
Redi Assels	MSCI World Infra Sector Capped Index	0.83	-0.05
	HFRI Fund Weighted Composite	0.85	-0.22
	HFRI Equity Hedge	0.87	-0.25
Hedge Funds	HFRI Macro	0.30	0.16
	HFRI Event Driven	0.85	-0.29
	HFRI Relative Value	0.74	-0.17
Drivete Accete	Cliffwater Direct Lending Index	0.70	-0.29
Private Assets	Cambridge Associates LLC U.S. Private Equity Index	0.78	-0.30

Source: Franklin Templeton, Morningstar. As of December 31, 2021. Correlations data is based on a 20-year period and quarterly observations.

Past performance is not a guarantee of future results. Diversification does not guarantee a profit or protect against a loss.

Index returns do not reflect any less, expenses or sales harges. Indexes are unmanaged and investors cannot invest directly in an index. This information is provided for illustrative purposes only. Hypothetical portfolio results shown do not represent the performance of an actual investment. The results are rebalanced quarterly and assume reinvestment of ordinary income and distributions. The results do not reflect a deduction of fees, taxes, and other expenses, and with voluti reduze performance.

# PRACTITIONERS NEED

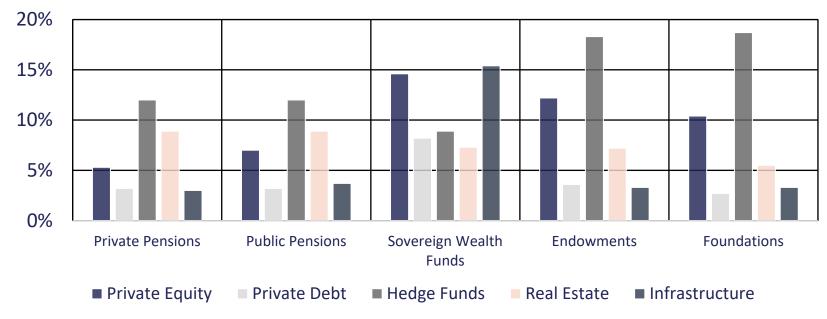
# A BETTER TOOLBOX

### Alternative Investments Role In a Client's Portfolio



### **Asset Allocation**

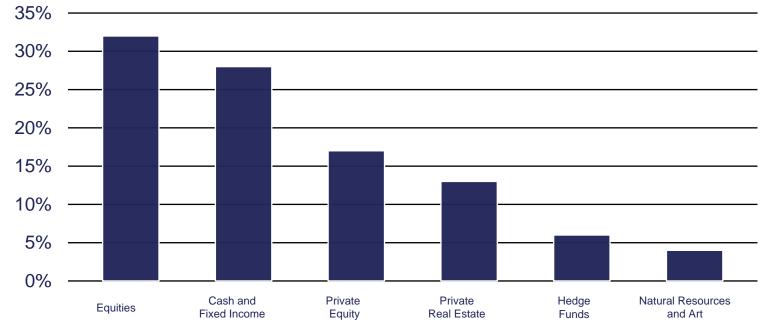
By Institutional Segment



Source: Prequin, CAIA Association (2021)

### **Asset Allocation**

### Of U.S. Family Offices

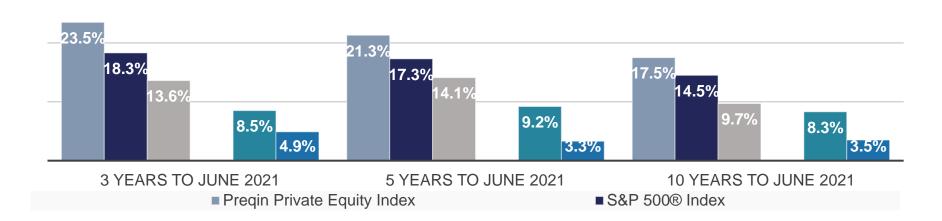


Source: Global Family Office Report, UBS, 2021

### Private Markets have Historically Delivered an Illiquidity Premium

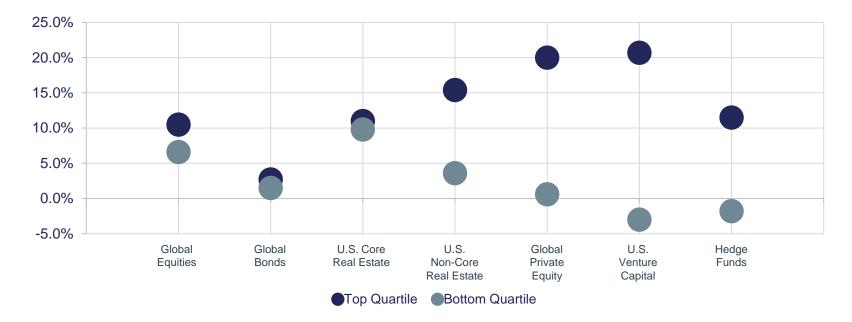
Prequin private market indices versus public market indices

As of June 30, 2021



Pat performance is no participation to many investments comprising the index are provided for illustrative purposes only and do not represent fund performance is the fund will not have exposure to many investments comprising the index. No assurance can be given that the fund will be successful or index of the investment. The performance is the fund will be successful or index of the investment index of the investment. The performance is the fund will not have exposure to many investments comprising the index are not taken to any investments comprising the index are not taken to any investments comprising the index are not taken to any investments comprising the index are not taken to any investment comparison with any of the performance is the performance is the index are not taken to any investment to any inve

# Accessing Private markets: Dispersion of Returns (10 year returns)

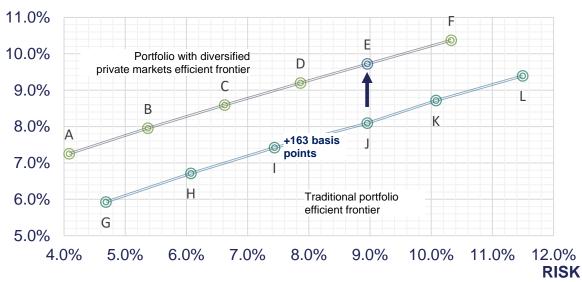


:Source: Lipper, NCREIF, Cambridge Associates, HFRI, J.P. Morgan Asset Management. Global equities (large cap) and global bonds dispersion are based on the world large stock and world bond categories, respectively. Manager dispersion is based on: 3Q 2010 – 3Q 2020 annual returns for global equities, global bonds, U.S. core real estate and hedge funds. U.S non-core real estate, global private equity and U.S. venture capital are represented by the 10year horizon internal rate of return (IRR) ending 2Q 2020. Data is based on availability as of November 30, 2020.

### Historical Increase In Portfolio Return At The Same Level of Risk

Historical comparison of public market risk and return versus private markets December 31, 2008 – June 30, 2021

#### RETURN



	Hypothetical portfolio examples					
	Global equities	Core fixed income	Private markets			
Α	17%	63%	20%			
В	26%	54%	20%			
С	34%	46%	20%			
D	41%	39%	20%			
Е	48%	32%	20%			
F	56%	24%	20%			
G	25%	75%	0%			
н	35%	65%	0%			
Т	44%	56%	0%			
J	53%	47%	0%			
К	60%	40%	0%			
L	68%	32%	0%			

Past performance is not indicative of future results. This is a hypothetical illustration and does not represent actual Fund performances as the Fund will not have exposure to many investments comprising this profile. No assurance can be given that the Fund will be successful or that investors will not lose some or all of their investment. Investors should obeen to represent actual Fund performances as the Fund will not have exposure to many investments comprising this profile. No assurance can be given that the Fund will be successful or that investors will not lose some or all of their investment. Investors should containing the successful or that investores will not lose some or all of their investment. Investors should containing the successful or that the Fund will be successful or that investores will not lose some or all of their investment. Investors should containing the successful or that investores will not lose some or all of their investment. Investors should containing the successful or that investment. Investore should contain the successful or that investores will not lose some or all of their investment. Investore should be availed to the successful or that investment. Investore should be availed to the successful or that investment. Investore should be availed to the investment and successful or the successful or that investment. Investore should be availed to the successful or the successful or that investments and successful or the successful o

The "Traditional Portfolio Frontier" represents allocations to global equity (MSCI ACWI) and core fixed income (Bloomberg US Aggregate Index).

The "Traditional with Diversified Median Physice Markets" portfolio regressits allocations to get allocation

# ASSET ALLOCATION &

## PORTFOLIO CONSTRUCTION



## Achieving Client Goals

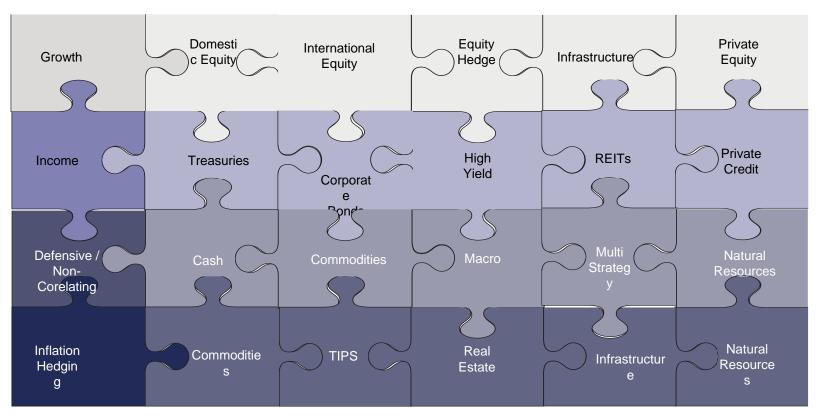
SAVING FOR	WEALTH	ACCUMULATING
RETIREMENT	PRESERVATION	WEALTH

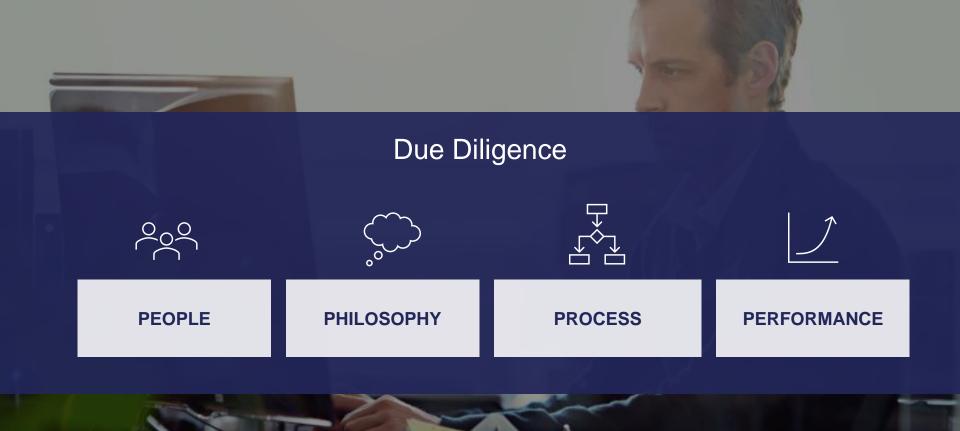


### **Asset Allocation Considerations**



### The Role of Various Asset Classes









Evaluating the Options



What type of fund is being considered (QP, feeder fund, registered fund)?



What investor qualifications are necessary to invest?



How does the structure match the goals of the investment?



What are the underlying investments (private equity, private credit, real assets, etc.)?



What are the liquidity features? Do they match the investor's time horizon?



What are the tax implications? What is the tax reporting?

### **KEY TAKEAWAYS**



The naïve 60/40 portfolio will likely fall short of achieving client's long-term goals and objectives



Given the current market environment, practitioners need an expanded toolbox to meet their client's goals over time Alternative Investments can help investors achieve enhanced returns, increase income, reduce volatility, and hedge the impact of inflation

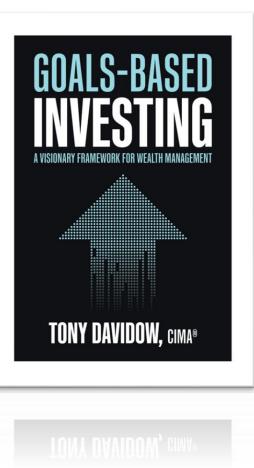


### RESOURCES ON TDavidowConsulting.com









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To succeed in today's complex, uncertain world of investing, you need go beyond plain vanilla stocks, bonds, and mutual funds and embrace the latest investing tools and techniques. *Goals-Based Investing* is an unparalleled guide to:

- The limitations of modern portfolio theory
- Behavioral finance–overcoming biases
- · The role and use of alternative investments in building better portfolios
- The growth of exchange-traded funds (ETFs) from "cheap beta" to "smart beta"
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