IMAP Specialist series: Sky High Markets, Rock Bottom Rates – Is there any alternative to Alternatives?

Session 3 – Building Portfolios using Alternatives – the Researchers' view

Deanne Baker – Lonsec

Steven Tang CFA – Zenith Investment Partners

Tim Murphy – Morningstar

Series moderated by Daniel Stojanovski, Centrepoint Alliance

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Upcoming events

25th August – IMAP Managed Account Awards Virtual Presentation Ceremony

13th September – State of Managed Accounts Webinar

11th November – Independent Thought Conference

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How to ask a Question

  

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IMAP - Alternatives in Portfolio Construction

August 2021 | Lonsec Investment Solutions

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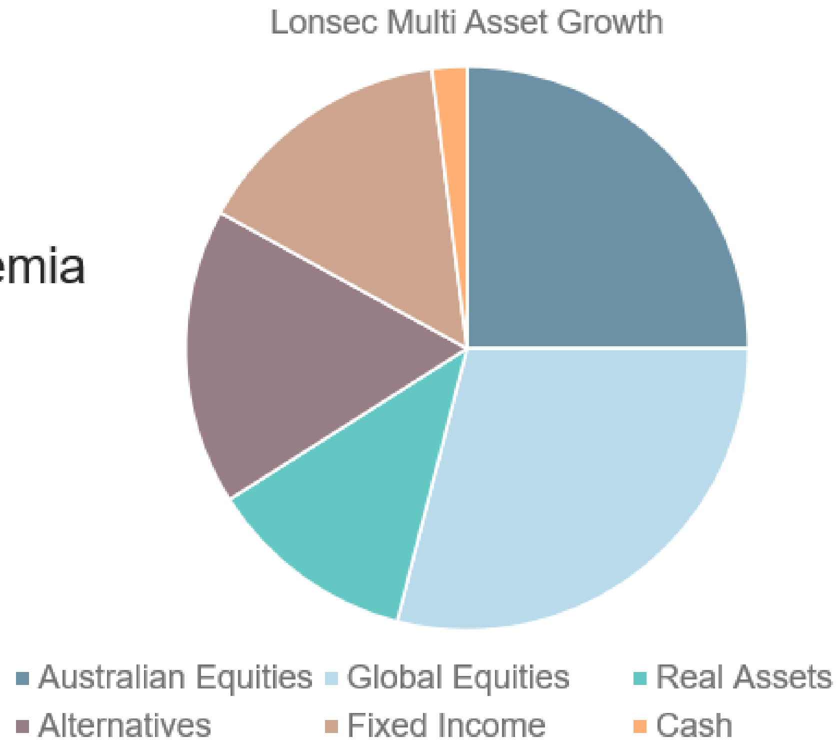
Why alternatives?

- Diversification
- Access to non-traditional risk premia
- Access to manager skill
- Reduce risk



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Portfolio Construction

- One size does not fit all
- Cater for risk tolerance, investment timeframe and objectives
- Designed to complement existing exposures within the portfolio

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Define the Universe

Lonsec Alternatives Sector

	Conservative	Growth (Moderate)	Growth (High Growth)
Targeted Return	Cash Proxy + 2% p.a.	Cash Proxy + 2-5% p.a.	Cash Proxy + 5% p.a.
Targeted Risk (Volatility)	Similar to other defensive assets, less than 4% p.a.	4-10% p.a.	10%+ p.a.
Asset Exposure	Higher exposure to fixed interest securities	Allocation to equity and equity-like securities	High allocation to equity and equity-like securities
Examples	Relative value fixed income, Private Debt	Global macro, systematic risk premia, market neutral, event driven	Private Equity, trend, FX, long/short equity, commodities

- Plus ‘alternatives to alternatives’
  - multi asset real return, unconstrained bond funds, alternative income (high)

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Role in the Portfolio

Return Generator

Access alternative risk premia; illiquidity, default risk

Private Equity
Private Debt
Private Real Assets
High Yield Credit

Diversifier

Lowly correlated to equities over the cycle

Global Macro
Market Neutral
Relative Value
Multi-Strategy

Risk Off Diversifier

Negatively correlated to equities in times of stress

Gold
FX
Trend Following
Duration, ILB

↔ Leverage, liquidity, fee budget, time horizon

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IMAP Portfolio Management Webinar:
Alternatives Session

August 2021

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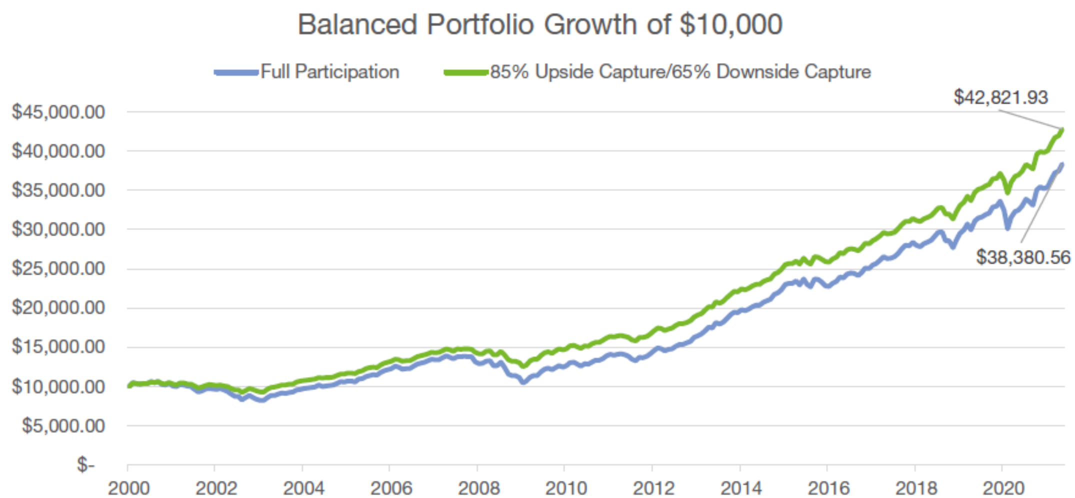
Portfolio objectives – the why

Aim to deliver:

- superior risk-adjusted returns
- more consistent outcomes, and
- provide stronger downside protection when traditional market (shares and bonds) returns are poor.



From 1/02/2000 to 30/06/2021	Return (p.a.)	Standard Deviation (p.a.)	Return/Risk
Full Participation	6.51%	7.16%	0.91
85% Upside Capture/65% Downside Capture	7.06%	5.39%	1.31

Zenith's view on alternatives

- Advocates of alternative strategies in portfolios
- Believe high-quality alternative funds can significantly improve portfolio diversification, lowering volatility and potentially enhancing long-term returns
- Funded from growth assets

Alternatives

Inclusions

- Hedge Funds (Managed Futures, Global Macro, Market Neutral) Private Equity, Real Assets, Hard Commodities (Gold)

Exclusions

- Unconstrained Fixed Income, Long/Short Equities (Active extension, variable beta), Listed Property and Infrastructure

Key challenges

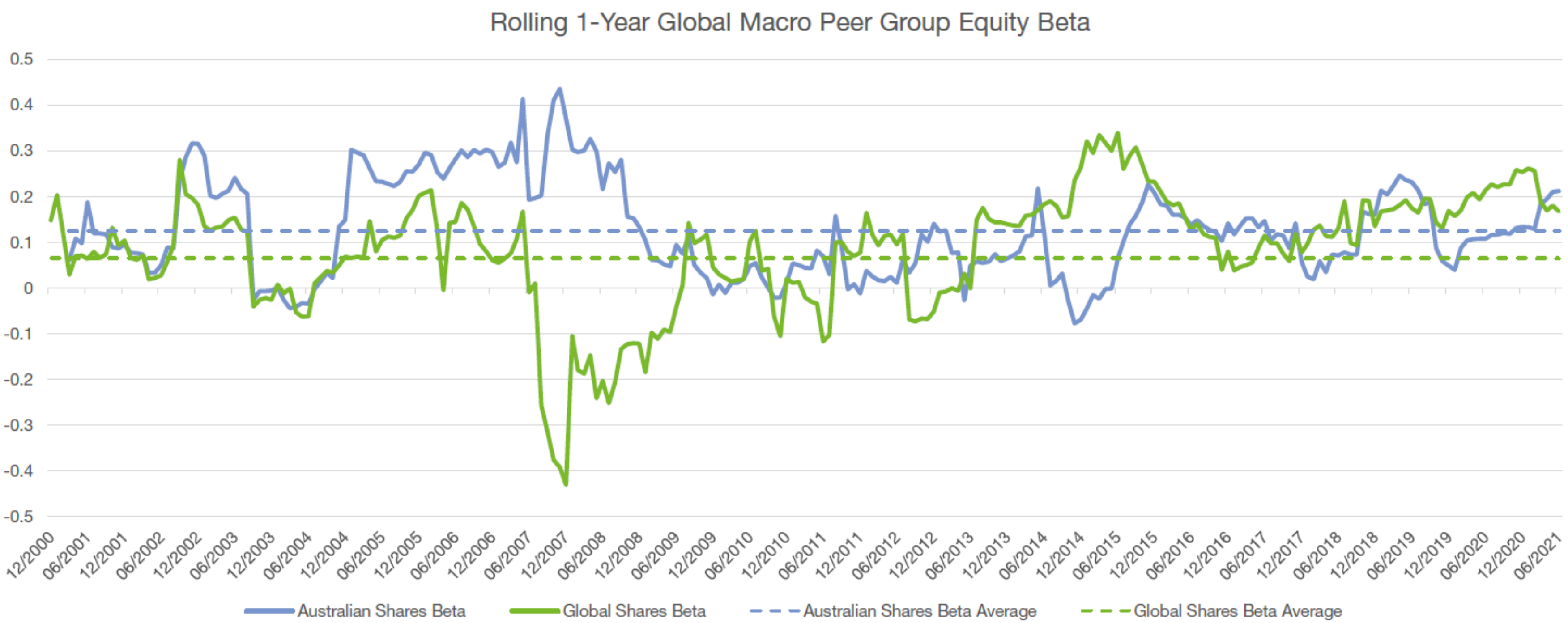
- Funding
- Fees
- Heterogenicity
- Transparency

Key challenges

Heterogenicity - leads to varied performance outcomes

Key challenges

Transparency – understanding what's under the hood



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