IMAP Webinar Series

Beyond 60:40 - Delivering portfolios for clients with Different Goals

Retirement Income

Darren Beesley, Evidentia Group
Frank Danieli, MA Financial
Moderated by
Daniel Stojanovski, Ventura Funds Management

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Upcoming events

Webinar: Beyond 60:40 - Delivering portfolios for clients with Different Goals

7th May – ESG

8th May – New Economy – Investing in Thematic and Alternative Investments

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How to ask a Question

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Perspectives on Alternatives Allocation

Frank Danieli

6 May 2025

MA Financial Group

We invest. We lend. We advise.

Traditional 60/40 portfolio

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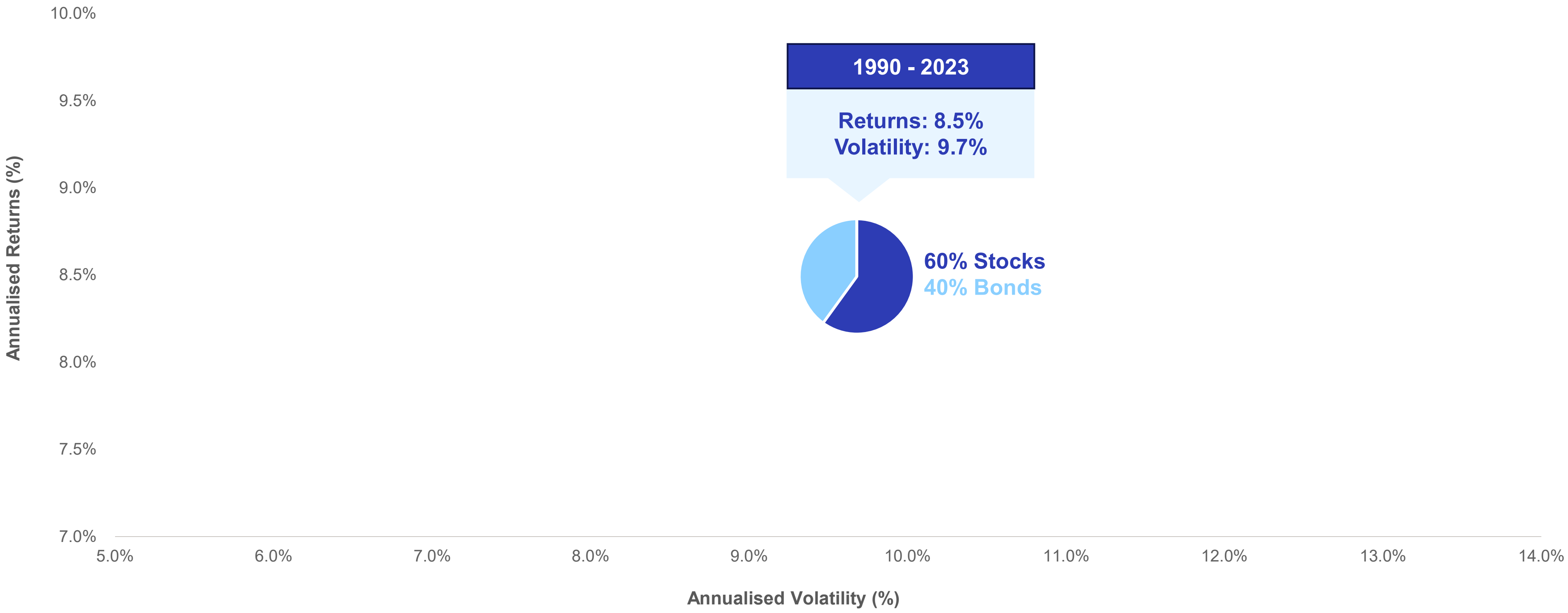
High single digit portfolio returns over long term with moderate volatility



Source: J.P. Morgan Research, Bloomberg, Burgiss, HFRI, NCREIF, Standard & Poor's, FactSet. Based on data as at May 2024

What happens if you add alternatives?

Higher return, lower volatility

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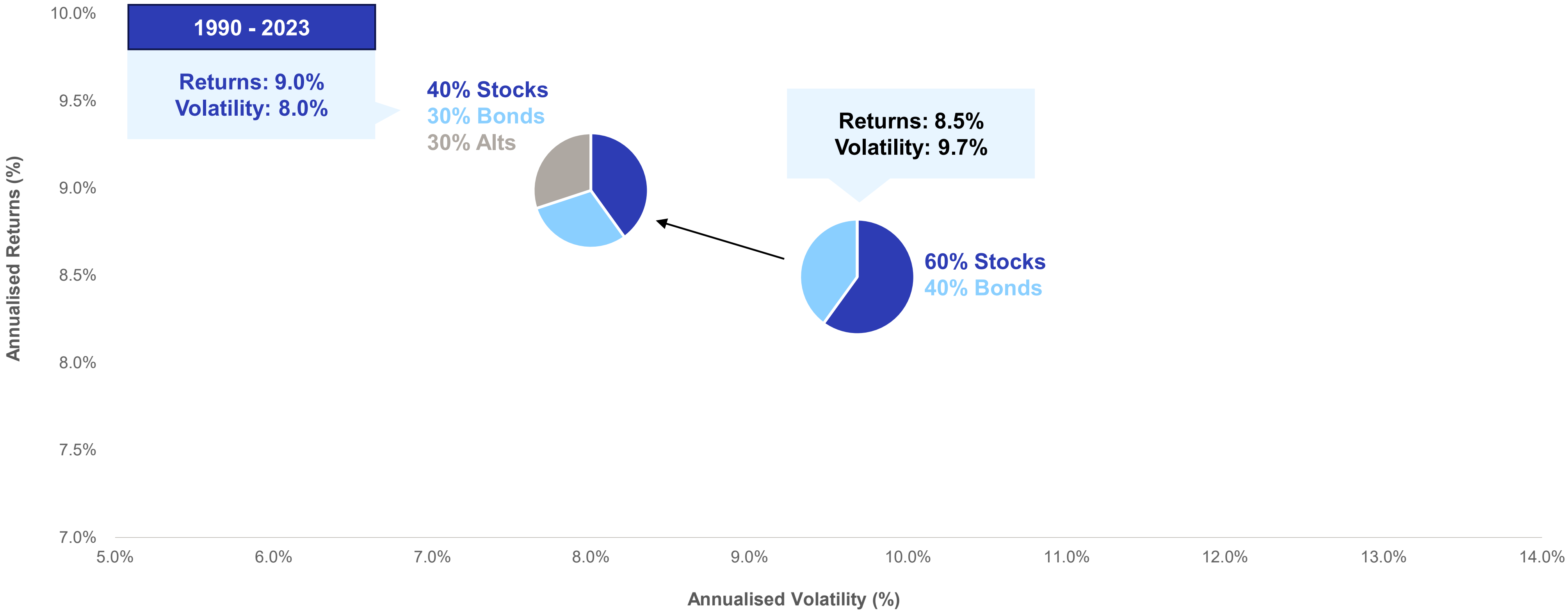
Return enhancement with ~18% volatility reduction, but liquidity profile has changed



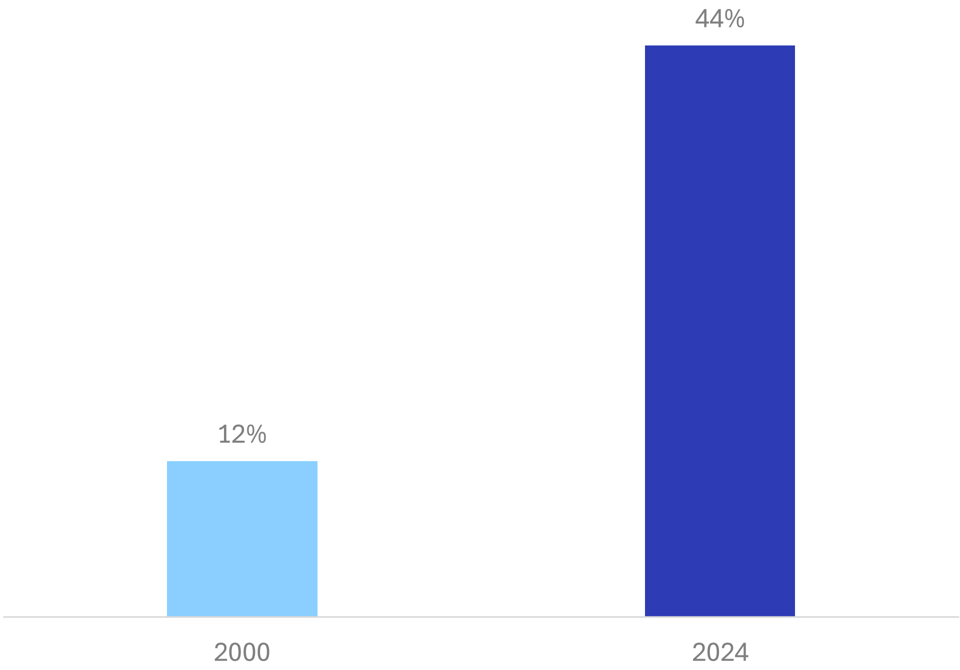
Source: J.P. Morgan Research, Bloomberg, Burgiss, HFRI, NCREIF, Standard & Poor's, FactSet. Based on data as at May 2024

How can this be?

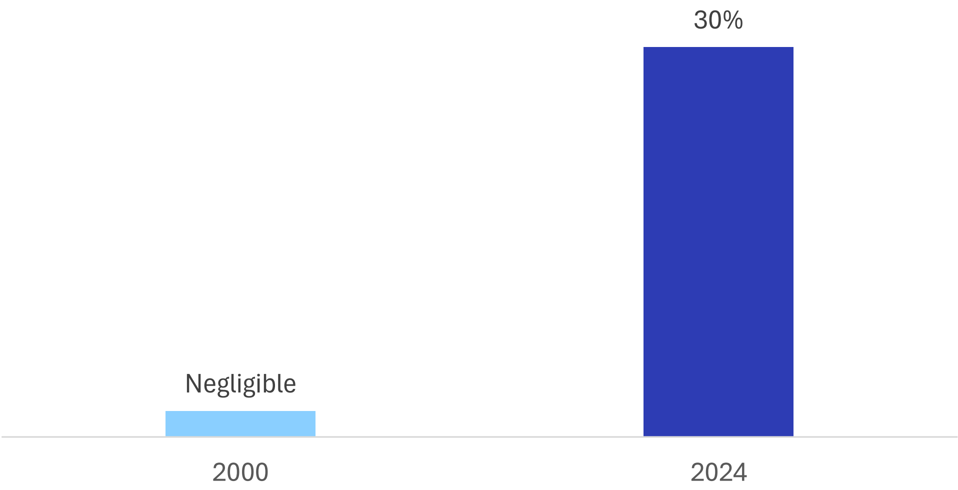
Most public market is driven by passive money

Passive money in systemic trading strategies now dominates public markets

Equities | *passive investment share %*



Fixed income | *passive investment share %*

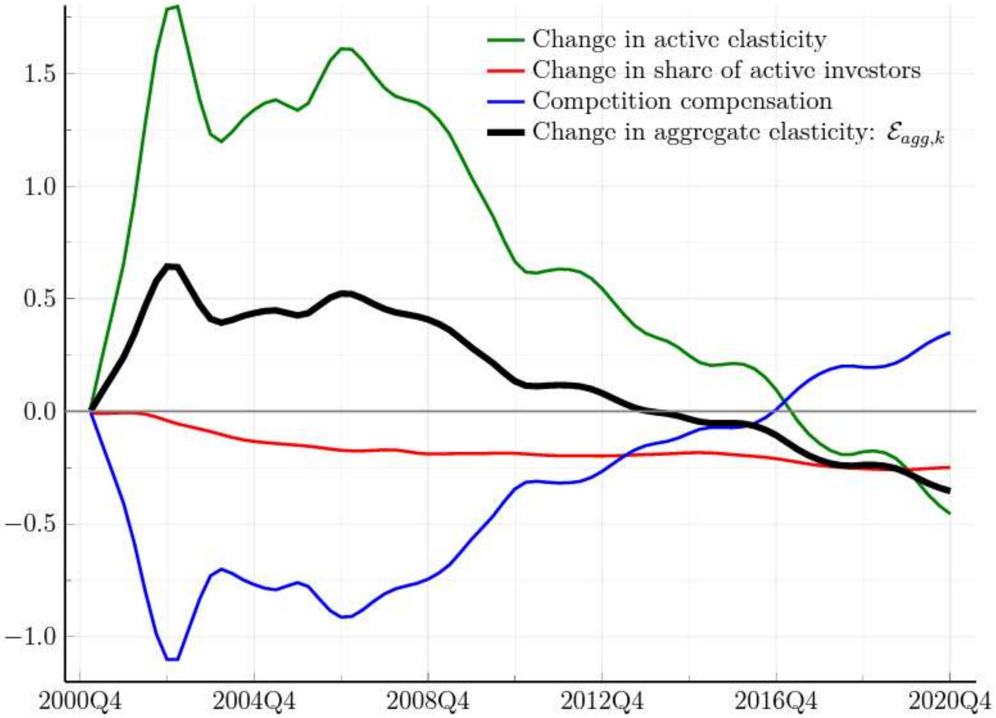


Source: Charles Schwab.

Public markets have increased in volatility over time

Public markets are increasingly dominated by passive and systemic strategies that may lead to increased volatility

Declines in active investing drive declines in elasticity



"We find that the direct effect of the decrease in the fraction of active investors contributes 227% of the total drop in elasticity"

"The effects of changes in the composition of investors on the demand for stock is reduced by 60%. ***This implies…that the rise in passive investing leads to substantially more inelastic markets****"*

Source: Haddad, Valentin (UCLA and NBER) & Huebner, Paul (UCLA) & Loualiche, Erik (University of Minnesota) (2022). "How Competitive is the Stock Market? Theory, Evidence from Portfolios, and Implications for the Rise of Passive Investing."

Are alternatives actually so different?

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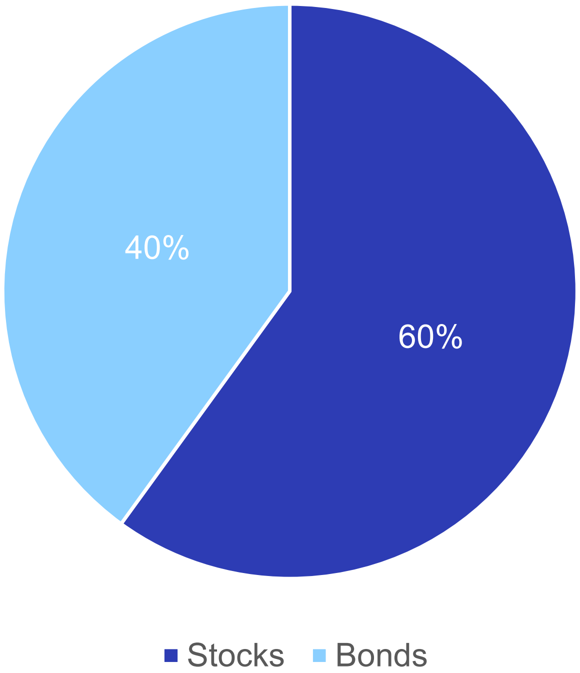
Some asset classes that are traditionally categorised as ‘alternative’ are not fundamentally different to stocks and bonds that are core in portfolios

	Bonds	**Private Credit**
Fundamental Nature	Loans or debt obligations of a company and/or secured against assets	
	Widely available	*Proprietary deals*
Liquidity	Traded ‘over the counter’ (OTC)	Direct or bilateral loans (but secondary markets exist)
	More liquid	*Less liquid*
Volatility	Can be volatile, including through intervention	Returns/spreads driven by fundamentals & economic risk
	More vol.	*Less vol.*



	Stocks (Public Equity)	**Private Equity**
Fundamental Nature	Ownership interests in a business	
	Widely available	*Proprietary deals*
Liquidity	Traded on stock exchange	Not traded. Large deals via M&A
	Truly liquid	*Not liquid*
Volatility	High volatility due to short term momentum & sentiment	Trade via M&A very infrequently, more impacted by fundamentals
	High vol.	*Low vol.*

Considered alternatives, but fundamentally similar with certain key advantages (e.g. proprietary deals), but some trade-offs (e.g. lower liquidity)

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So, ‘alternatives’ is not one bucket

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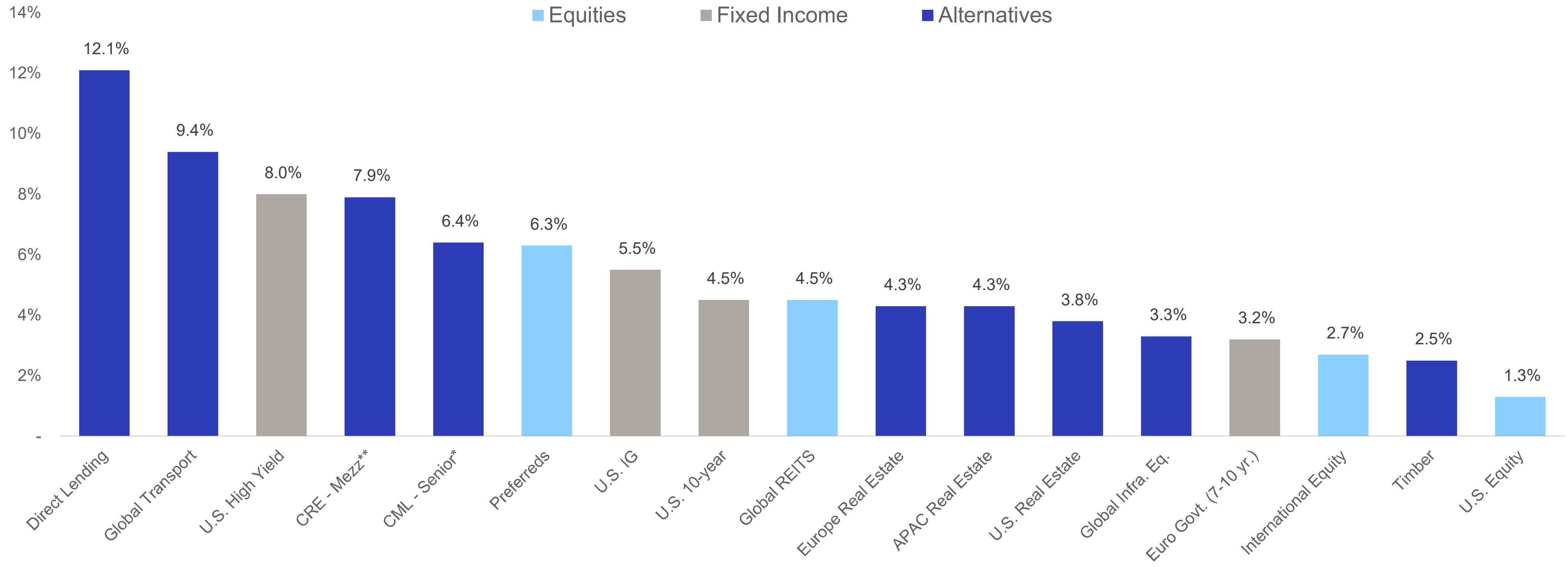
Let’s consider using ‘yield’ alternatives

Yield alternatives: Rank well, but not the fully story

Superior income return relative to most public market asset classes doesn't tell the full picture

Asset class yields (%)



Source: J.P. Morgan analysis, BAML, Bloomberg, Clarkson, Cliffwater, Drewry Maritime Consultants, Federal Reserve, FTSE, MSCI, NCREIF, FactSet, Wells Fargo
*CML is commercial mortgage loans, **CRE – Mezz is mezzanine commercial real estate debt.

Even ranking return and volatility doesn't tell the full picture

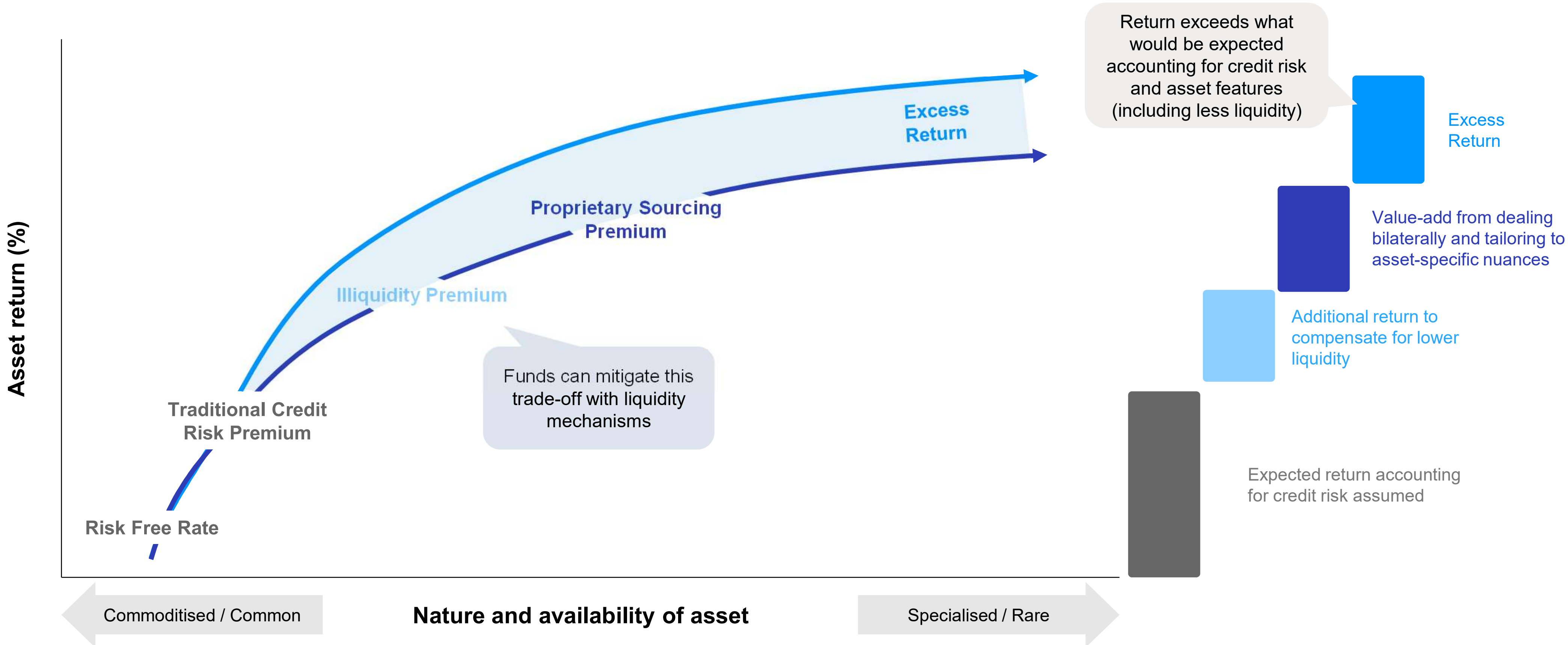
It conflates the spectrum of options within private asset classes

Risk-adjusted return (2004-2023)

Source: T. Rowe Price

Capturing a premium, across the risk spectrum

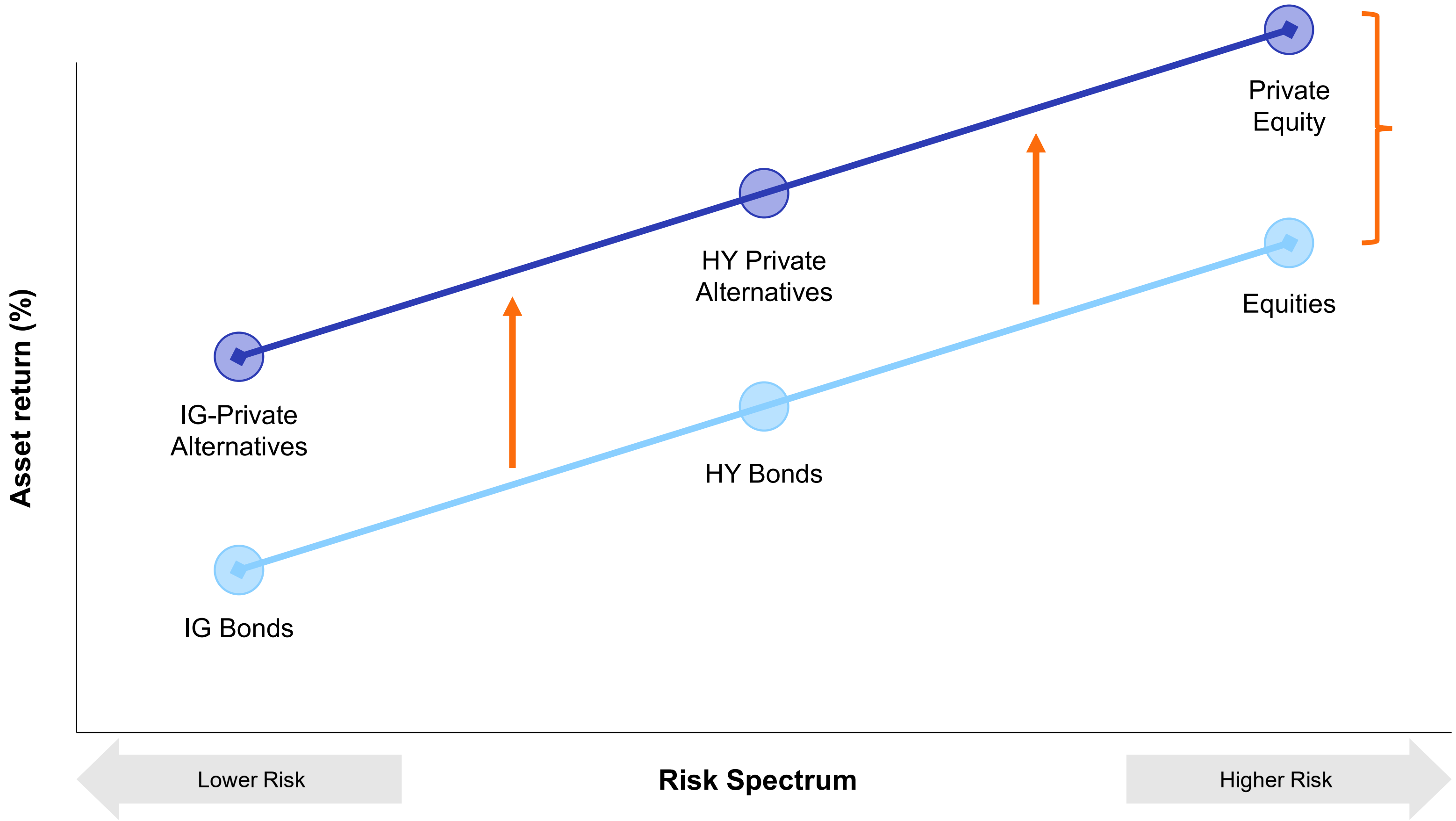
There is a reason there is a return premium: liquidity and proprietary deals



1. Note: Hypothetical return vs. risk illustration only.

Risk and return curves exist in public & private assets

In private alternatives, the curve should be shifted up to capture the liquidity and proprietary deal premiums



Premium is not 'free'

Liquidity dynamics

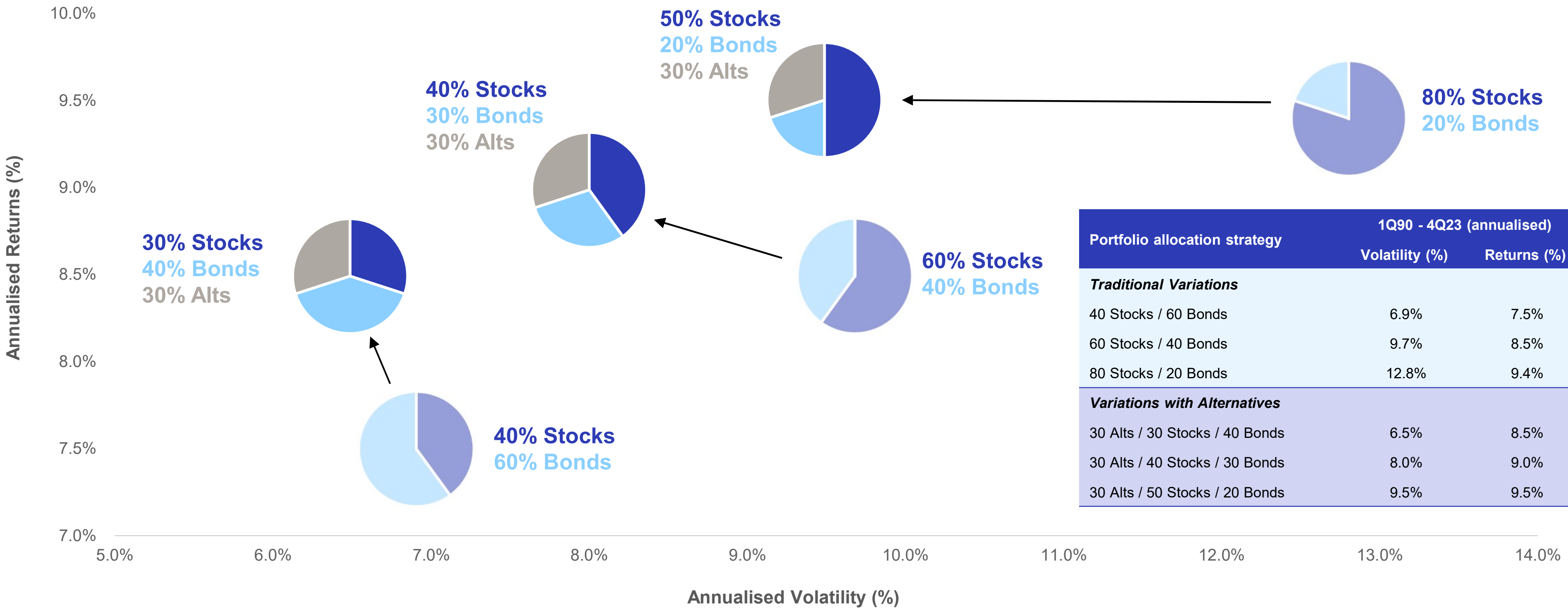
Proprietary deals

Premium is a spectrum

Especially relevant in the retirement income phase

Optimising portfolio allocation depending on risk tolerance

Enhancing a portfolio with allocation to appropriate alternatives can improve returns and lower volatility



Portfolio allocation strategy	1Q90 - 4Q23 (annualised)	
	Volatility (%)	Returns (%)
Traditional Variations		
40 Stocks / 60 Bonds	6.9%	7.5%
60 Stocks / 40 Bonds	9.7%	8.5%
80 Stocks / 20 Bonds	12.8%	9.4%
Variations with Alternatives		
30 Alts / 30 Stocks / 40 Bonds	6.5%	8.5%
30 Alts / 40 Stocks / 30 Bonds	8.0%	9.0%
30 Alts / 50 Stocks / 20 Bonds	9.5%	9.5%

Source: J.P. Morgan Research, Bloomberg, Burgiss, HFRI, NCREIF, Standard & Poor's, FactSet. Based on data as at May 2024

Q&A

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