



# Session B: From Lemons to Lemonade

**Frontier annual conference 2022**



**Chair: Michiel Swaak**

Senior Consultant,  
Frontier Advisors



**Scott Pappas**

Principal Consultant,  
Frontier Advisors

# Irrational exuberance – my intro to investing!



# Bears, bubbles and scandals

## What if equities don't perform?

### The Rise and Fall

The Nasdaq Composite Index, daily close



# Profiting in different market conditions

Hedge funds can generate returns independent of equity market moves



# How do you build a robust portfolio?

Allocating to hedge funds can make portfolios more robust



# Lemons or lemonade?

What do you think of alternatives?



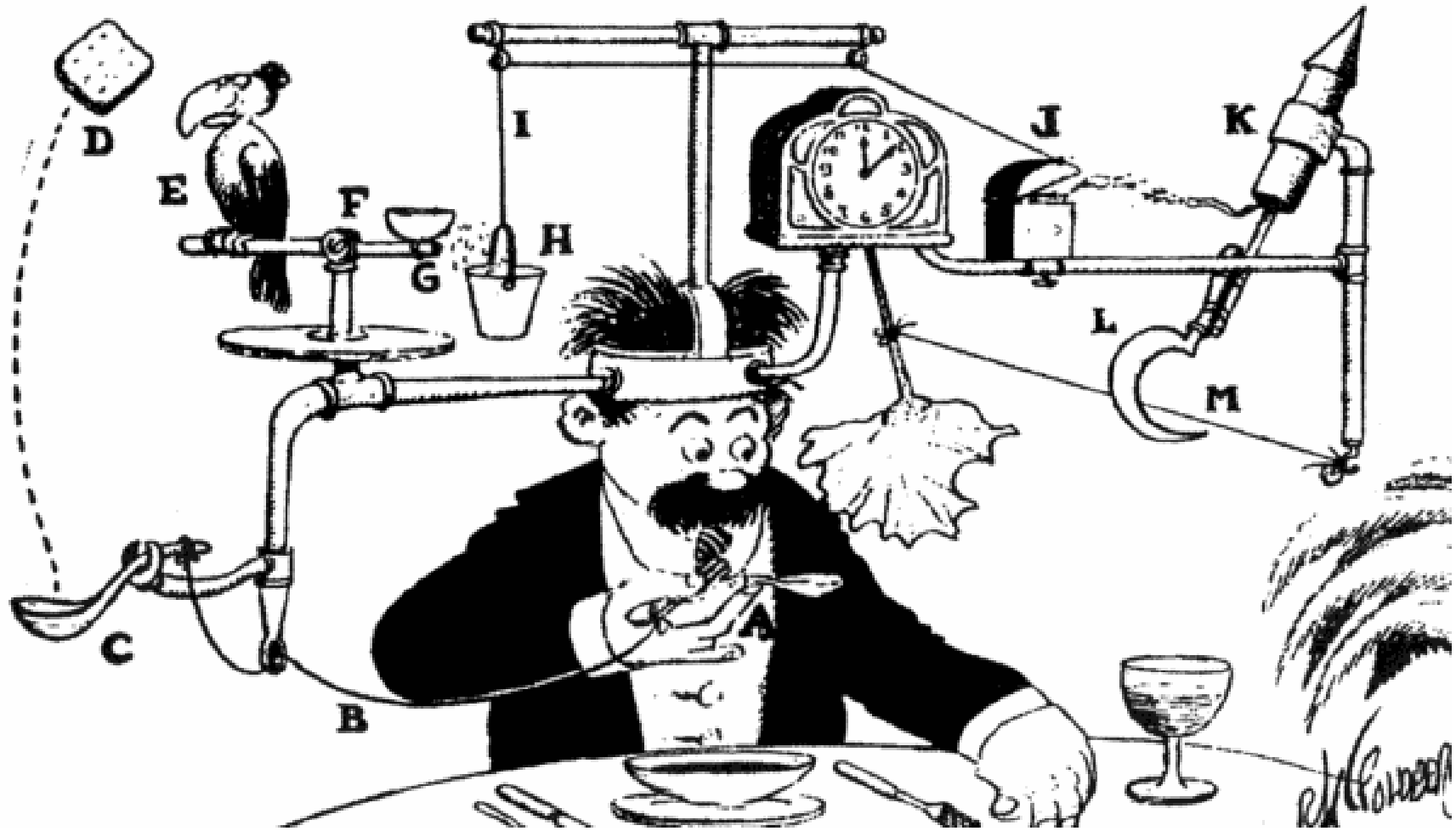
# Evaluating value for money

Understand what you are paying for and what is value-for-money



# Cutting through complexity

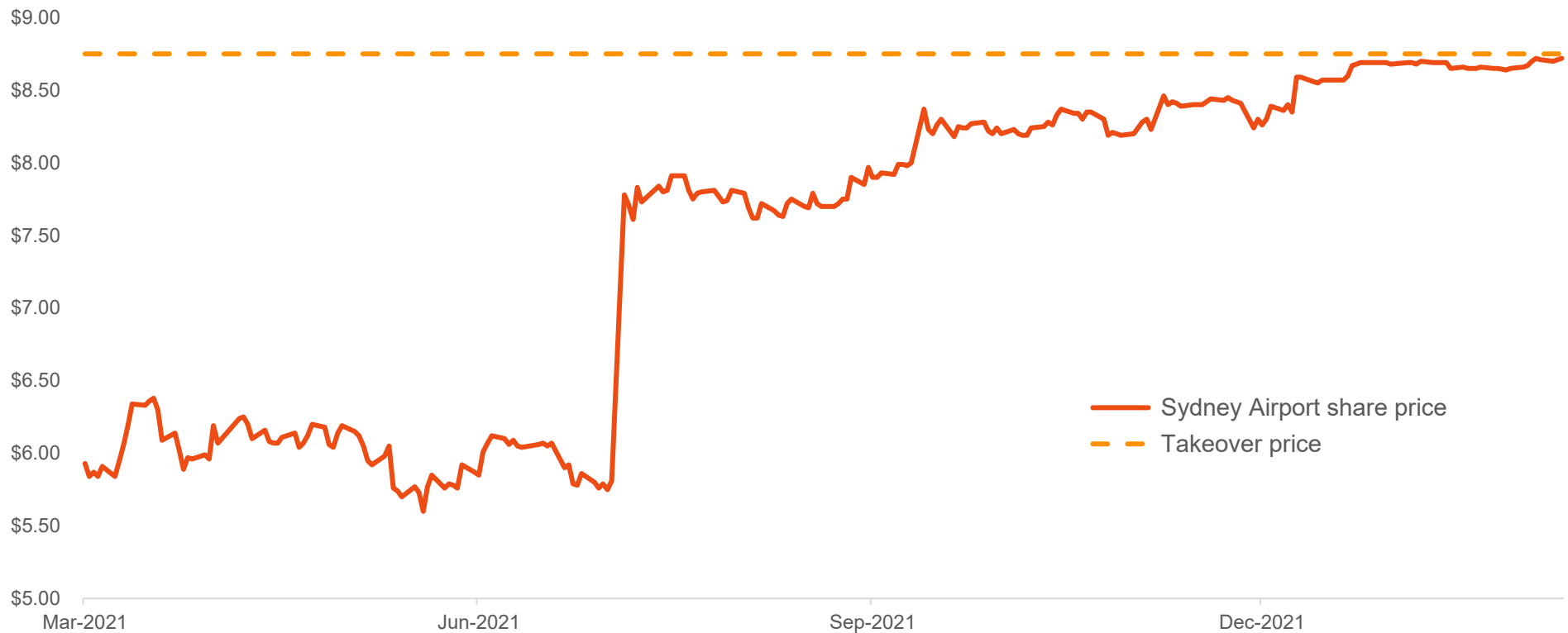
## Understanding the economic rationale





# Merger arbitrage

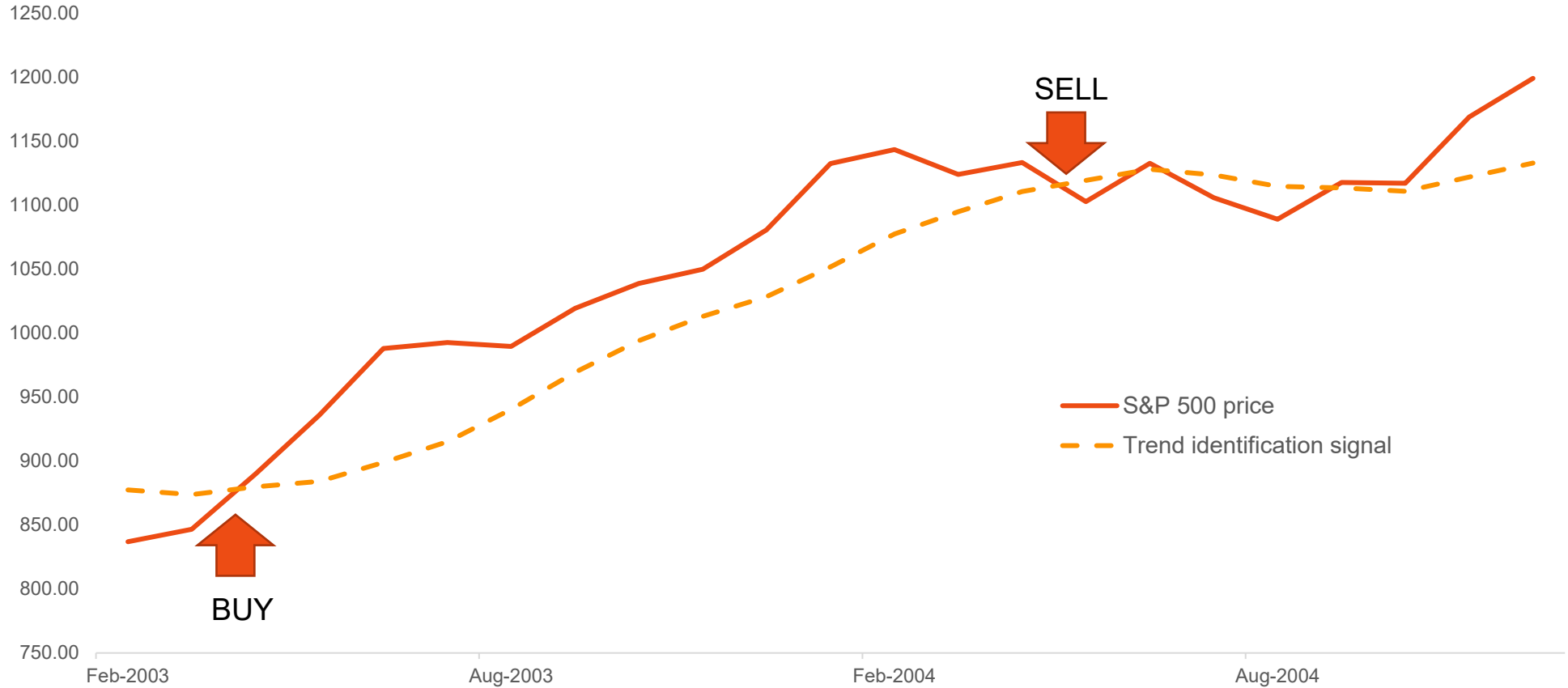
## A premium for insuring against takeover failures



Sources: Bloomberg and Frontier

# Trend following

## Generating returns by exploiting investor behaviour



Sources: Robert Shiller & Frontier

# Performance expectations

## Understand performance and set realistic expectations



# Reviewing performance

**The following charts provide indicative asset class and hedge fund performance**

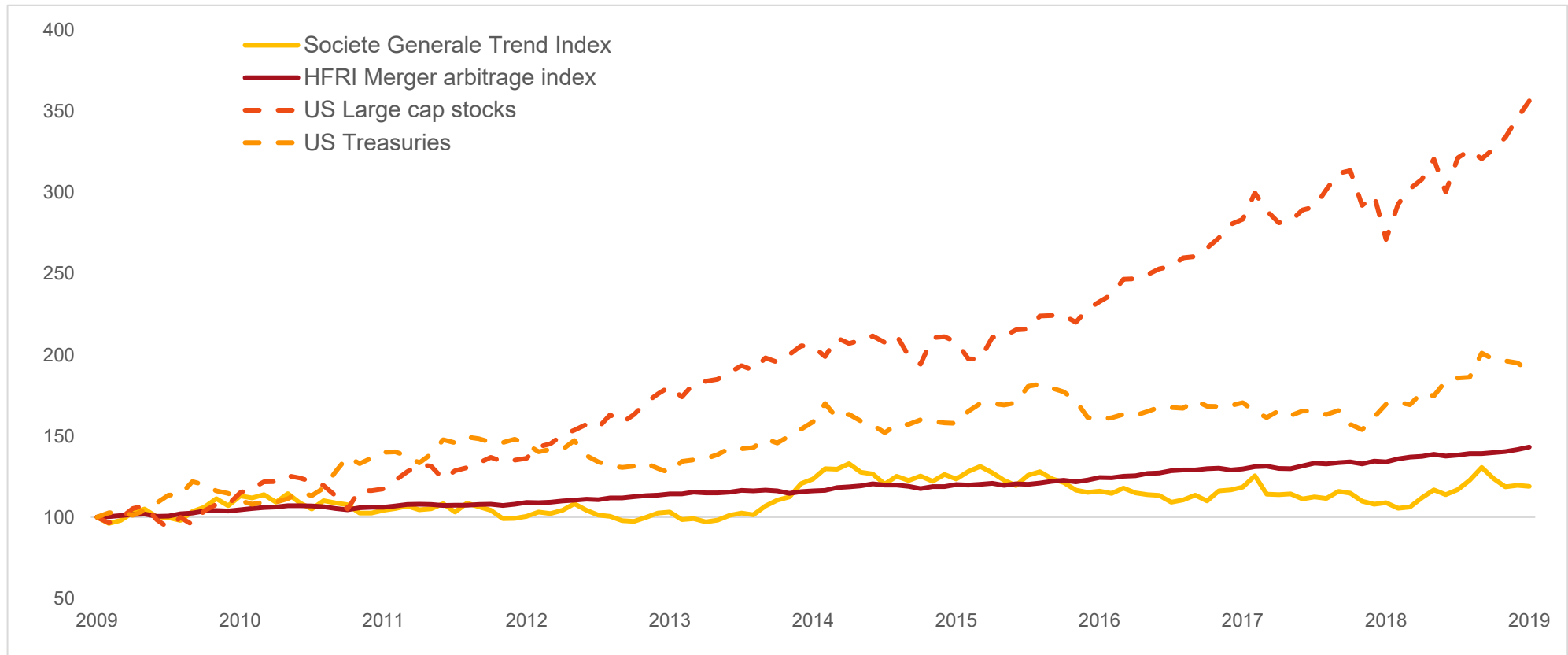
**Alternatives: Trend following and merger arbitrage**

- **Long data sets**
- **Well understood and widely researched strategies**
- **... but many more exist**

**Traditional assets: US equities and US Treasuries**

# 2010 to 2020

Great for equities, good for bonds, not so good for alts

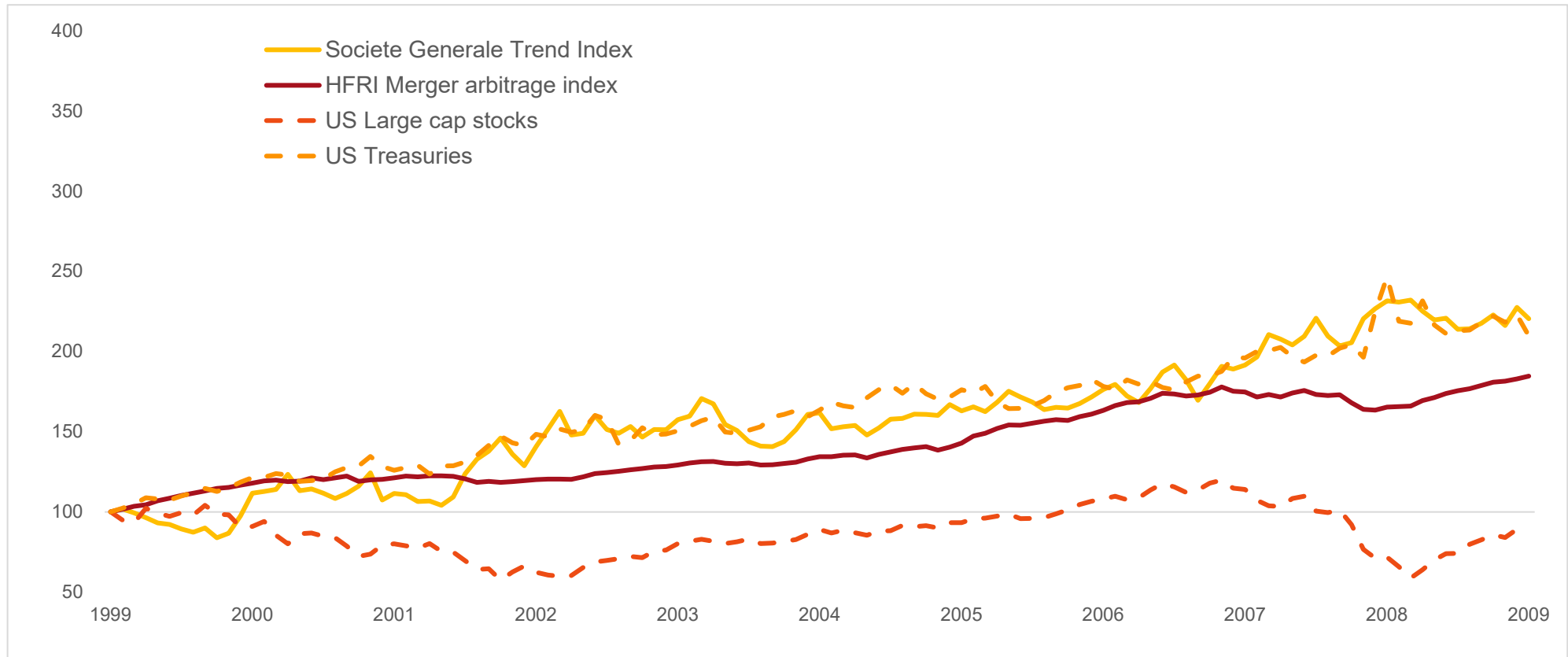


Source: Ibbotson, Société Générale, HFRI and Frontier



# 2000 to 2010

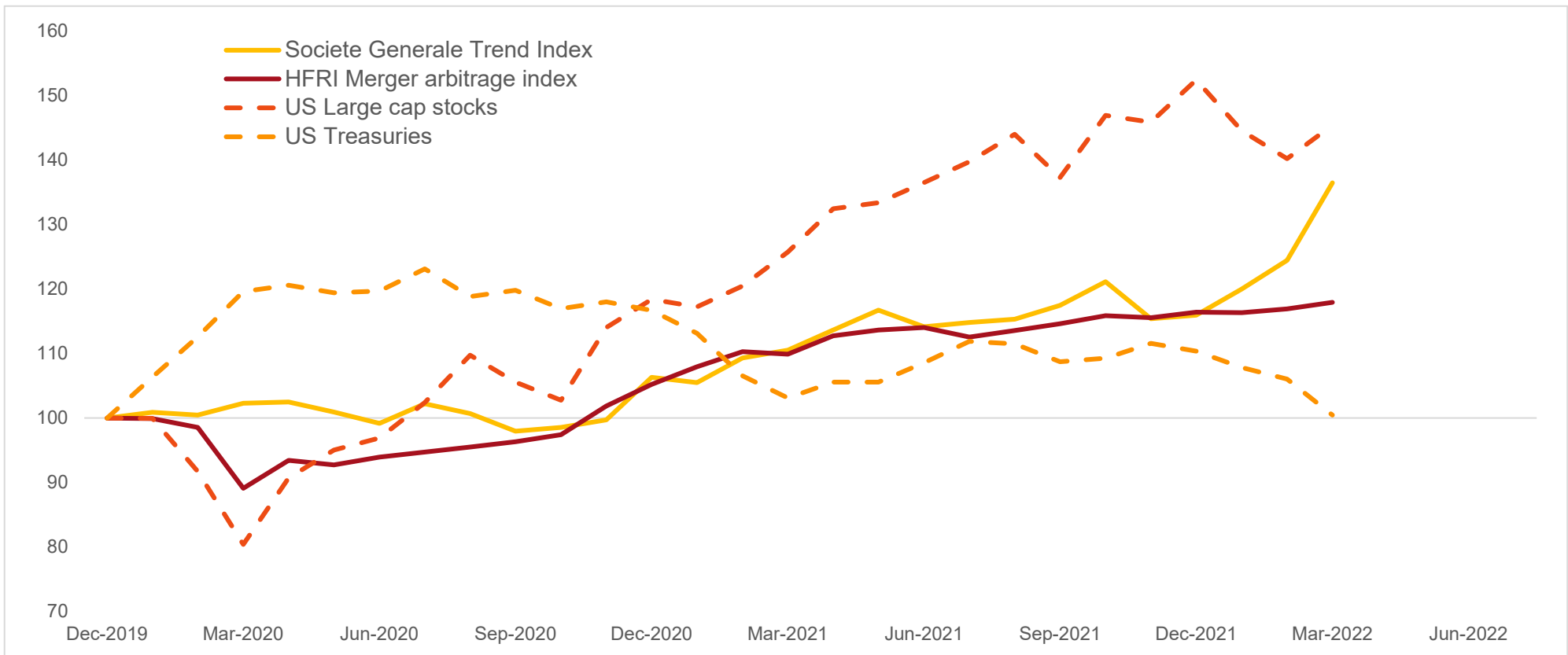
## Good for bonds, good for alts, not so good for equities



Source: Ibbotson, Société Générale, HFRI and Frontier

# 2020 to 2030, so far...

Good for equities (but volatile), good for alts, bad for bonds



Source: Ibbotson, Société Générale, HFRI and Frontier

# Future performance

Understand what will impact your portfolio in the future

	Equities	Merger arbitrage	Trend following
Higher earnings growth	▲	▬	▬
Higher risk premium	▼	▼	▬
Higher discount rate	▼	▲	▬



# Take aways

## Adding alternatives can make a portfolio more robust to a range of market conditions

When investing in alternatives, it important to understand

- what you are paying for and what is value-for-money
- the economic rationale
- what will impact your portfolio in the future



# Thank you for joining us.

## Frontier annual conference 2022

---

Disclaimer:

Frontier Advisors Pty Ltd ABN 21 074 287 406 AFS Licence No. 241266.  
Level 17, 130 Lonsdale Street, Melbourne Victoria 3000.

The information contained in this presentation is current as at the date of preparation but may be subject to change. The information contained in this presentation is intended as general commentary and should not be regarded as financial, legal or other advice. This presentation has been prepared without taking into account your objectives, financial situation or needs. You should consider this presentation in light of these matters. Should you require specific advice on the topics or areas discussed please contact the presenter directly or an appropriate advisor. This presentation may contain forward-looking statements. These are not facts, rather, these forward-looking statements are based on the current beliefs, assumptions, expectations, estimates, and projections of Frontier Advisors Pty Ltd about the business, the industry and the markets in which we operate. Past performance is not a reliable indicator of future performance. Frontier Advisors Pty Ltd makes no representation or warranty that any of the information contained in this presentation is accurate or complete. To the maximum extent permitted by law, Frontier Advisors Pty Ltd does not accept any liability for loss arising from any reliance placed on the use of this presentation including the information contained within it. The contents of this presentation are confidential and must not be disclosed to any third party without our written consent. This presentation must not be copied, reproduced or distributed without the written consent of Frontier Advisors Pty Ltd. Frontier Advisors Pty Ltd does not provide taxation advice and you should seek your own independent taxation advice from a registered tax agent.