

Session 3: Alternatives: Hedge funds

2023 Frontier Advisors Annual Conference

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The case for alternatives

Lost years and the tale of two decades

Chart 1: Real S&P 500 Index and length of drawdown



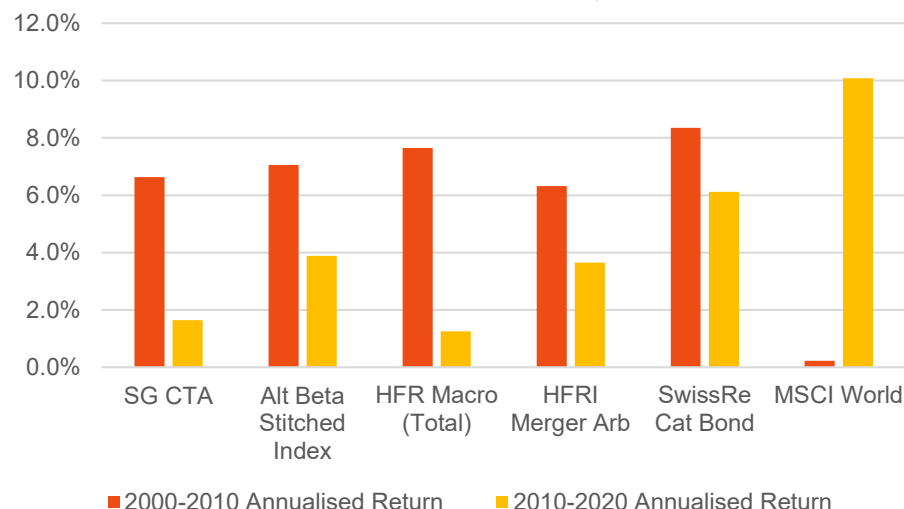
Source: Robert Shiller, Bloomberg

Chart 1 illustrates three long drawdowns in real equity returns (i.e. returns adjusted for inflation). It demonstrates that while in the long run equities have gone up, investors can experience prolonged periods of low returns. In fact, there are three extended periods in which real returns were 0%.

Chart 2 shows the returns experienced by various alternatives sectors and the MSCI World Index in the most recent weak decade for equities, 2000 to 2010. With high valuations at the start, and the subsequent 'tech wreck' and GFC, equities experienced a decade of near-zero annualised returns and high volatility. Conversely, alternatives were able to perform strongly during this period. The next decade was almost the opposite, with equities performing strongly and alternatives producing only low to moderate returns.

An appropriate combination of traditional assets and alternative assets should provide more consistent returns which are more resilient to prolonged drawdowns.

Chart 2: Sector returns by decade



Why diversify across hedge fund strategies

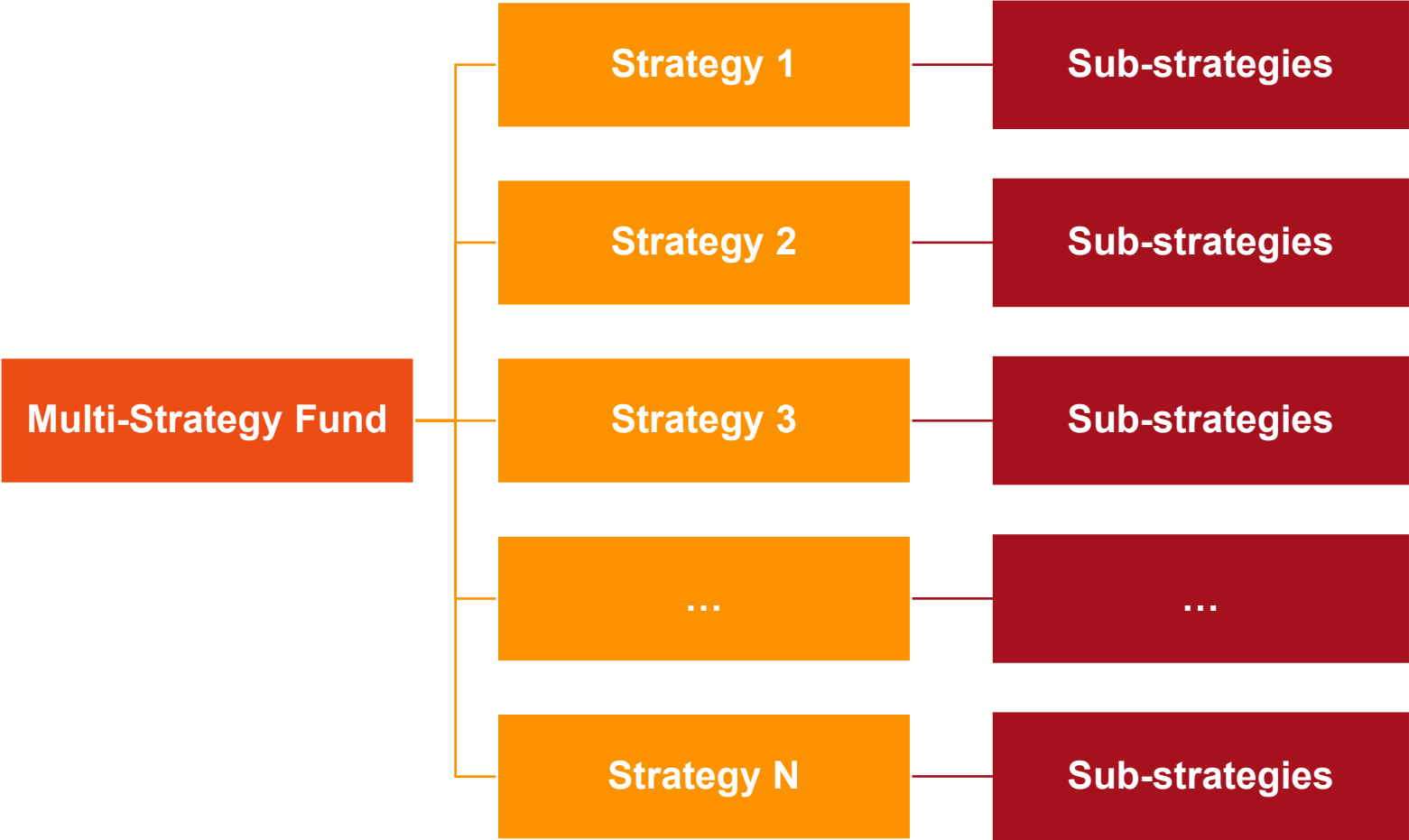
Performance of hedge fund strategies varies with changing market environments

	Worst			Best
2002	Equity Hedge (-4.7%)	Event Driven (-4.3%)	Relative Value (5.4%)	Macro (7.4%)
2003	Relative Value (9.7%)	Equity Hedge (20.5%)	Macro (21.4%)	Event Driven (25.3%)
2004	Macro (4.6%)	Relative Value (5.6%)	Equity Hedge (7.7%)	Event Driven (15%)
2005	Relative Value (6%)	Macro (6.8%)	Event Driven (7.3%)	Equity Hedge (10.6%)
2006	Macro (8.2%)	Equity Hedge (11.7%)	Relative Value (12.4%)	Event Driven (15.3%)
2007	Event Driven (6.6%)	Relative Value (8.9%)	Equity Hedge (10.5%)	Macro (11.1%)
2008	Equity Hedge (-26.7%)	Event Driven (-21.8%)	Relative Value (-18%)	Macro (4.8%)
2009	Macro (4.3%)	Equity Hedge (24.6%)	Event Driven (25%)	Relative Value (25.8%)
2010	Macro (8.1%)	Equity Hedge (10.5%)	Relative Value (11.4%)	Event Driven (11.9%)
2011	Equity Hedge (-8.4%)	Macro (-4.2%)	Event Driven (-3.3%)	Relative Value (0.1%)
2012	Macro (-0.1%)	Equity Hedge (7.4%)	Event Driven (8.9%)	Relative Value (10.6%)
2013	Macro (-0.4%)	Relative Value (7.1%)	Event Driven (12.5%)	Equity Hedge (14.3%)
2014	Event Driven (1.1%)	Equity Hedge (1.8%)	Relative Value (4%)	Macro (5.6%)
2015	Event Driven (-3.6%)	Macro (-1.3%)	Equity Hedge (-1%)	Relative Value (-0.3%)
2016	Macro (1%)	Equity Hedge (5.5%)	Relative Value (7.7%)	Event Driven (10.6%)
2017	Macro (2.2%)	Relative Value (5.1%)	Event Driven (7.6%)	Equity Hedge (13.3%)
2018	Equity Hedge (-7.1%)	Macro (-4.1%)	Event Driven (-2.1%)	Relative Value (-0.4%)
2019	Macro (6.5%)	Relative Value (7.4%)	Event Driven (7.5%)	Equity Hedge (13.7%)
2020	Relative Value (3.4%)	Macro (5.4%)	Event Driven (9.3%)	Equity Hedge (17.9%)
2021	Relative Value (7.6%)	Macro (7.7%)	Equity Hedge (11.7%)	Event Driven (12.4%)
2022	Equity Hedge (-10.1%)	Event Driven (-4.8%)	Relative Value (-0.7%)	Macro (9%)

Source: Bloomberg, HFRI

Multi-strategy funds

Diversified Alternatives solution



Thank you for joining us.

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