

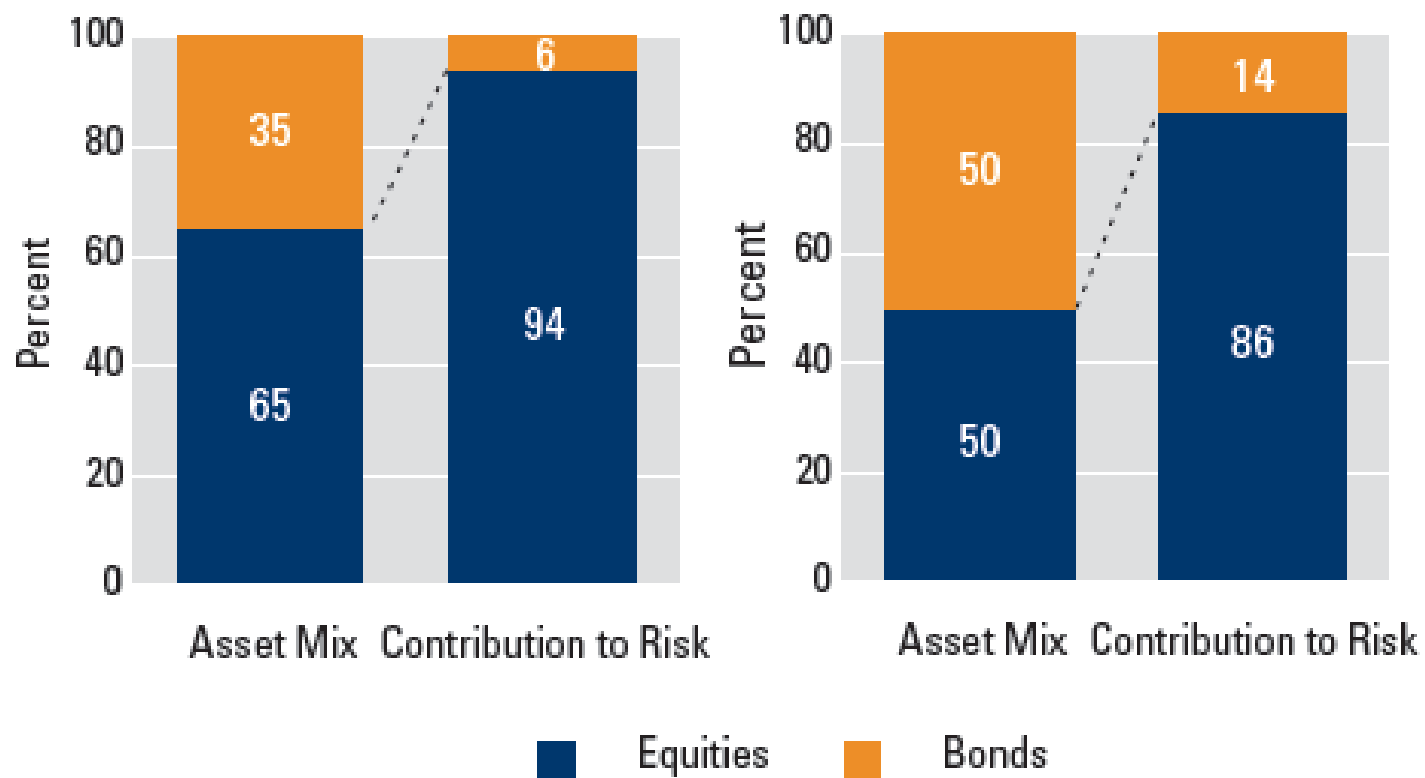


IMAP Investment Forum

The use of alternative strategies in managed accounts

October 2019

Equity risk dominates portfolio volatility



Source: Wellington Management

The case for Alternatives



Getting the allocation to the available range of asset classes right is generally more important than which managers are managing an asset class – beta (or market) risk will account for the majority of outcomes in asset classes such as Australian and global shares

Alternatives are the exception where the nature of the strategy and manager style often dominates the outcome

“idiosyncratic manager or strategy risk” – manager skill (or luck) can dominate returns

**Look at Alternatives more as a “class of investments”
rather than an asset class**

Common characteristics



Alternative assets need to deliver either:

A return premium for illiquidity (can be a problem for managed account strategies)

OR

Diversification of returns away from traditional investments

We recommend open-minded scepticism



Issues to be mindful of when investing in alternatives:

- How attractive after fees and after tax?
- Bias to expensive assets
- Capital inflows can erode opportunities
- Transparency
- Skill or luck?
- Beta dressed up as alpha?
- How much illiquidity can you afford?

A detailed understanding of the strategy & strong fund manager research is essential to avoiding mis-steps

Alternatives within Managed Accounts



Increasing alternative allocations within managed account strategies makes sense in the current market environment

- But they can be very expensive – need to negotiate hard
- Not really able to access an illiquidity premia because of the need to rebalance the managed account strategies
- That means diversification is generally the main advantage
- Lack of extensive range of alternative strategies on APLs and Platforms
- Need to accept that good diversifying alternative strategies are **generally not, by definition**, going to do well whilst traditional asset classes are outperforming

Be clear on the rationale for using alternatives



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MELBOURNE OFFICE

LEVEL 9, 530 COLLINS ST
MELBOURNE, VIC 3000
INFO@JANA.COM.AU

T (03) 9602 5400

F (03) 9602 5451

SYDNEY OFFICE

LEVEL 6, 255 GEORGE ST
SYDNEY, NSW 2000
INFO@JANA.COM.AU

T (02) 9221 4066

F (02) 9221 2689