

BACK TO THE FUTURE

Reimagining the role of liquid diversifiers in a new market regime

14 November 2024

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PRE004199

Unlock opportunity



2024 – Where we are today

**Concerns about
future return
expectations**

**Greater need for
liquidity**

**Seeking uncorrelated
alpha & lower market
beta for better
diversification**

**Building resilience
to extreme events
and shocks**

**Challenges adopting
new technologies**

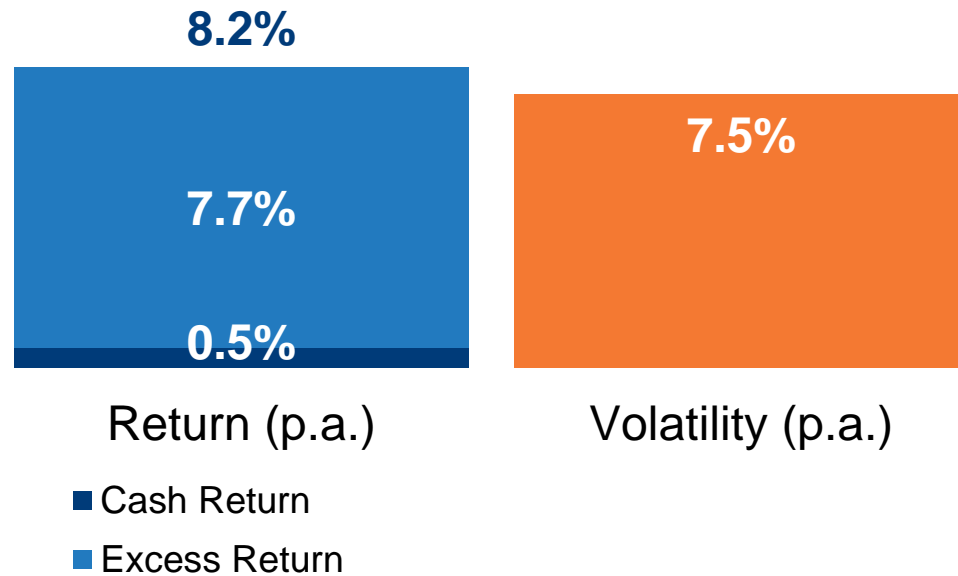
**Partners need to offer
competitive fees,
tailored solutions and
knowledge transfer**

**If we continue to do what we've been doing,
will we continue to get the same results?**

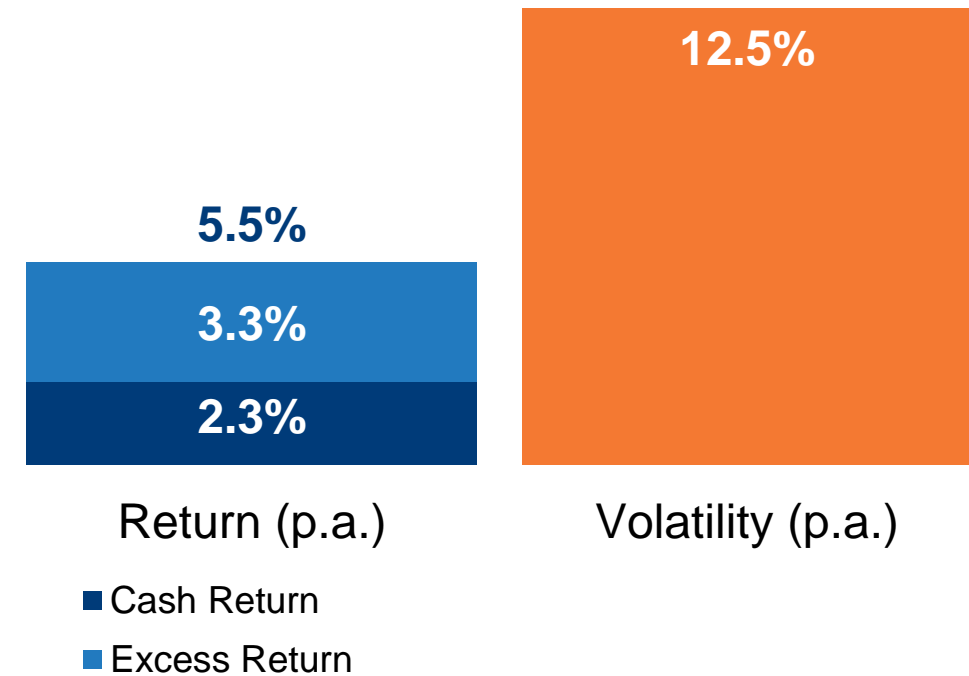
“What got you here, won’t get you there”

GLOBAL 60/40 PORTFOLIO

QE
(June 2009 to June 2020)



Post COVID
(February 2020 to June 2024)

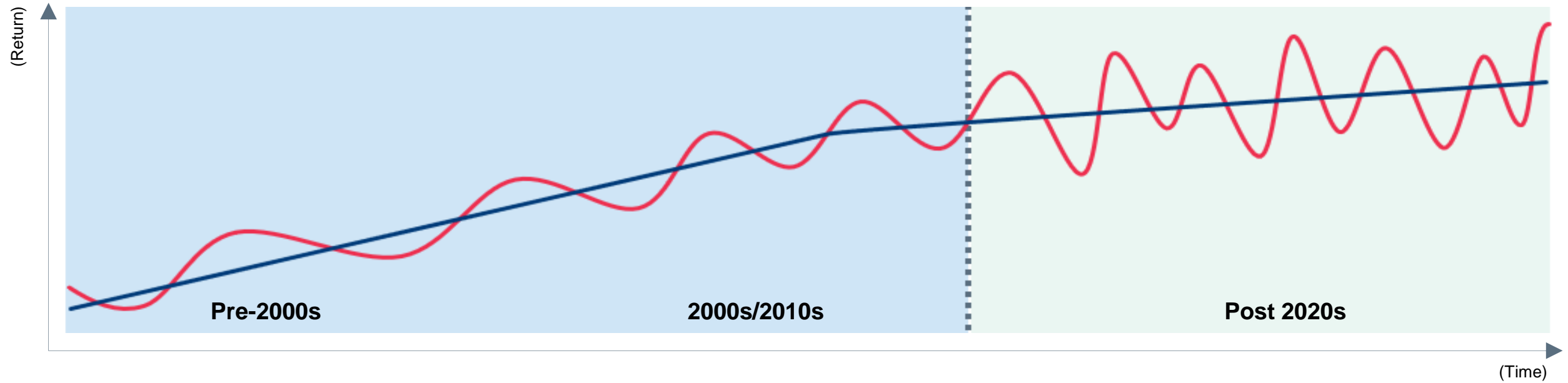


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Source: Newton, as of June 30, 2024. The Global 60/40 Benchmark is 60% MSCI ACWI, 40% FTSE GDP-Weighted World Government Bond Index, both half USD hedged.

What if we are in a different market regime?

“What got you here, won’t get you there”



For illustrative purposes only.
Source: Newton, 2024.

We need to go back to the future...

Time circuits on...

● DESTINATION YEARS ●



Flux capacitor engaged...

Fasten your seatbelts...

Join us as we go back...

➡ to the future!



What lessons should we learn from the past?



1974



**Crisis in
banking
sector**

**Supply chain
disruption &
commodity
shortages**

1994



**Raised rates
triggering
bond market
crash**

**Bonds lost
1.5tr in
market value
globally**

2004



**China
industrialisation
boom**

**Resource-led
equity
market rally**

History doesn't repeat but it does rhyme

2024 – Where we are today

SECULAR THEMES –THE ‘OLD TOOLKIT’





NEW FORCES / CONSIDERATIONS



For illustrative purposes only.
Source: Newton, 2024.

Some of these changes we have seen before,
and some we have never seen before!

2024 – Where we are today

BONDS	GOLD / PRECIOUS METALS	EQUITY DERIVATIVES HEDGING	CURRENCY	VOLATILITY / TREND
Now? 	Now? 	Now? 	Now? 	Now? 
Most effective environment <ul style="list-style-type: none">■ 2008, 2016, 2018, 2020	Most effective environment <ul style="list-style-type: none">■ 2008, 2016, 2018, 2020	Most effective environment <ul style="list-style-type: none">■ 2008, 2011, 2015, 2018, 2020	Most effective environment <ul style="list-style-type: none">■ 2008, 2010, 2022	Most effective environment <ul style="list-style-type: none">■ 2022, 2023

**No silver bullet to diversification,
a flexible approach needed**

2024 – Where we are today

What clients want to capture

- Strong risk management
- Dynamic risk allocation
- Absolute return focus
- Low market beta
- Idiosyncratic sources of alpha
- Potential to perform when markets are down
- Structuring and tail risk hedging
- Getting the best out of talented investors

What clients don't like

- Poor alignment of interests
- Secretive / lack of transparency
- High fees
- High leverage
- Poor liquidity and lock ups
- High turnover
- Star manager cultures
- Reputation risk

Time circuits on...

● DESTINATION YEAR ●

2044

Flux capacitor engaged...

 to the future!



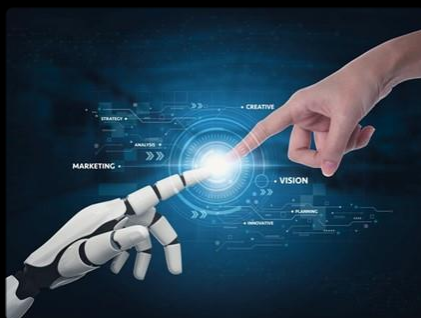
How can we best prepare for the future?



2044



**Transformative
impact of AI**



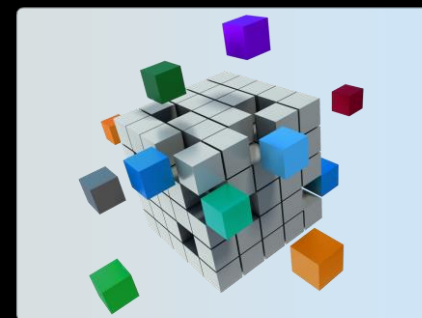
**AI + HI?
AI – HI?
AI*HI?**



**Relevance of
idiosyncratic
alpha**



**Resurgence of
liquid
diversifiers**



**Multi-
dimensional
risk
management**



**Culture of
investment
superteams**

For illustrative purposes only.

**The future is already here,
it's just unevenly distributed**

1

1. Add uncorrelated alpha & reduce market beta

FAMILIAR STRATEGIES USED IN THE PAST

Global macro

Currency alpha

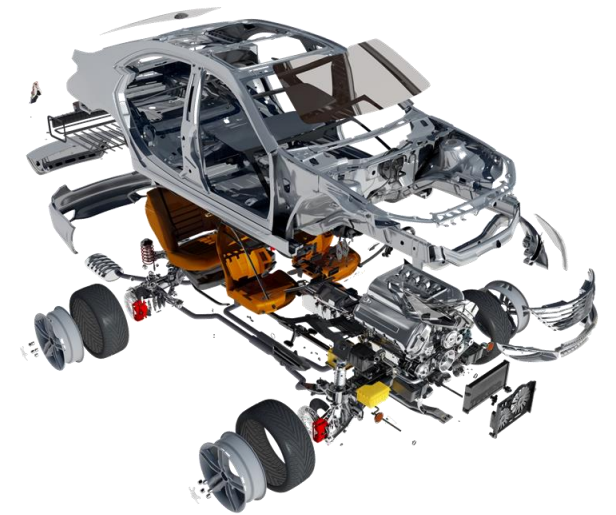
Commodity alpha

Interest rate alpha

Inflation hedges

ROLE IN 'NEW REGIME' PORTFOLIO

- Alpha generation
- Complementarity to existing strategies
- Accessing new premia or asset classes

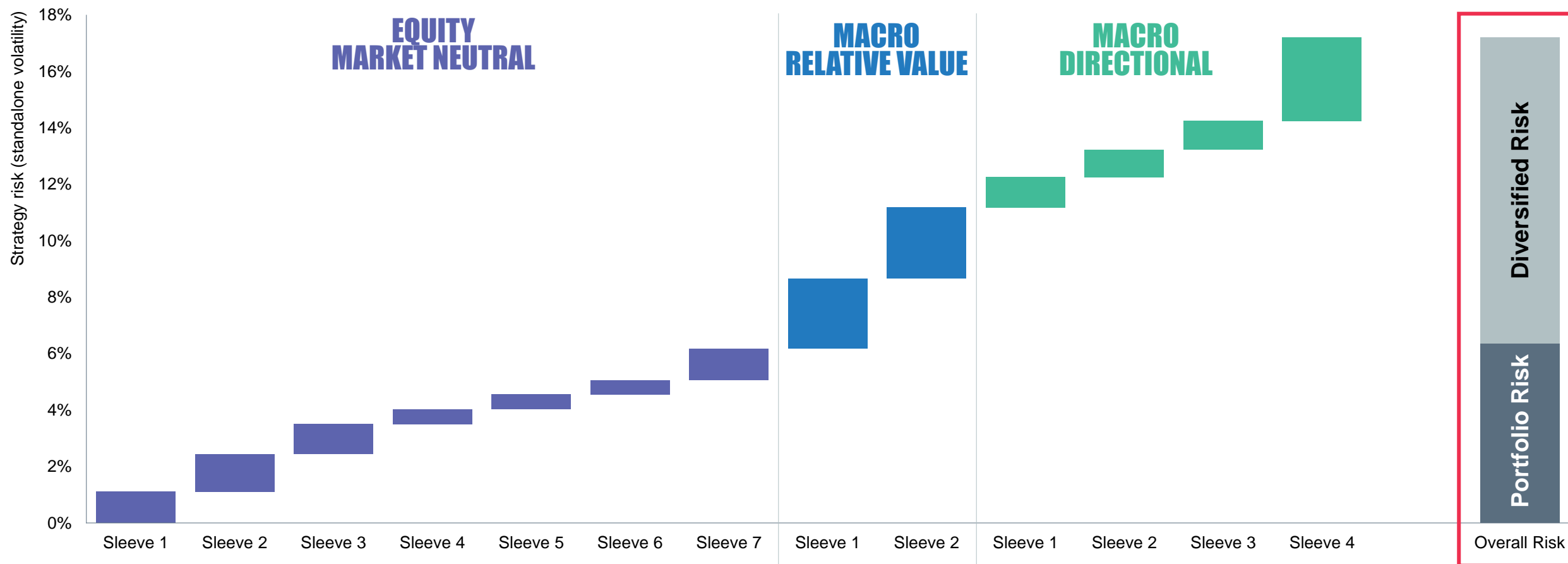


Access untapped skills and diversified sources of risk, that complement your portfolio

2

2. Take a multi-dimensional approach to risk management

Illustrative risk allocation, December 31, 2006 to August 31, 2024



The above shows the simulated volatility of an illustrative multi-strategy solution. There are no guarantees that any sleeve volatility will reflect the simulated data. Clients' actual results may be materially different than the model results presented. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight.

Alpha Strategies

For illustrative purposes only.

Source: Newton, 31 August 2024. The period used to compute volatility: 31 December 2006 to 31 August 2024.

Period covers where most strategies were in operation including global financial crisis. If strategy inception was post 31 December 2006, a nil response was used to compute the period data until actual inception of strategy.

Structure a liquid portfolio with diversification of ideas, asset classes, investment styles and horizons

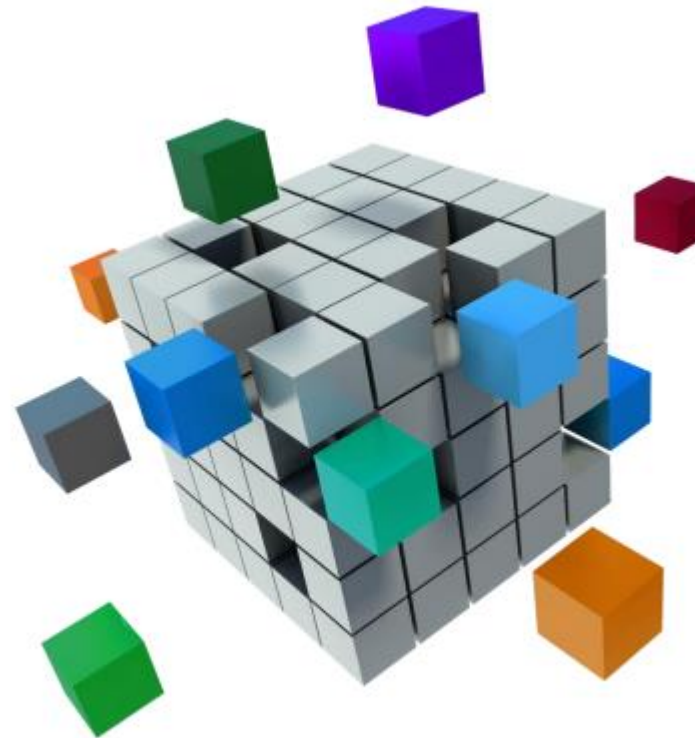
2

2. Take a multi-dimensional approach to risk management

**DIVERSIFICATION
WITHIN AND
ACROSS
STRATEGIES**

**DYNAMISM &
FLEXIBILITY**

**FORWARD
LOOKING**



**MULTIPLE
INVESTMENT
HORIZONS**

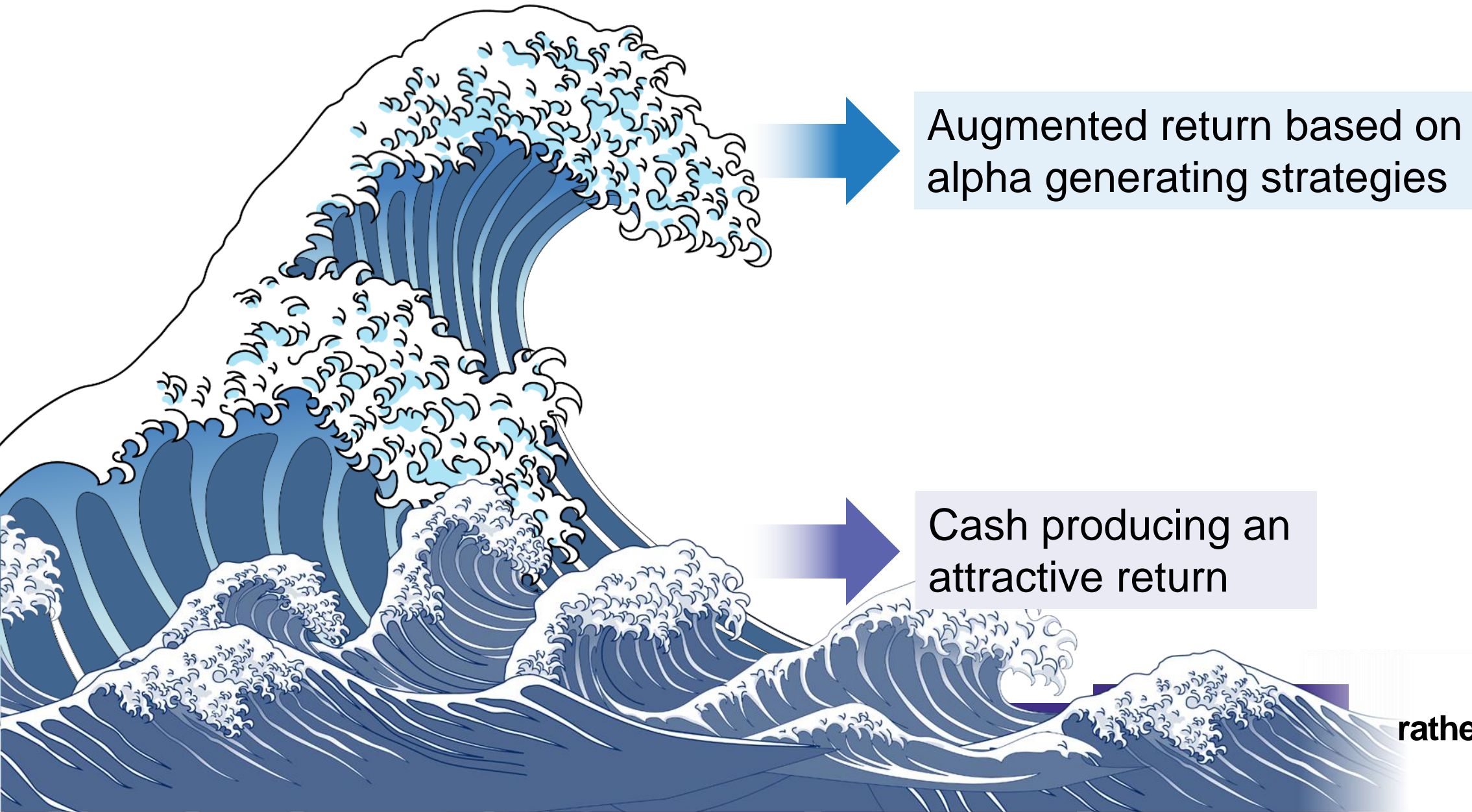
LIQUIDITY

**TAIL RISK
MANAGEMENT**

**Build a resilient portfolio that can perform
under different market scenarios**

3

3. Increased liquidity may benefit from higher cash rates



**Work with the cash
rather than against cash**

4

4. Harness combined power of humans & technology

Alters competitive landscape

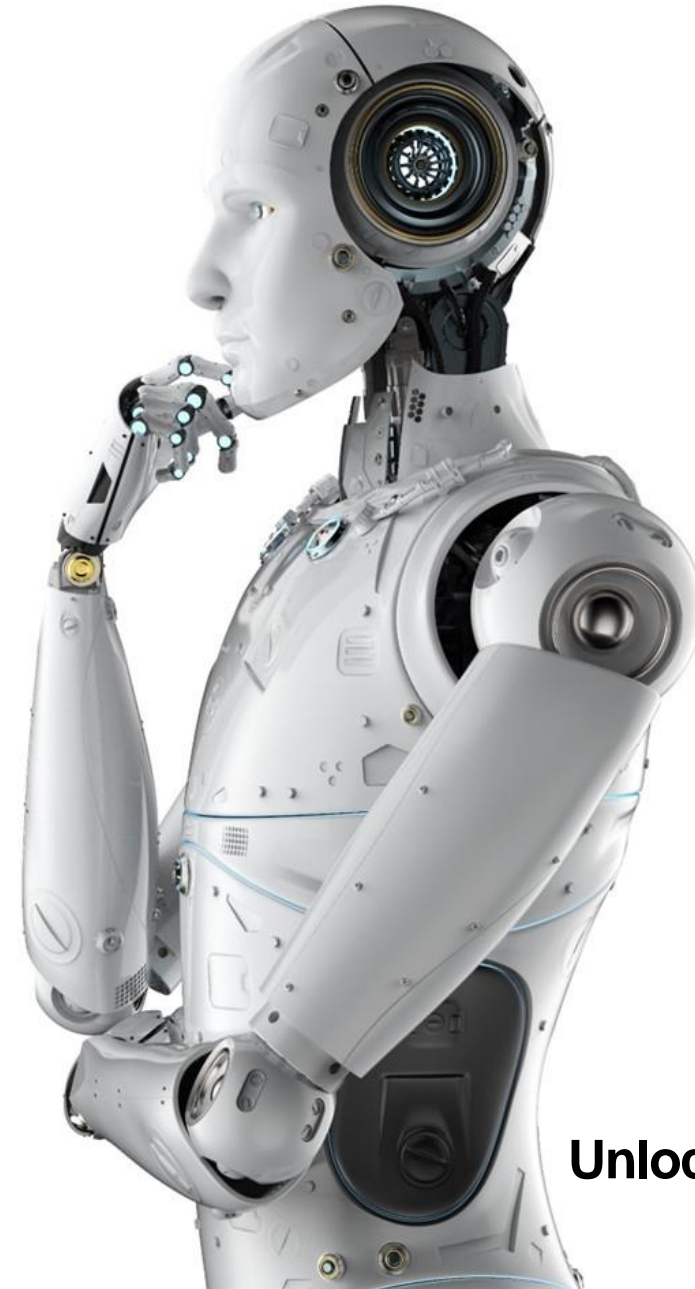
Real time risk management

Automate tasks, improving enterprise efficiency

Faster, more accurate decision making

Better insights

Predictive analytics



Unlock opportunity

For illustrative purposes only.

4

4. Harness combined power of humans & technology

Share common language

**Use quants as a Bayesian Prior
and inviting PM challenge**

**Ensure
incentives to
collaborate**

Make dashboards available to socialise signals

**Leverage 'connectors' who
can aid communication**

**Work together on new
combined strategies**

**Just putting quants and fundamental
investors next to each other is not enough**

5

5. Unlock organizational alpha – the soft stuff is the hard stuff

The most important technology is the team

Cognitive diversity

Psychological safety

Co-opetition

Debiasing decision making

A culture of sharing mistakes

Aligned strategic partners

Alignment of incentives

Learning agility, ability to fail-fast

Systems leadership

**You need the right people and partners
with the right incentives and mindset**

Summary: Reimagining diversification for a new market regime

5 lessons from most admired asset owners of the future

1

Access liquid uncorrelated idiosyncratic alpha

2

Take a multi-dimensional approach to risk management

3

Increase liquidity, benefit from higher cash rates

4

Harness combined power of humans & technology

5

Unlock organisational alpha

Liquid diversifiers can increase flexibility, dynamism and resilience!



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