WM07

ASSET ALLOCATION AND TACTICAL RANGES

Key Takeaways

- Asset allocation is choosing an asset class based on risk, expected return, interest and fitting that particular asset class within investors profile and investment objectives.
- Modern portfolio theory is a diversification in two different asset classes and optimizing under different scenarios and different selected outcomes.
- The traditional funding structure for private equity has become very expensive
- Businesses are changing the way that structures are made and how sophisticated investors act create sophisticated portfolios that are put together in a way that families can follow the model of that portfolio, learn from some of these shifts and opportunities in the market, and look to reallocate their own portfolios on an annual basis or a longer-term basis to achieve what they want to achieve.
- Sustainable investing is a principled investment approach to asset class
- Understanding your own objectives, principles, risk appetite, and put together an asset allocation model that fits what you're trying to accomplish.

Questions to Consider:

- How will you make a creative and effective investment strategy?
- What do you need to learn about your own family business before you can effectively structure your assets?

Guidance

Asset allocation has become a fast-evolving practice in the financial world. Previous incarnations of asset allocation have evolved into Modern Portfolio Theory (MPT), which is broken up into three classes:

Traditional Asset Classes:

- Cash and equivalents.
- Fixed income (Bonds)
  - Government
  - Corporate
- Equity shares,
  - Large caps
  - Small caps
  - Others
- Real assets
  - Property
  - Energies and commodities.

Hybrid Asset Classes

- Mutual funds
  - Shares
  - Bonds
- Foreign currency.
- Index funds ETFs.
- Derivatives.
- Hard tradable assets, (e.g. gold).
- Structured Products
- Co-investment vehicles

Alternative Asset Classes

- Private equity
- Mezzanine funds
- Hedge funds
- Pre-leveled multi-asset class products.
- Islamic products.
- Collectibles
  - Art
  - Antiques

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Questions to Consider:

- How will you make a creative and effective investment strategy?

What do you need to learn about your own family business before you can effectively structure your assets?

    - Wine
    - Etc.
- Principal Investments

People measure portfolios on volatility and profitability. A lot of thought goes into defining a portfolio and predicting how it will function in different economic environments. A lot of analysis has gone into creating the right kind of portfolio and managing it through different economic environments. There's an ERISA stage that has multiple managers in multiple styles that adds on past techniques when investors began looking outside of their home markets.

Alternative Investments are at the heart of asset allocation. Increasingly alternative Investments are at the heart of investment portfolios and within large endowments around the world. It is important to understand what different asset classes do, how much money should be put into them, and what can be expected from the return. Through a deeper understanding all of the markets and what different assets can be invested in, investors have developed creative techniques to increase investment effectiveness.

Sophisticated investors tend to lean more towards alternate assets. Large endowment funds in the US have diversified portfolios comprising of many categories of traditional and alternative asset classes. During the global financial crisis hedge funds began losing popularity, causing the hedge fund market to shrink drastically to only a few well managed hedge funds. Additionally, the private equity investment model is seeing pushback in the market - making people seek more alternative and cost-effective methods.

All these shifts and new techniques are good opportunities for families to learn how to invest more creatively and effectively and look to reallocate their portfolios on an annual basis or a long-term basis. Every family needs to understand their own objectives, principles, risk appetite, liquidity preference, and investment capabilities which all cumulates to a family-centric approach to asset allocation. Building a process around your objectives is the only way to achieve your goals through investment.