# RETHINKING ALTERNATIVES

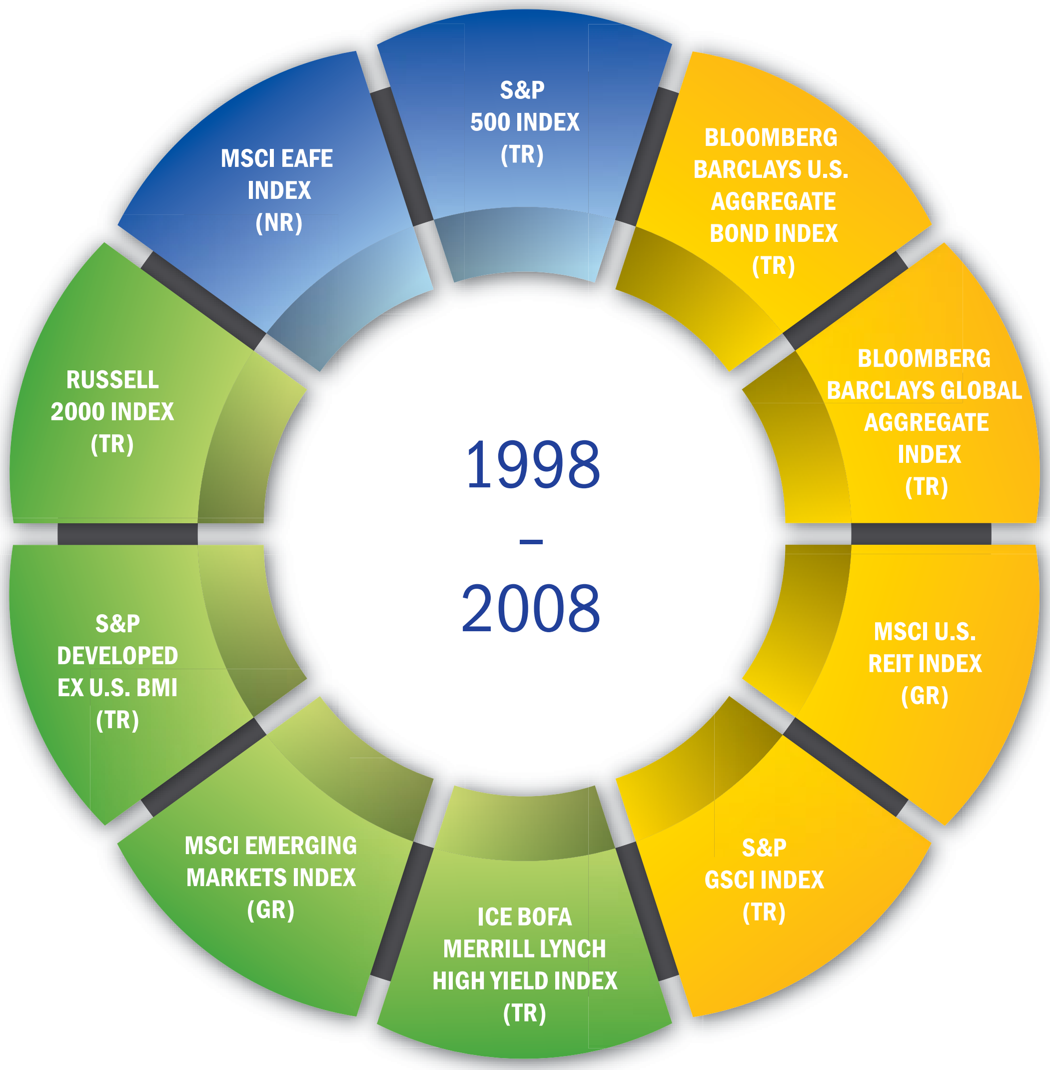
# Staying Invested Is Critical to Investment Success

Investing in financial assets gives individuals the opportunity to build the financial wealth they need to achieve their life goals. But, to be successful, they must remain invested during bull and bear markets.

# Diversification Helps Manage Investment Portfolio Volatility

An investment portfolio comprised of different asset classes that exhibit low correlation to one another historically has given an investor the best opportunity to withstand market volatility by helping to smooth out returns. Over the past 20 years, increasing correlation among traditional asset classes has caused investments to move in the same direction at the same time, increasing portfolio fluctuation and minimizing the value of diversification among three traditional asset classes.

## CORRELATION BETWEEN ASSET CLASSES




Blue: 1.00–0.80

Green: 0.79–0.40

Yellow: 0.39–0.00

All indexes are U.S. dollar denominated.

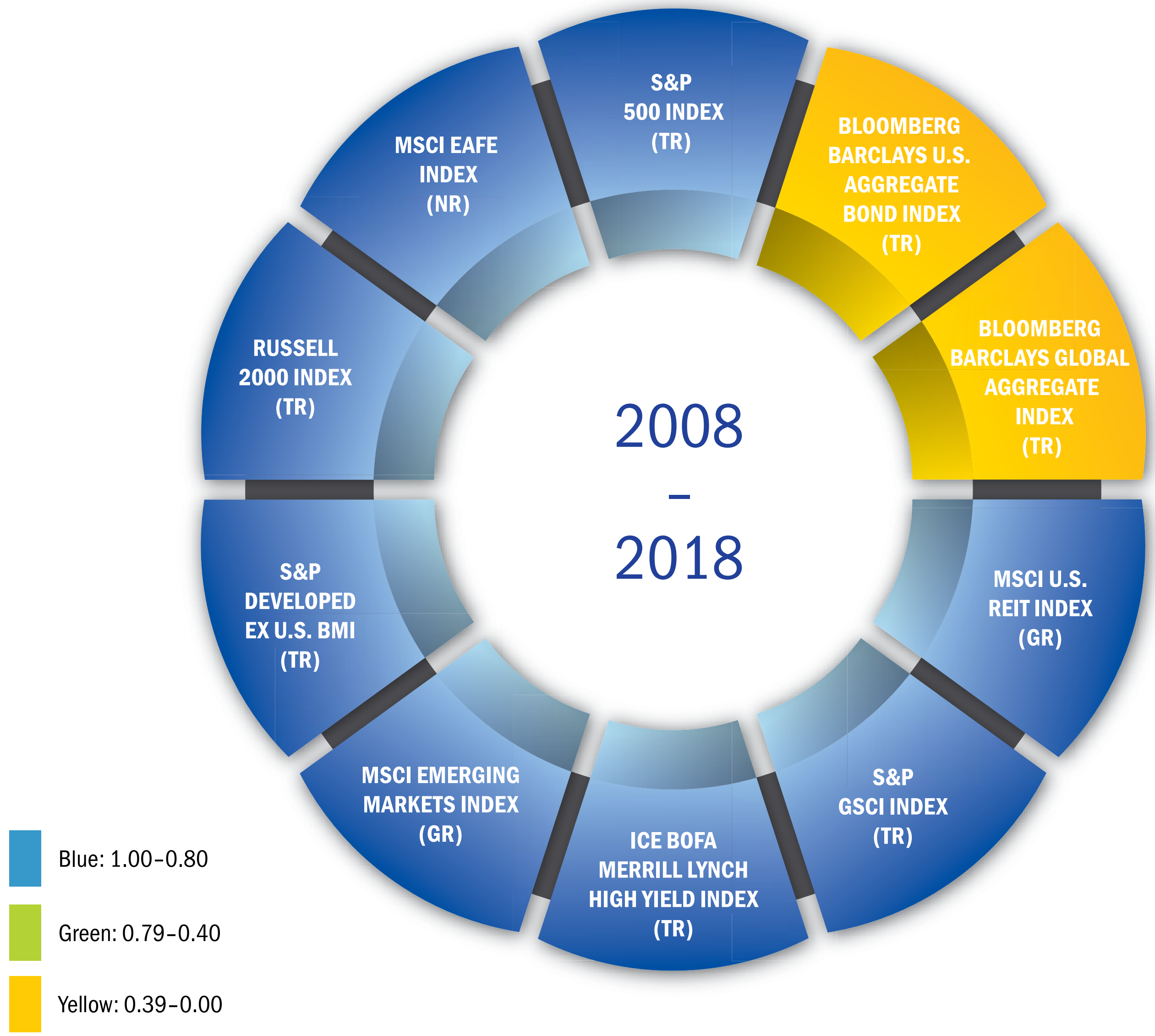
TR – Total Return

GR – Gross Return

NR – Net Return

Source: Morningstar

HAS INCREASED FROM 2008 TO 2018




All indexes are U.S. dollar denominated.

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Source: Morningstar

# Historically, Alternatives Have Delivered Diversification

During some well-known market downturns, alternative investments performed better than the broader equity market. That performance and increased correlation among traditional asset classes have caused advisors to include assets with low correlation, like alternatives, in their clients' portfolios.

- Bloomberg Barclays U.S. Aggregate Bond Index
- S&P 500 Index
- Morningstar U.S. Fund Long/Short Equity Index
- 40% S&P 500 Index, 40% Bloomberg Barclays U.S. Aggregate Bond Index, 20% Morningstar U.S. Fund Long/Short Equity Index
- 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index

Source: Morningstar

Traditional is 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.

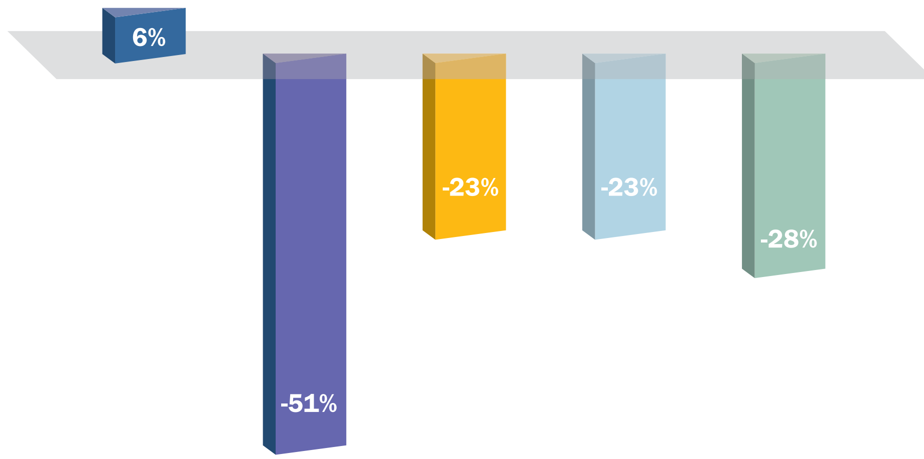
U.S. Fund Long/Short represents the Morningstar Alternative Fund category.

S&P 500, Bloomberg Barclays U.S. Aggregate Bond Index, Morningstar U.S. Fund Long/Short Equity Index is a blend of the two indices and the Morningstar category.

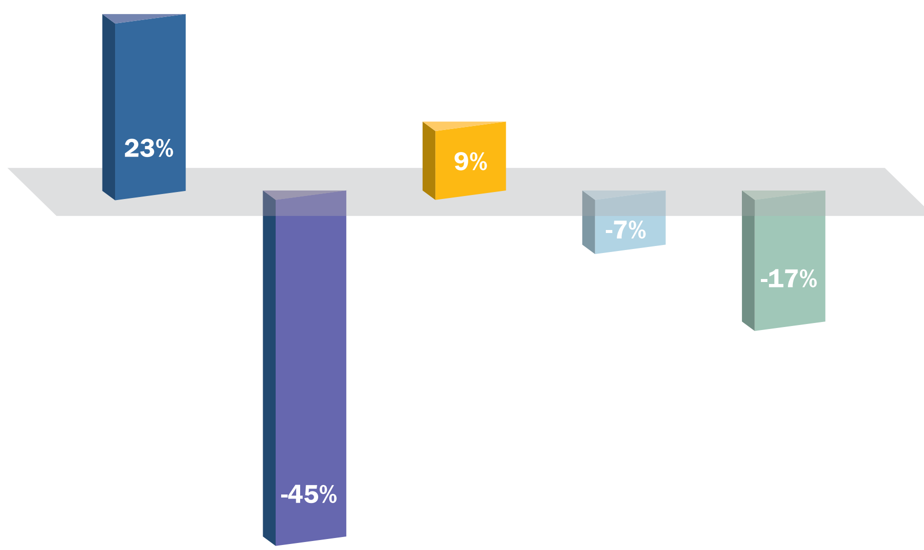
## ALTERNATIVES OFFER TRUE DIVERSIFICATION

(Cumulative returns)

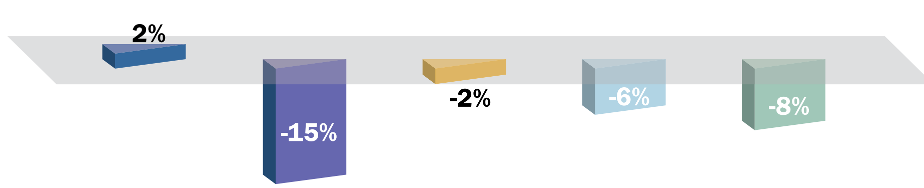
### 2007–2009 Global Financial Crisis




### 2000–2002 Dot-com Bubble

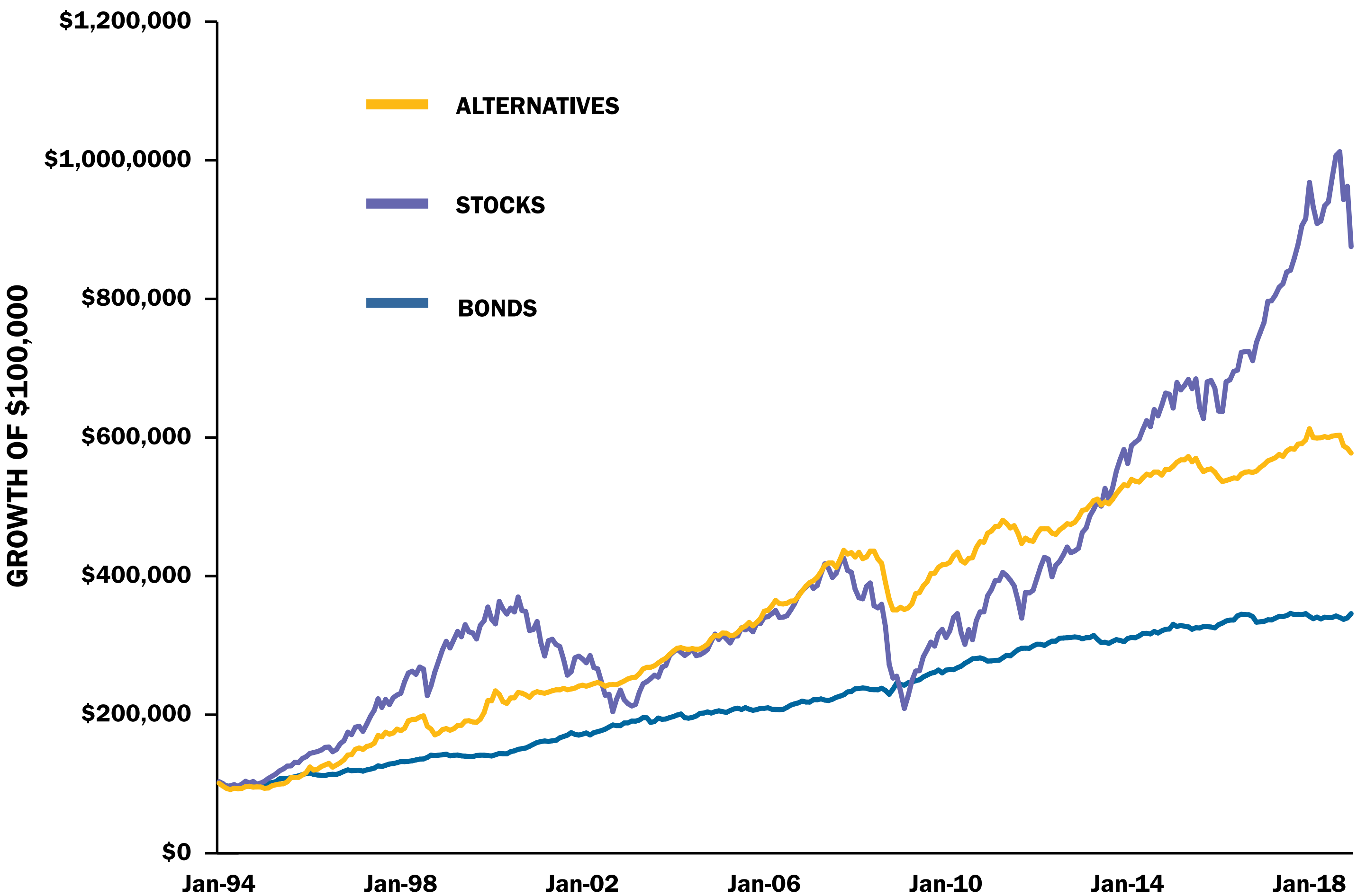



### 1998 Russian Ruble Crisis



## Alternatives

Over the long term, alternatives have outperformed bond investments and have demonstrated less volatility than stocks.



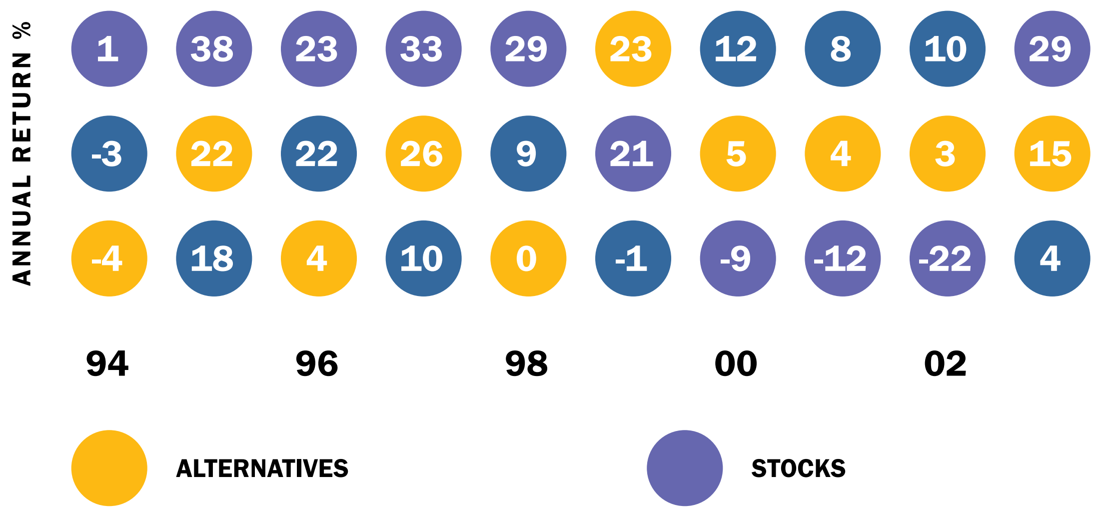

Source: Morningstar

Data from 1/1/1994–12/31/2018. Stocks are represented by the S&P 500. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index. Alternatives are represented by the Credit Suisse Hedge Fund Index.

S&P 500, Bloomberg Barclays U.S. Aggregate Bond Index, Morningstar U.S. Fund Long/ Short Equity Index is a blend of the two indices and the Morningstar category.

# Alternatives: Demonstrated Diversification

Since 1994, alternatives have outperformed stocks or bonds 72% of the time.




Source: Stocks are represented by the S&P 500 Index; bonds by the Barclays U.S. Aggregate Bond Index and alternatives by the Credit Suisse Hedge Fund Index.

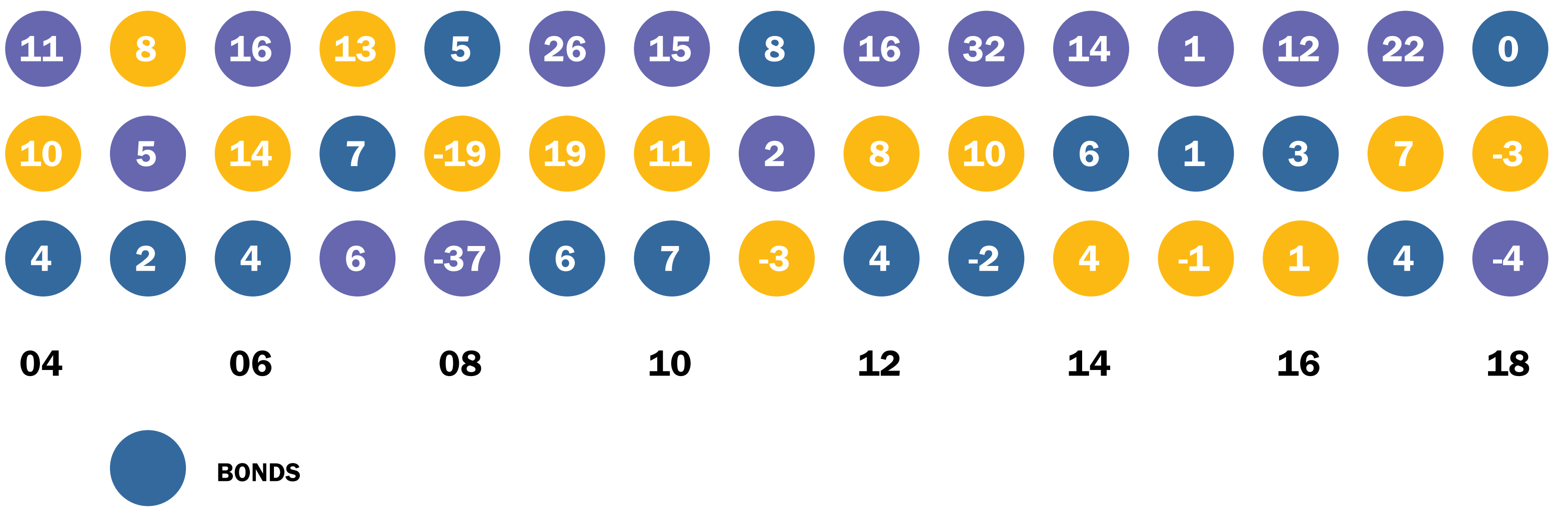
Past Performance is not indicative of future results.

Investor's core is represented by stocks and bonds.

Stocks are represented by the S&P 500 Index,

Bonds by Barclays U.S. Aggregate Bond Index and Alternatives by the Credit Suisse Hedge Fund Index.

It is not possible to invest directly in an index.


11 8 16 13 5 26 15 8 16 32 14 1 12 22 0
10 5 14 7 -19 19 11 2 8 10 6 1 3 7 -3
4 2 4 6 -37 6 7 -3 4 -2 4 -1 1 4 -4
04 06 08 10 12 14 16 18
BONDS

# A Checklist for Recommending Alternatives to Clients

### Identify Investors

Individual investors with medium-to-long horizons

### Determine Allocations

Recommendations from your firm's strategy group, and research from institutions along with ultra-high-net-worth clients

### Analyze Performance

Research the fund's track record and origins (Was it a hedge fund? Are they including that data in performance metrics?)

### Identify Risks

- **Manager:** Who are they and what is their record?
- **Illiquidity:** If securities are not traded on exchanges, they may not be fully liquid.
- **Valuation:** Does the fund value securities at a higher price than the sale price?
- **Leverage:** Check for trading strategies such as shorting and embedded leverage.
- **Derivatives:** If value is derived from an underlying asset or cash flow, a portfolio may be exposed to counterparty risk.
- **Conflict of Interest:** Does the manager work both private funds and liquid alts?
- **Turnover:** Check for frequent trades, which incur increased transaction costs.
- **Concentration:** Note that funds can be concentrated only if they are registered as "non-diversified" with the SEC.

# Important Information



The Credit Suisse Hedge Fund Index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index uses the Credit Suisse Hedge Fund Database, which tracks approximately 9,000 funds and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. The index is calculated and rebalanced on a monthly basis, and reflects performance net of all hedge fund component performance fees and expenses.

The S&P 500 Index is an unmanaged broad measure of the U.S. stock market.

The S&P GSCI is a composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures. The S&P GSCI is intended to prov

S&P Developed Ex-U.S. BMI – A member of the S&P Global BMI series, the S&P Developed Ex-U.S. BMI is a comprehensive benchmark including stocks from developed markets excluding the United States. ide exposure to broad-based commodities.

The Bloomberg Barclays U.S. Aggregate Bond Index is composed of approximately 8,000 publicly traded bonds including U.S. government, mortgage-backed, corporate and Yankee bonds. The index is weighted by the market value of the bonds included in the index.

The Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. It is comprised of the U.S. Aggregate, Pan European Aggregate, and the Asian-Pacific Aggregate indices. It also includes a wide range of standard and customized sub-indices by liquidity constraint, sector, quality, and maturity.

# TALKING ALTERNATIVES

**Consider both bull and bear markets to frame portfolio performance and reduce risk.**

**Focus on the portfolio “big picture” and its long-term outcomes.**

**Set expectations for moderate returns — and moderate risk.**

The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (REITs). The index is based on the MSCI USA Investable Market Index (IMI), its parent index, which captures the large, mid and small cap segments of the USA market.

The MSCI Emerging Markets (EM) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 24 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The MSCI EAFE (Europe, Australasia, Far East) Index is an unmanaged index. It is a generally accepted benchmark for major overseas markets. Index weightings represent the relative capitalizations of the major overseas developed markets on a U.S. dollar adjusted basis. The index is calculated with net dividends reinvested in U.S. dollars.

Morningstar Long/Short Equity Category – Long/short portfolios hold sizeable stakes in both long and short positions in equities, exchange traded funds, and related derivatives. At least 75% of the assets are in equity securities or derivatives, and funds in the category will typically have beta values to relevant benchmarks of between 0.3 and 0.8 over a three-year period.

The ICE BofA Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody’s and S&P.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index including approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Source: Frank Russell Company.

The performance of any index is not indicative of the performance of any particular investment. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

*Before investing, carefully consider the Fund’s investment goals, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other information, contact your financial advisor or visit thornburg.com. Read them carefully before investing.*

ASKING SOMEONE BUILT FOR SHORT-TERM SURVIVAL TO BECOME A LONG-TERM INVESTOR IS A BIT LIKE TRYING TO PAINT A ROOM WITH A HAMMER. YOU CAN DO IT, BUT IT'S NOT PRETTY.

**Daniel Crosby, *The Behavioral Investor***

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