Alternative investments 101

[Upbeat music plays]

[An image of modern architecture]

[CIBC Asset Management logo]

[Alternative investments 101]

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The descriptor "alternatives" encompasses a broad mosaic of public and private market asset classes and strategies. If we start with asset classes, these range from highly liquid commodities and currencies to less liquid asset classes such as private equity and debt, real estate and infrastructure.

[Alternative asset classes
Liquid assets:
- Commodities
- Currencies
Illiquid assets:
- Private equity and debt
- Real estate
- Infrastructure]

Turning to alternative strategies, these can provide the ability for investors to express the full range of investment insight by implementing both long and short positions in portfolios across and between various asset classes, rather than being constrained to long only positions in a traditional investment solution.

[Alternative strategies
Liquid strategies:
- Multi-strategy/Absolute return
- Global macro
- Event-driven strategies
- Unconstrained bond strategies
- Equity market-neutral
- Long/short equity]

[An image of a skyscraper]

[Why should investors and advisors consider using alternatives in a portfolio?]

Alternatives provide investors with exposure to a broader set of risks and returns than can be accessed through investments that rely only on traditional public equity and fixed income solutions. More breadth is synonymous with greater portfolio diverse allocation, which can help mitigate equity drawdown risk and smooth out the trajectory of returns.

Alternatives are complements, not substitutes.

[Alternatives are complements]

[A close-up image of a hand writing with a stylus on a tablet]

Our challenge is to determine how best to combine all these opportunities into a more optimal portfolio. Each alternative offers something distinct and complimentary. Private equity offers higher expected returns relative to public equity, albeit at the cost of less liquidity.

[Private equity
- Offers higher expected returns relative to public equity
- At the cost of less liquidity]

Real estate and infrastructure offer the possibility of enhanced income as well as a greater ability to hedge inflation risks and multi-asset strategies can provide diversification benefits that help smooth the profile of long-term expected returns.

[Real estate & infrastructure
- Offer possibility of enhanced income
- Greater ability to hedge inflation risks

Multi-asset strategies
- Can provide diversification benefits
that help smooth the profile
of long-term expected returns]

Not every alternative will be right for all investors.

[Not every alternative will be right for all investors]

[A middle-aged woman sitting in her home, looking at a computer]

But once we have determined how to efficiently increase investment breadth by adding alternatives to our existing traditional public market exposure, long-term portfolio outcomes are likely to be enhanced.

[An image of modern architecture]

[How would an investor or advisor use alternatives in a portfolio?]

There's no "one size fits all" portfolio. Investors will differ in the amount and manner in which they allocate to alternatives depending upon their goals, their sensitivity to various risks, and their starting portfolio allocations.

Investors with a focus on core fixed income solutions can look to alternatives as a way to diversify interest rate and inflation risk and to enhance expected income and returns.
[An image of the US Federal Reserve]

[Core fixed income:

- Diversify interest rate and inflation risk

- Enhance expected income and returns]

And Multi-Strategy alternatives can provide these investors with a diversifying source of return without any significant increase in portfolio volatility.

[A line graph]

[Multi-strategy alternatives:
- Can provide a diversifying source of return without any significant increase in portfolio volatility]

Equity-centric investors may allocate to private equity or real estate to enhance expected returns.

[An image of the Toronto Stock Exchange building]

[Equity-centric investors:
- May allocate to private equity or real estate to enhance expected returns]

Real estate can also generate predictable income and provide these investors with another opportunity to hedge inflation risks.

[An image of a waterside modern house]

[Real estate:
- Can also generate predictable income
- Provide opportunity to hedge inflation risks]

And multi-asset strategies can be utilized to diversify macro growth risk, typically prevalent in an equity centric portfolio.

[An image of modern architecture]

[Multi-asset strategies:
- Can diversify macro growth risk
typically prevalent in an equity-centric portfolio]

[Why consider alternatives?

1. Unlock greater breadth of opportunities for investors

2. Add unique risk/return characteristics, helping diversify traditional portfolios

3. Complementary to core equity or fixed income allocations]

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