

4 T H A N N U A L

# Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

## Outcomes-Based Investing

MODERATOR

**Evan Simonoff**

Editor-In-Chief & Editorial Director

*Financial Advisor & Private Wealth Magazines*

PANELISTS

**Tony Marek, CFA, CPA**

Vice President and Product Strategist

*BlackRock*

**James Colon, CFA**

Vice President, Portfolio Manager

*Nuveen Asset Management, LLC*

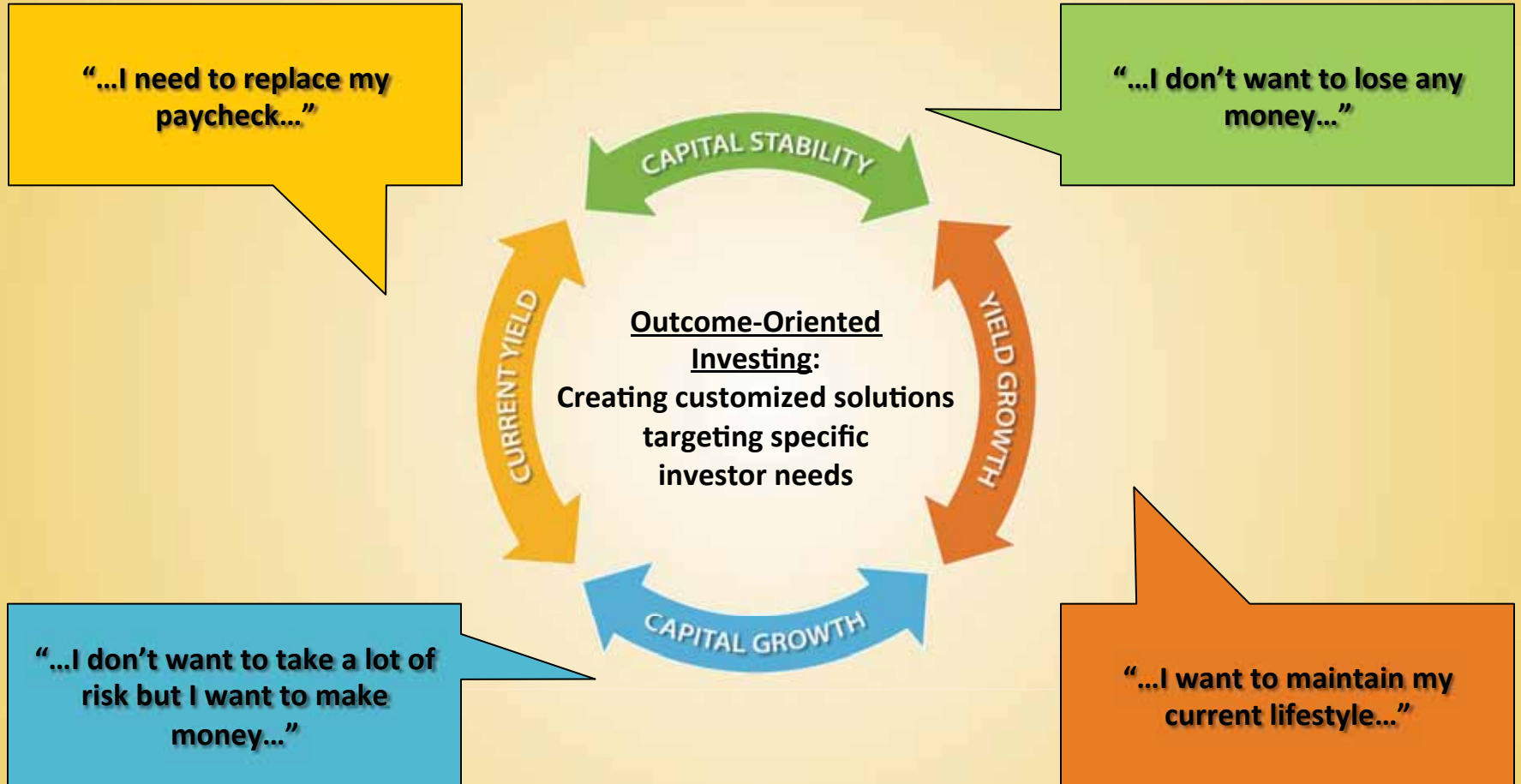
**Keith Pettus, CAIA, CFA**

Vice President

*SQL Capital Management, LLC*



# What Investors Are Saying



Source: BlackRock as of 6/30/13.



## Outcome-oriented investing: Redefining investment categories

Category:	Growth	Income	Inflation Hedging	Capital Preservation
Purpose	High returns and strong upside potential	Stable and predictable cash flows	Protect against unexpected inflation	Maintain wealth with little risk of capital loss
Importance	Key driver of wealth expansion	Matches income needs and liabilities	Offsets corrosive effects of high inflation	Offers safety and security
Criteria	Returns > 75% of MSCI World Index	Yields > 1.5x Equities or Bonds, respectively	Returns > CPI over inflationary cycle	Positive returns with drawdown < 5%
Constituents	<ul style="list-style-type: none"> <li>• US Equities</li> <li>• Int'l Equities</li> <li>• Private Equity</li> </ul>	<ul style="list-style-type: none"> <li>• Dividend Yield Stocks</li> <li>• MLPs</li> <li>• High Yield</li> <li>• EM Debt</li> <li>• Bank Loans</li> <li>• Non-agency MBS</li> </ul>	<ul style="list-style-type: none"> <li>• TIPS</li> <li>• Commodities</li> <li>• Direct Real Estate</li> <li>• REITS</li> <li>• Nat. Resource Eq</li> <li>• Infrastructure</li> <li>• Timber</li> </ul>	<ul style="list-style-type: none"> <li>• Short Duration gov't</li> <li>• Short Duration credit</li> <li>• Municipal Bonds</li> <li>• Cash</li> </ul>

### Outcome oriented investing re-focuses the asset allocation on desired investment outcomes

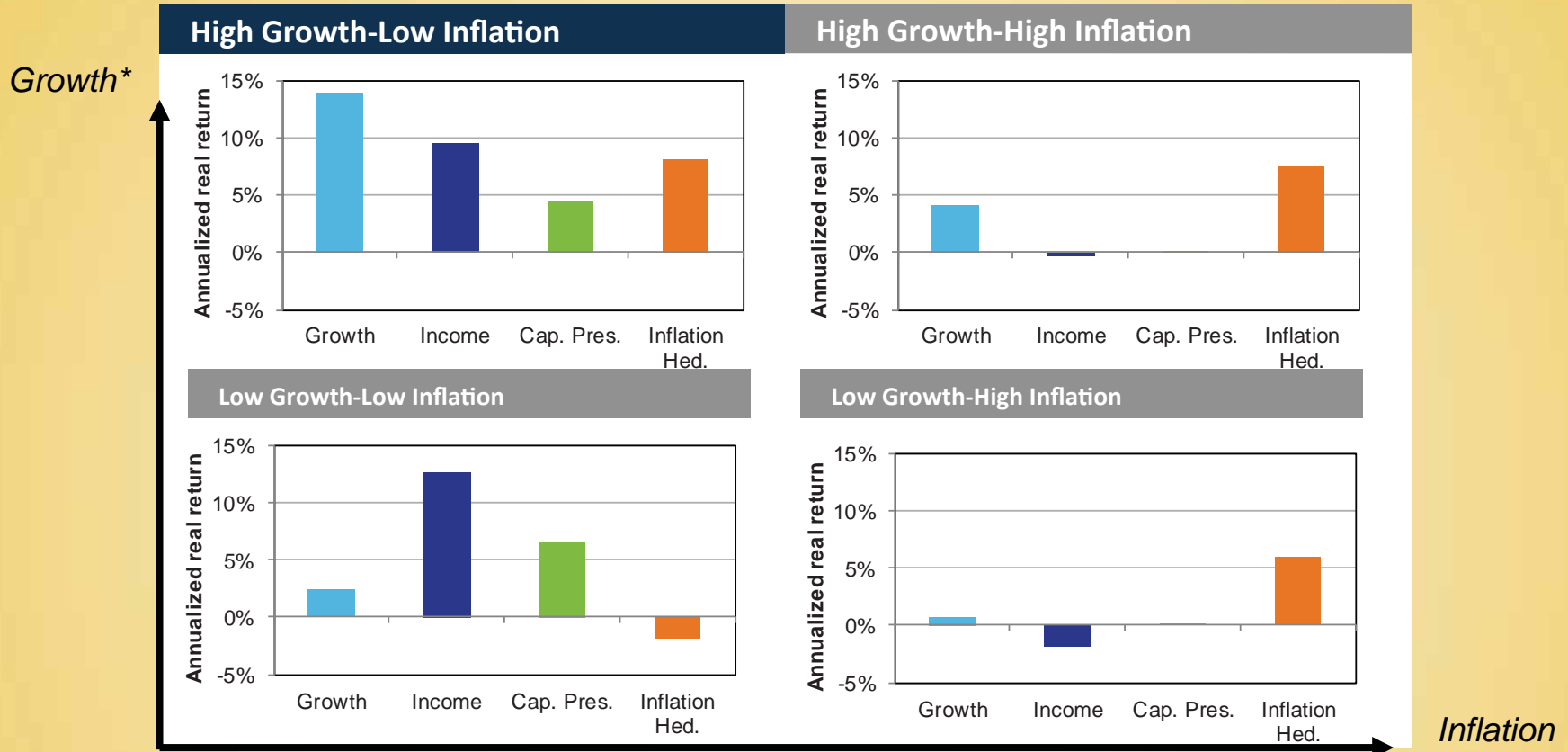
- ☒ Portfolio construction starts with investors' objectives
- ☒ Asset classes are simply building blocks to achieve these objectives

### Growth, income, inflation hedging and capital preservation span the major investor outcomes

- ☒ In addition, an "Opportunistic" category might capture special opportunities
- ☒ Investment performance is judged based on progress relative to outcomes



# Regime characteristics: 1973 - 2011



## Outcome-oriented categories correspond to economic regimes

- ☑ Assets within each category have similar characteristics providing more clarity on investment behavior
- ☑ Income outperforms growth during low inflation and inflation hedging is likely to outperform in high inflation regimes

## Outcome-oriented investing can help Investors create regime-aware portfolios

\* High growth and high inflation represent periods with above average real GDP growth and inflation respectively, based on the 1973 – 2011 period.

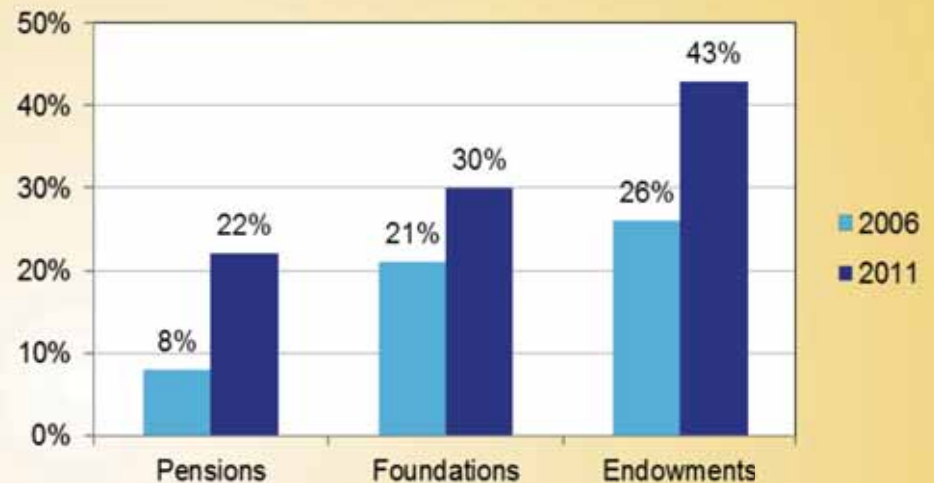


# Move towards Alternatives

## Enhanced asset allocation with alternatives



## Institutional adoption of alternatives



## In the aftermath of the crisis, investors have been embracing large allocations to alternatives

- ☒ Dedicated allocation to alternatives as well as inclusion of alternative equity and bond strategies
- ☒ Average allocation to alternatives is over 30% across institutional investors

## The inclusion of alternatives has significantly increased the complexity of asset allocation

- ☒ Alternatives encompasses a broad range of assets with widely varying characteristics
- ☒ Investors need a roadmap for asset allocation in the new world

US pension allocations based on Top 200 DB plans (source: Pensions & Investments 2/6/2012). US endowment and foundation allocations based on dollar-weighted allocations across institutions ranging from \$100 million to \$1 billion. Source: Commonfund 2/2/2012.



# Conclusions

## **Investors are seeking a road-map for asset allocation in the new world**

- ☒ Style-box portfolios provided little diversification during the credit crisis
- ☒ Alternatives are gaining popularity but greatly increase the complexity of asset allocation choices

## **Outcome oriented investing re-focuses the asset allocation on desired portfolio outcomes**

- ☒ Growth, income, inflation hedging and capital preservation span the major investment outcomes
- ☒ Investors use a diversified mix of traditional and alternative assets to achieve these objectives

## **Asset allocation with outcome oriented categories produces better investment outcomes**

- ☒ Greater alignment with underlying investor objectives
- ☒ Better awareness and positioning for alternate economic regimes



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# Addressing Specific Risks

## Outcome-Based Solutions



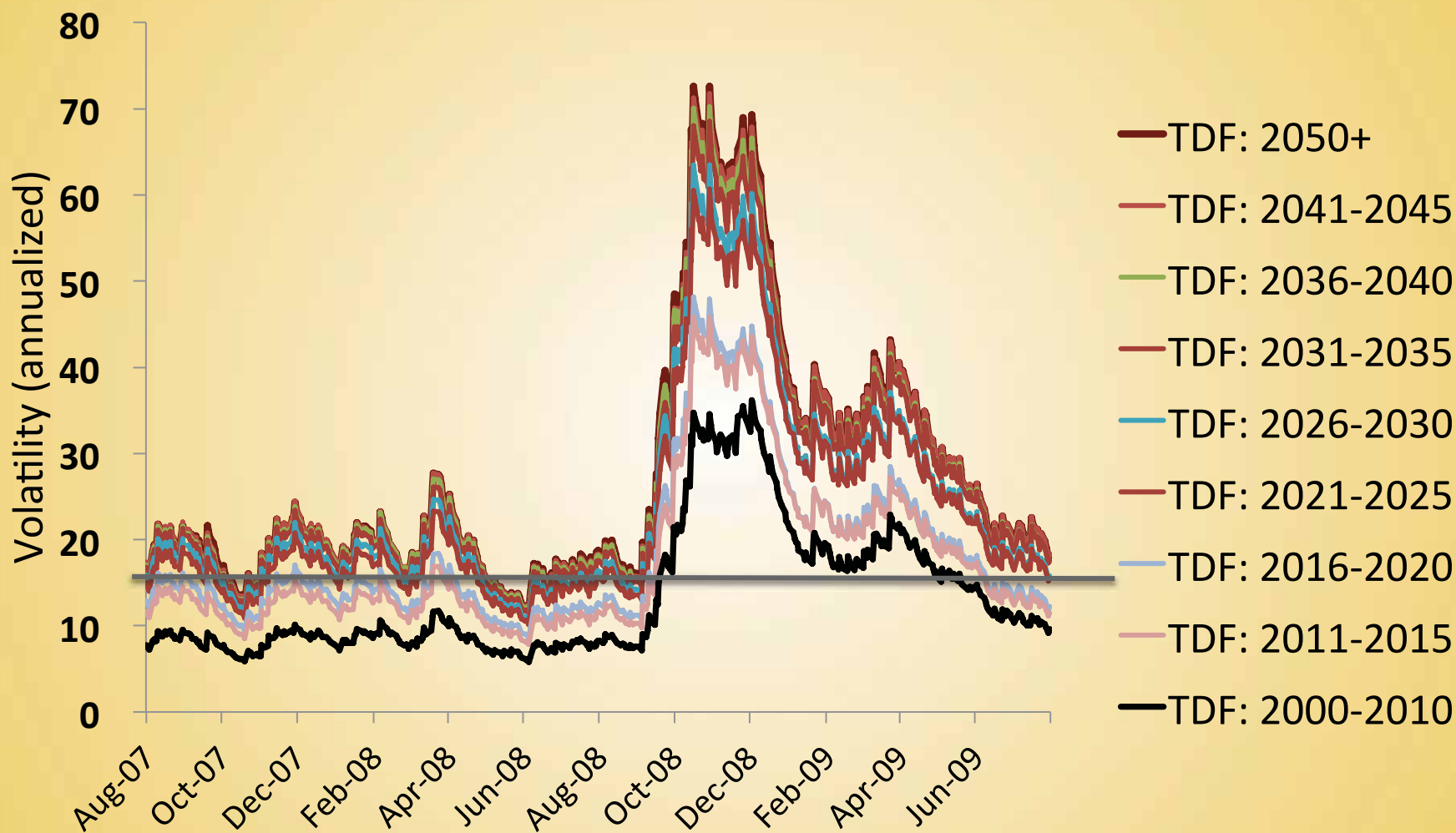
**Investing: Growing Assets or Taking Assets**  
**Risks: Accept or Hedge**

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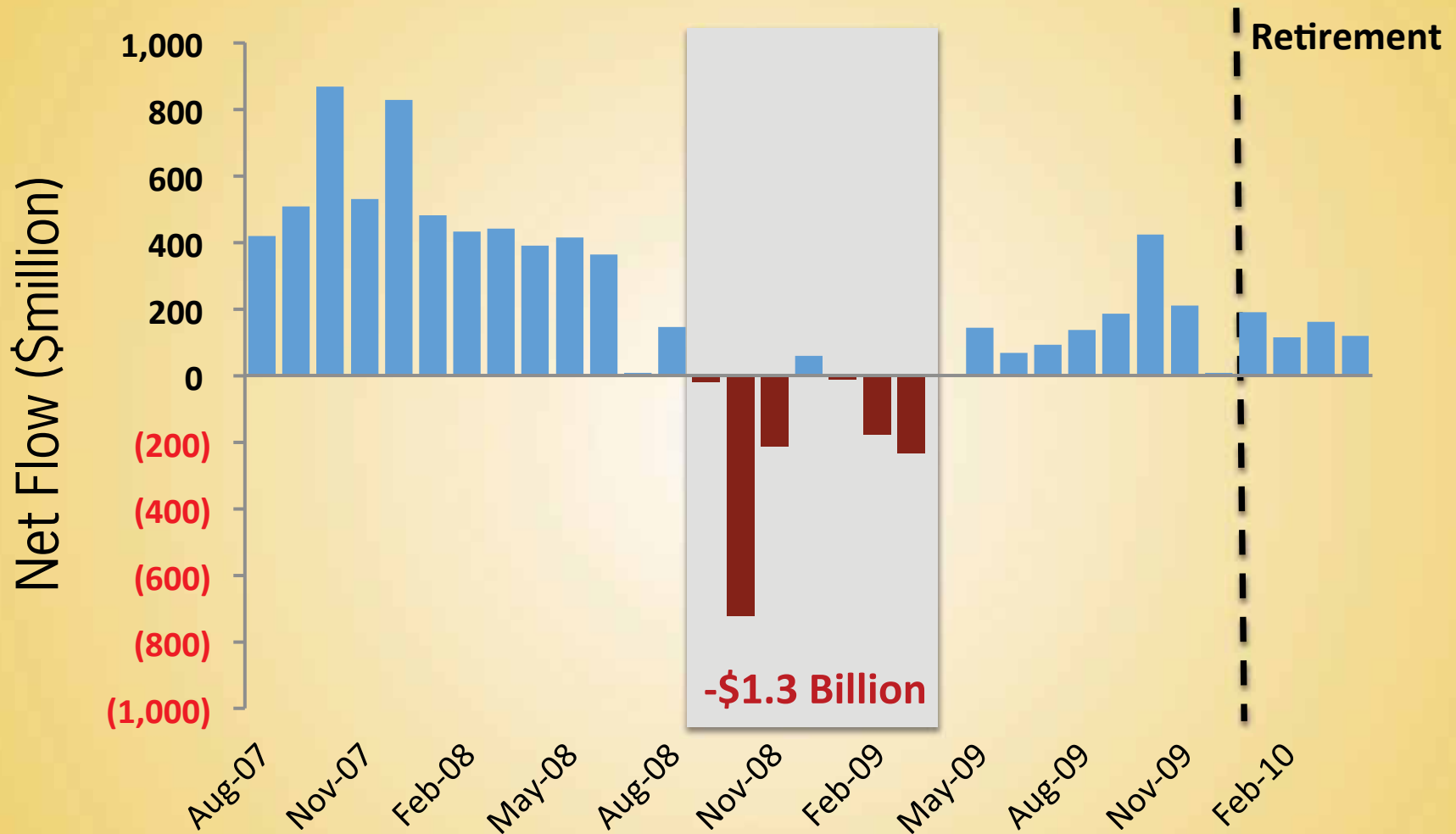
# Target Date Fund Volatility



Source: Morningstar, Nuveen Asset Management, LLC. Past performance is no guarantee of future results. Different benchmarks, economic periods and other methods and market conditions may result in significantly different outcomes. FOR USE WITH FINANCIAL ADVISORS OR INVESTMENT PROFESSIONALS ONLY. NOT FOR PUBLIC DISTRIBUTION.



# 2010 Target Date Fund Flows



Source: Strategic Insight. Past performance is no guarantee of future results. FOR USE WITH FINANCIAL ADVISORS OR INVESTMENT PROFESSIONALS ONLY. NOT FOR PUBLIC DISTRIBUTION.



# Outcome = Stable Risk Profile



Source: Nuveen Asset Management, LLC, Bloomberg. The information provided above is for illustrative purposes only. FOR PRESENTATIONS WITH INVESTMENT PROFESSIONALS AND INSTITUTIONS ONLY. NOT FOR RETAIL USE.



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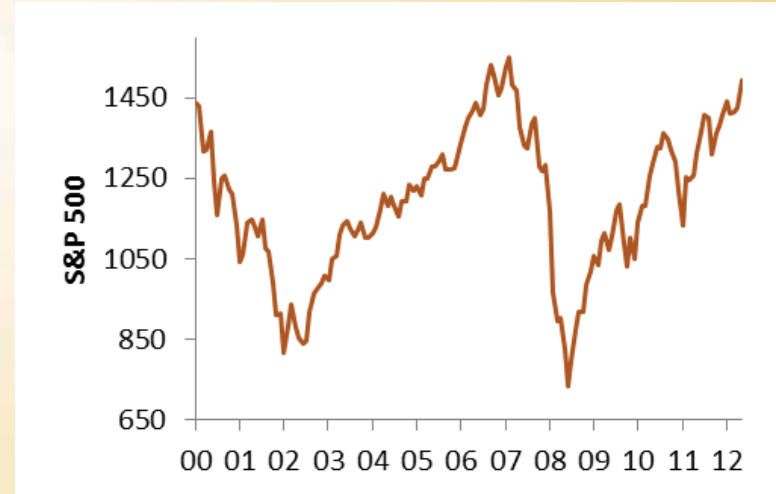
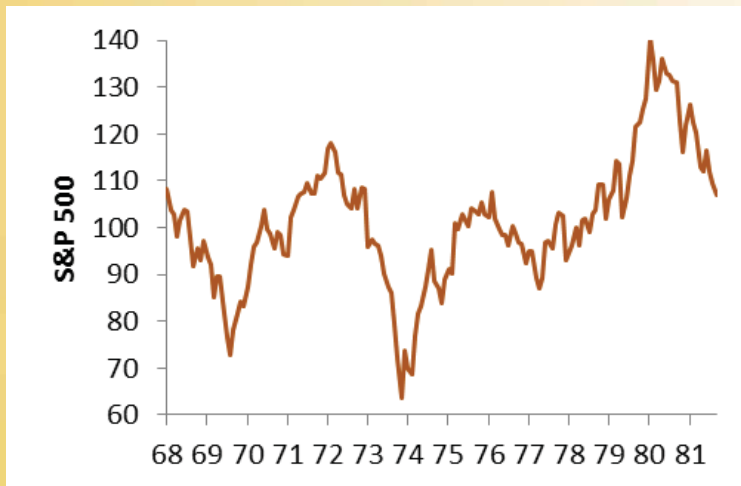
# Market Supercycles

## Which track will the markets take tomorrow?

No one can say for sure, but history suggests that extended bear markets often follow secular bull markets.

## History also tells us that during protracted bear markets, opportunities exist to capture gains.

Between November 1968 and September 1982 (an essentially flat market), the S&P 500 posted double-digit returns in six calendar years. The longest short-term run produced returns in excess of 60%. Similarly, between August 2000 and December 2012, the S&P 500 posted double-digit returns in five calendar years. The longest short-term run produced returns in excess of 80%.



Graphs above represent the Price Return of the S&P 500 Index adjusted for dividends and splits. Assumes no reinvestment of dividends and does not consider taxes. The S&P 500 Index is an unmanaged index of stocks considered a broad representation of the U.S. stock market. You cannot invest directly in an index. Source: **Bloomberg, Internal.**



# How Do You Meet Portfolio Needs?

- **Outcomes Based Investing as an extension of Financial Planning to meet Investment Policy Statements and Goals**
- **Diversification Across Multiple Asset Classes**
  - **Equities**
  - **Fixed Income**
  - **Commodities**
  - **Real Estate**
  - **Timber**
  - **Precious Metals**
- **Low Volatility Alternatives**
- **Tactical Approaches and Tilts**
- **Willingness to hoard cash and take profits**





# SQN Capital Management, LLC

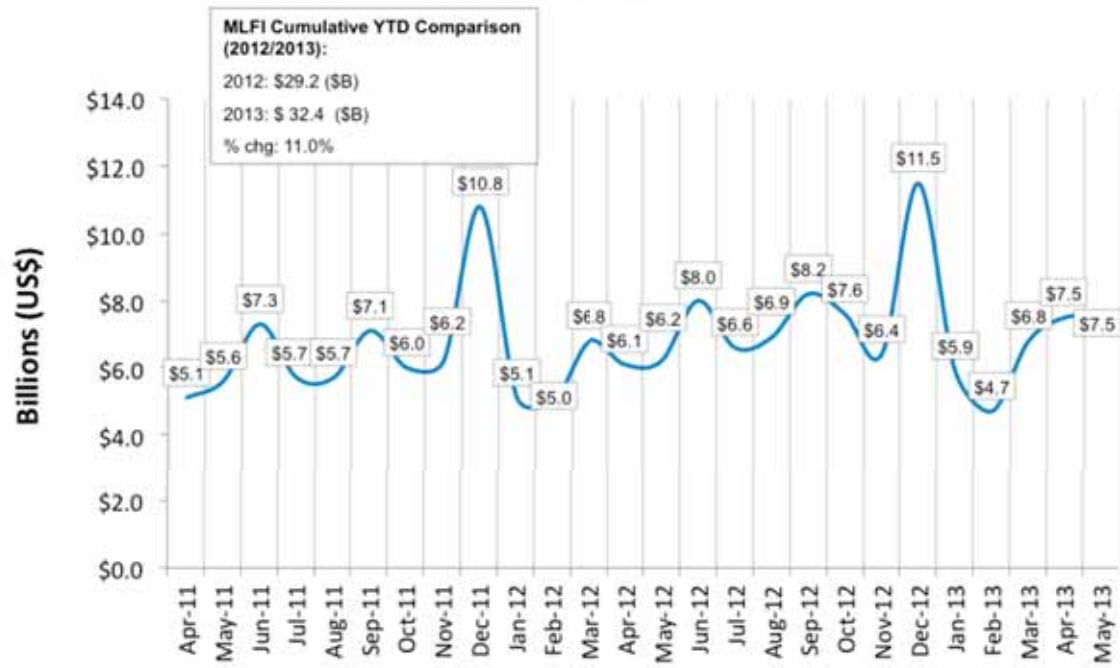
*Investing in Business Essential Revenue Hard Assets*

Geography	Currency	Industries	End Users	Payment Profile
<ul style="list-style-type: none"><li>• USA</li><li>• Canada</li><li>• UK</li><li>• EU</li></ul>	<ul style="list-style-type: none"><li>• \$ USD</li><li>• £GBP</li><li>• €EURO</li></ul>	<ul style="list-style-type: none"><li>• Energy</li><li>• Environmental</li><li>• Agricultural</li><li>• Medical</li><li>• Transportation</li><li>• Technology</li></ul>	<ul style="list-style-type: none"><li>• Governments</li><li>• Colleges &amp; Universities</li><li>• Public &amp; Private Companies</li></ul>	<ul style="list-style-type: none"><li>• Single Investor (Cash Flow)</li><li>• Leverage (Growth)</li></ul>

The Manager of SQN AIF IV, L.P. approaches leasing as an innovative financing vehicle to provide growth capital to strong management teams with solid business models in need of revenue producing assets.



# MLFI-25 New Business Volume (Year-Over-Year Comparison)



The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index (MLFI-25), which reports economic activity from 25 companies representing a cross section of the \$725 billion equipment finance sector, showed their overall new business volume for May was \$7.5 billion, up 21 percent compared to volume in May 2012. Month-over-month, new business volume was unchanged from April. Year to date, cumulative new business volume was up 11 percent compared to 2012.

Source: <http://www.elfaonline.org/Research/MLFI/?fa=0513>

