Cambridge: More Alts Equals More Returns

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Funds with at least a 15% allocation to private investments consistently outperformed their peers over the 10-year period ending June 30, 2015, according to new research by investment consultant **Cambridge Associates**.

"Private investments really are a need-to-do, not a nice-to-do," said President and Head of Private Client Practice **Philip Walton.** Especially in low-growth environments like the present, this strategy will allow outperformance, he added.

Institutions that allocated at least 15% of their assets to private investments saw a median return of 3.6% for the fiscal year ending on June 30, 2015, and nearly all had positive returns. Cambridge data from the 1970s onward confirms this pattern. Of a group of 242 institutions, the median annualized return for those that allocated more than 15% to private investments over a trailing 10-year period was 7.6%, or 150 basis points higher than that of a group that allocated less than 5%. Performance was similar for the training 15- and 20-year periods.

These patterns were most significantly reversed in 2001-03 and 2009-11, both of which were periods of market corrections followed by a period of recovery for equities. "When they underperformed, they underperformed by a little, and when they outperformed, they outperformed by a lot," said Walton.

The Cambridge report noted that the institutions that outperformed also likely had a longer investment horizon and more staff resources to manage the private investments. Additionally, many institutions may not be able to tolerate the illiquidity necessary for long-term private investments. However, Cambridge recommends taking a close look at actual cash flow needs, which many funds overestimate, according to the report. Also, while the median asset size was $1.2 billion for the group with more than 15% allocated to private investments, more than one-quarter of that group had assets below $500 million.

For funds considering the approach, Walton recommends a four-step process. Once funds have assessed their liquidity needs, he said, they must make sure they have the smartest advisers and staff to integrate the strategy. "The universe of high-quality institutional fund managers is bigger now, but manager selection matters," he said. Funds should consider their governance structure and investment decision making processes: he advises institutions "to consider whether their existing group has the expertise," and to create a subcommittee if necessary. The last step is

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