

# THE NEW ENGLAND GUILD

## MEMORANDUM

### Alternative Investments

Over the past several years the investment industry has introduced a continuing array of new investment products. While many of these new products fall within traditional asset class definitions, many of them defy simple and traditional asset class definitions. Many hedge funds, for example, appropriately evaluate performance against absolute measures of return (e.g., T-bills + x%) or real rates of return (e.g., Inflation + y%). It is increasingly common that equity funds invest across global markets without fixed allocations, either to U.S. versus Non-U.S. stock markets or to large-cap versus small-cap stocks. There are asset allocation funds that invest across all asset classes, as well as specialty funds that invest in commodities, or timber, or option buy-write strategies, or any number of other niche strategies. Each in their own way makes economic sense in the construction of portfolios. We use some of them; we dislike some of them; and we don't understand many of them.

For the ones we do understand and think may add value to client portfolios, it seems appropriate to identify them as separate and distinct from traditional asset classes for the formulation of client objectives, performance evaluation, and for reporting on the asset class diversification of portfolios. By doing this we are suggesting that each of the holdings within this 'Alternative Investments' category must be evaluated against its own customized benchmark.

Further, that element of portfolio objectives that now specifies asset allocation targets and ranges should include a range (if not a target) for allowable allocations to 'alternative investments'. Overall portfolio results, however, will still be evaluated, as is currently done, against a hybrid index comprised of the results of investments in indices that represent asset class markets in proportion to the asset allocation targets of each client's objectives. Obviously, this will require either modifying our current reporting formats or developing additional reports that provide clients with the relevant information to evaluate portfolio characteristics and results.

At this time the only funds currently used that are to be included in this 'Alternative Investments' category are: Pimco All Asset, Pimco Commodities, Merger funds, First Eagle Gold funds and Plum Creek.