Understanding Alternative Investments

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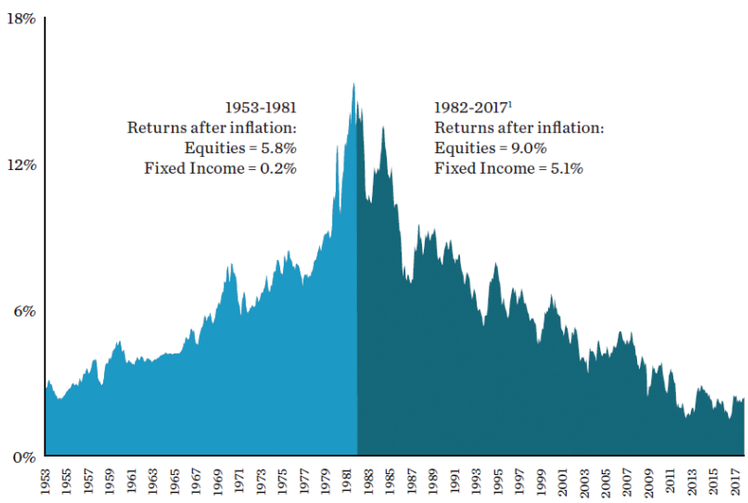
As stewards for your wealth we want you to know that we are constantly reviewing investment options to ensure you have access to the best processes and investments to help you reach your goals. Traditionally, investors have had only three asset classes to choose from when investing – stocks, bonds and cash. The typical Canadian balanced account has 60% of the portfolio allocated to stocks and 40% allocated to bonds. As you can see in the chart below, this type of portfolio would have produced a impressive return of approximately 9% per year on average since the early 1980s to present day. However, this was during a period of time when interest rates were falling from historic high to historic low values. If we look back to the 1950s when interest rates were similar to today and then rose, the outcome is quite different. A balanced portfolio in this scenario would only have produced a 5% annualized return over that 30-year period. This return is below what most retirees need to have to support their retirement goals. This outlook has led us to look at some alternatives to the traditional asset classes.

A World Where Bonds Could Lose Money

Historical Yield on 10-Year Treasury Bond, 1953-2017



Source: U.S. Treasury and Federal Reserve.
(1) As of 12/31/2017.

The term Alternative Investment covers a wide range of investments but essentially is any investment outside of the traditional asset classes - stocks , bonds or cash. Alternative assets can include, private equity, venture capital, real estate, hedge funds, managed futures, art and antiques or private lending (debt) for example.

Who is investing in alternative asset classes already? Think of the Ontario Teachers Pension (OTPP) or the Ontario Municipal Employee Retirement Scheme (OMERS) or even the Canada Pension Plan (CPP). These plans combined have over $700 Billion in assets according to recent annual reports. Further south, you have endowment funds, such as Yale and Harvard, with at least $30 and $40 billion in assets respectively. One thing they have in common is the responsibility to manage their investments to provide long term ongoing payments to their beneficiaries, not unlike the requirement for your retirement savings. The other commonality is an allocation to alternative investments that exceeds 50% of their assets.

The advantages of alternative investments like private lending and real estate is that they are not impacted by day-to-day volatility in the public markets. This results in more stable and often better returns over the long term for a given level of risk.

Alternative investments have been limited to mainly large investment pools like pensions and wealthy families for these reasons:

1) **Accredited Investor Rule** – Ontario regulators have a rule that says you must have $1,000,000 of investable assets or income of $200,000 annually to qualify

2) **High Minimums** – most managers require an initial investment of over $25,000 and in many cases $150,000 or more

3) **Liquidity** – Initial holding period is 12 months and then on an as available basis

4) **Limited Availability** – especially in real estate, managers tend to look to large investors to help finance holdings

As Portfolio Managers, Paul Green and David Harris qualify as accredited investors on behalf of our clients, allowing all of our clients to get over hurdle #1. Harbourfront Wealth Management took a unique approach and developed a fund structure with multiple managers in each fund. This allows minimum deposits to be met by combining investments from all of our clients in the fund. This also helps solve the issue of liquidity as redemptions take between 30 to 60 days.

We have two alternative investment funds in most of our portfolios now.

1) **Rockridge Private Debt and Real Estate Fund** - This fund was added to client portfolios in Feb 2019 by reducing bond exposure by 20% in most cases. Performance has been as expected with positive returns each month. The annual return for 2019 was 6.63%. The fund has 12 managers offering excellent diversification with 42% in mortgage investments, 53% in asset-based lending and factoring and 5% in a real estate investment trust.

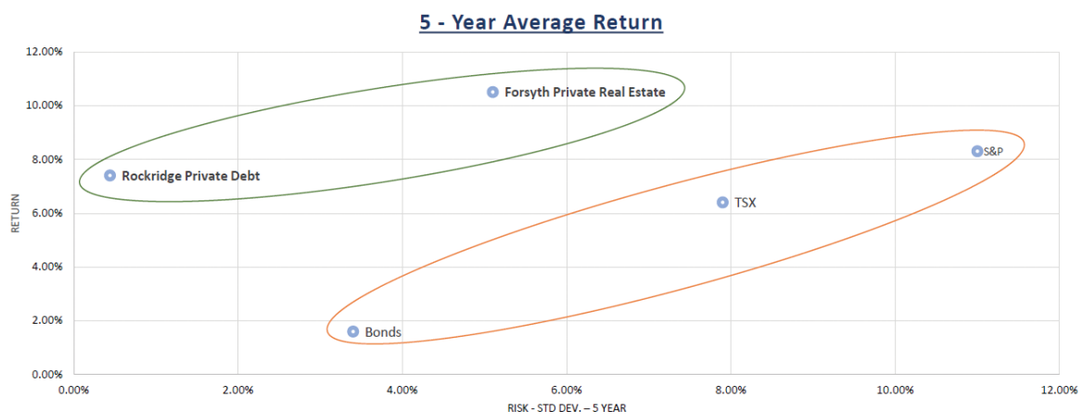
2) **Forsyth Private Real Estate Fund** – This fund was launched in October 2019 and we added it to portfolios in January by reducing equity exposure by 10%. The investments are diversified among 10 managers with the major investments as follows; 64% into apartment buildings, 14% in student housing, 7% in energy infrastructure. This provides tax-efficiency to non registered accounts as all distributions are Return of Capital meaning no annual taxation. The cost base of your investment is reduced so you can defer tax until the sale of the fund units and then receive capital gains treatment on the sale.

Below is a chart looking back at the performance of the managers we have in the funds and comparing the return and risk to traditional asset classes. As you can see, both alternative assets have provided lower risk and higher returns than the traditional asset classes.

Peace of Mind – When we look at the potential for negative bond returns in the future and the current volatility in the stock market, we hope you see these alternative investments as a safe haven from the storm of public markets. Private apartment buildings have shown to be quite resilient and continue to generate income from rent regardless of recessions. Couple that with continuing strong demand for apartments in many major centers in Canada and the US. Our Private lenders are diversified and skilled managers in this space, so we can expect stable income and growth from these assets as well.

These investments are exclusive to clients of Harbourfront Wealth Management advisors and are unique in the industry. Please reach out for more information if you wish.

Reduce your risk, not your return.



[1] The backtested performance table and backtested returns chart do not indicate the actual rate of return for Forsyth Private Real Estate Portfolios as the pool's inception date is September 19, 2019. The performance figures and chart are shown for illustrative purposes only. The rate of return prior to September 19, 2019 is backtested and has been compiled by blending the returns of the underlying investment funds based on their target weightings in the Forsyth Private Real Estate Portfolios. The allocation listed is a target allocation.

WILLOUGHBY ASSET MANAGEMENT