



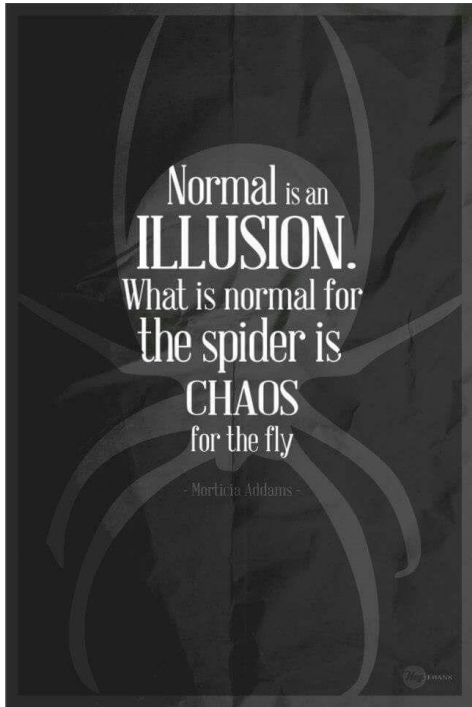
FIFTH THIRD BANK

Alternative Investments: Organizing the Junk Drawer

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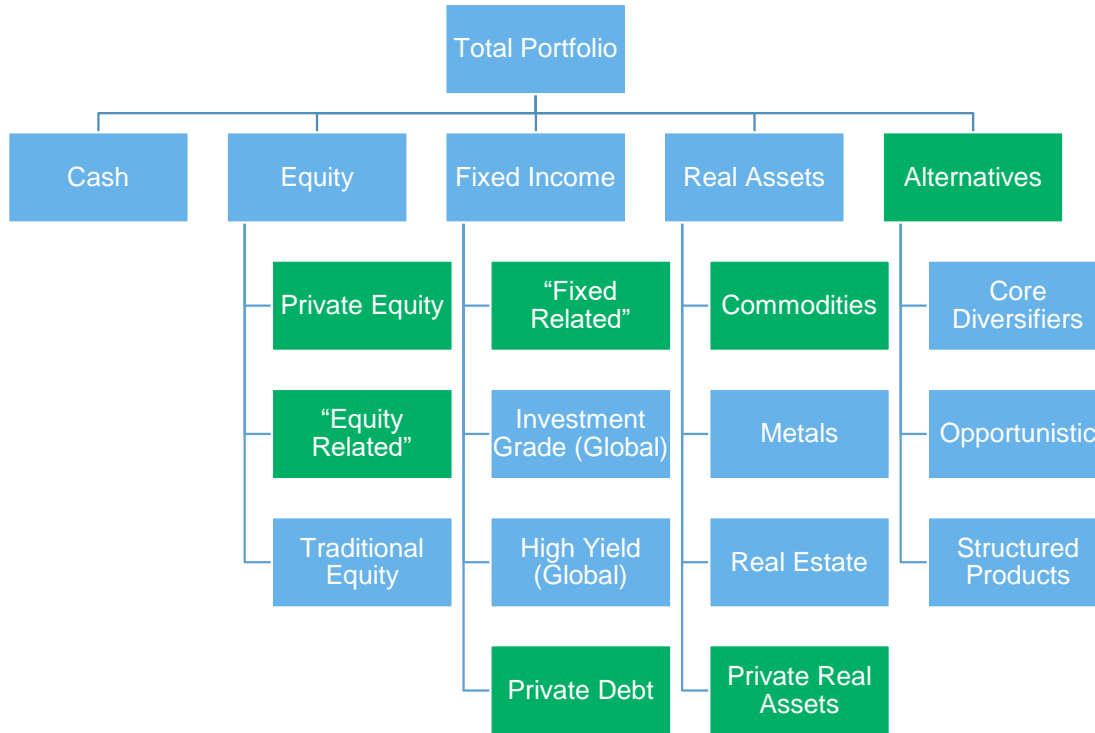
What are alternatives?



“I shall not today attempt further to define the kinds of material I understand to be embraced within that short hand description [“Alternative Investments”], and perhaps I could never succeed in intelligibly doing so. But *I know it when I see it*, and the [“investment strategy”] involved in this case is not that.”

- Potter Stewart, stylized quote from *Jacobellis v. Ohio*

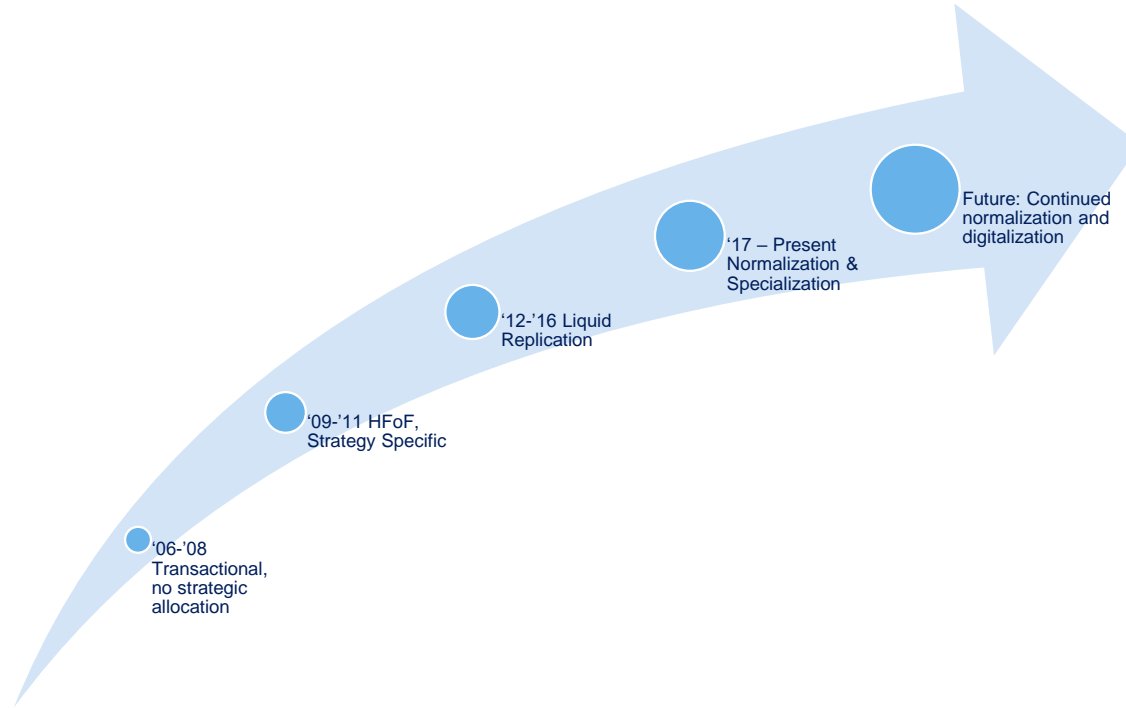
Where we ended up on categorization



Considerations

- Asset Allocation
- Performance Calculation
- Benchmark Selection

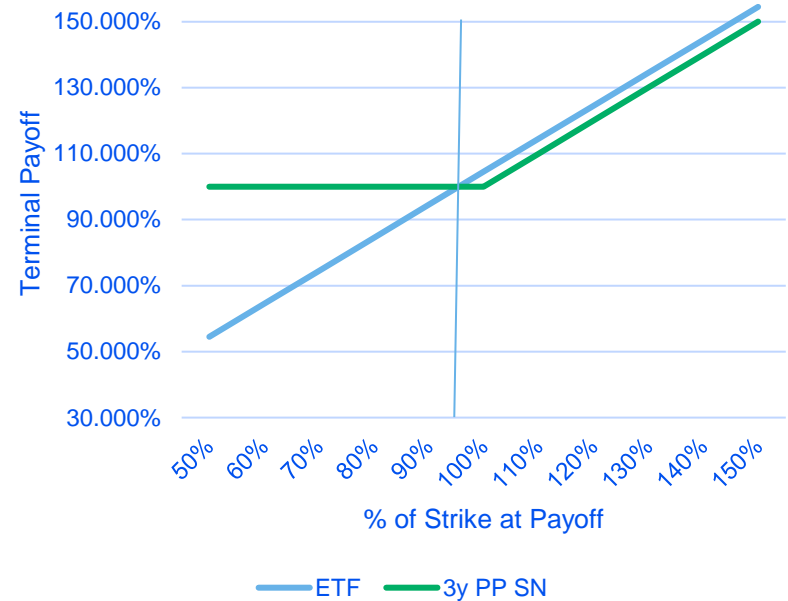
How we got there



Learning from transactions

- Structured notes lead to counterintuitive bets
 - Packaged Derivatives wrapped in a fixed income instrument
 - Option payoff responds to price only
 - Nearly infinitely variable
 - A Principal Protected 3 yr equity linked note is a bet that the price will decline > than the 3 yr accumulated dividend yield

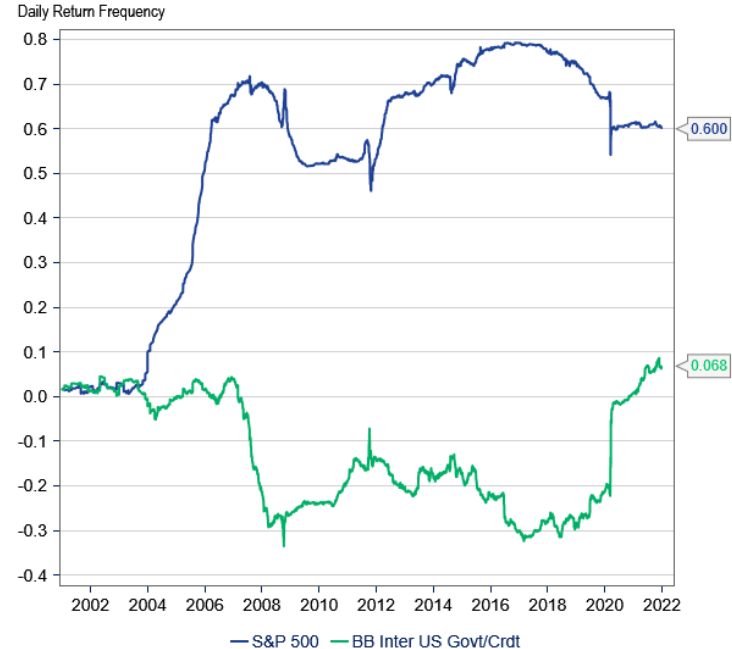
Structured Note Payoff



Learning from Private Placements

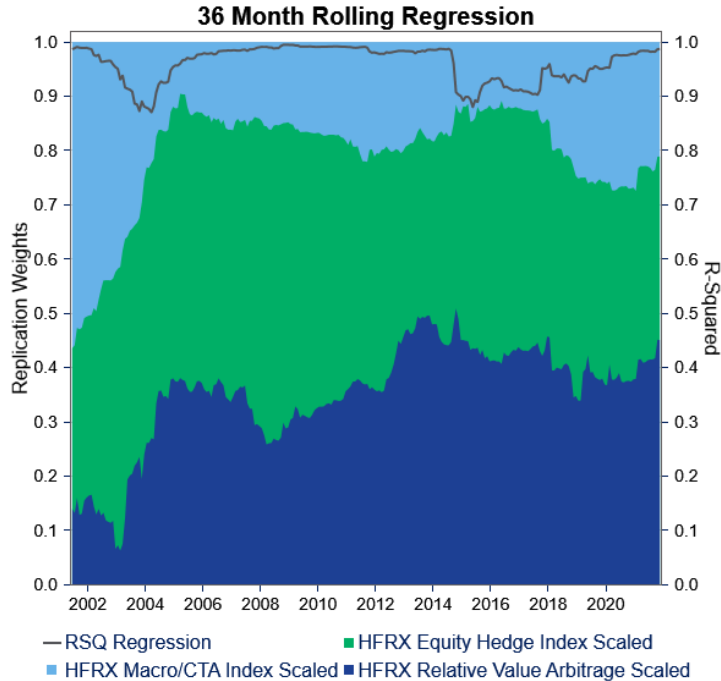
- Hedge Funds (as a group) diversify bond risk, but not stock risk
- Only a few strategies are true beneficiaries of illiquidity premium
 - Think event driven
- With a bit of effort we found we could replicate hedge funds (as a group) performance with liquid securities.

3 Year Rolling Correlation to HFRX Global Hedge

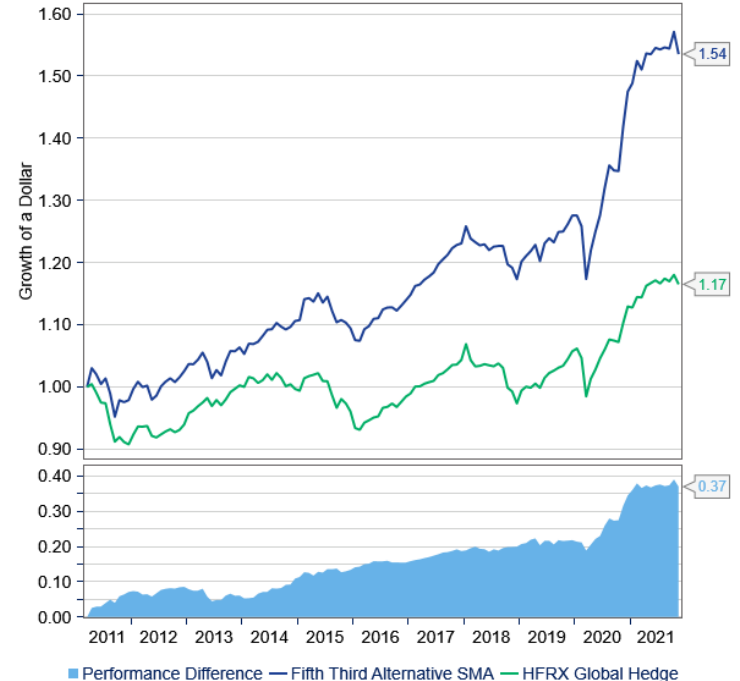


Source: Fifth Third, Bloomberg, Macrobond as of 12/28/2021

Learning from move to liquid replication



Source: Fifth Third, Bloomberg, Macrobond as of 12/31/2020



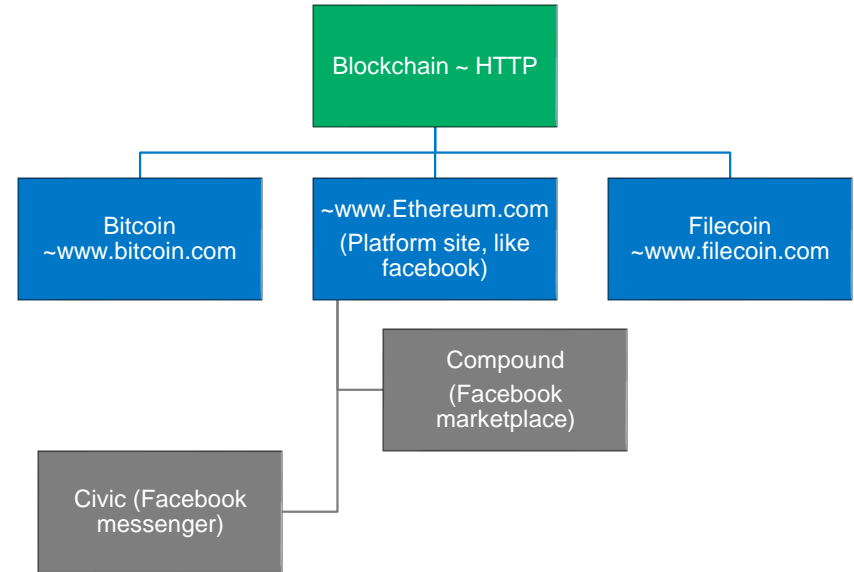
Source: Fifth Third, Bloomberg, Macrobond as of 09/30/2021

Learning from normalization & specialization

- What's the beta?
 - 130/30
 - Unconstrained bond
 - Relative Value
 - Private Equity
- What's really differentiated?
 - CTA
 - Litigation Finance
 - Insurance Linked Securities
- The problem with uncorrelated strategies is that they're uncorrelated
 - Difficult to explain to clients
 - Difficult to benchmark

The move to digital

- Difficult to value, highly speculative, and very limited regulation.
- Prone to fraud and generally irreversible transactions make risk management difficult and paramount.
- Similar to “Dot Com”, new technology that has network effects.
- This isn’t going away, we have to watch it.



Framing Value in Digital

Value Transfer

- Simplest version of currency valuation is PPP; however, when considering value transfer cryptocurrencies we don't find that very many items are available in both BTC (for example) and USD (Tesla cars were for a short time).
- All things considered, it comes down to $P = \text{daily volume/outstanding units}$

Yielding / Staking

- Most basically, you're buying a bond. Price = present value of cash flows you'll receive.
- PMT isn't stable and is dependent on $P_{t=0}$, & $P_{t=1\dots n-1}$

Utilities

- Ultimately comes down to supply vs demand
 - Many things can influence both sides
 - Demand:
 - Substitutes
 - Economic activity
 - Supply:
 - Depending upon the coin lots of variables
 - Cost of production (changes there in)
 - Some coins are destroyed through use

Takeaways

- Alternative definition is based upon your (or your client's) definition of traditional.
- Your definition of traditional is likely to change throughout time, it's a process not an event.
- “Hedge fund beta” can be achieved through liquid securities, but is not terribly diversifying for equity dominated portfolios.
- True diversification requires exposing a portfolio to different risk exposures, but different can be difficult to explain.
- Digital assets have a foothold in the institutional world, and are here to stay – ignore them at your peril.

Questions?

Thank you

Definitions & Disclosures

Bitcoin is a decentralized, fully independent, digital or virtual currency also known as a cryptocurrency. No institution controls the Bitcoin network and it is not tied to a country as transactions can be performed cryptographically without the need for a central issuing authority. The entire network is maintained by individuals and organizations referred to as Bitcoin Miners who process and verify bitcoin transactions through a mathematical algorithm based on the cryptographic hash algorithm.

The BarCap U.S. Corporate HY YTW – 10-yr Treasury Spread is calculated by taking the Barclays Capital U.S. Corporate High Yield Yield-to-Worst minus the U.S. Generic Government 10-year Yield.

MSCI All Country World - The MSCI ACWI offers a modern, seamless and fully integrated approach to measuring the full equity opportunity set with no gaps or overlaps. MSCI ACWI represents the Modern Index Strategy and captures all sources of equity returns in 23 developed and 23 emerging markets.

S&P 500 - The Standard & Poor's 500 Stock Index is a composite of the 500 largest companies in the U.S. and it is often used as a measure of the overall U.S. stock market.

Russell 2500 - Russell 2500 Index is an index that measures the performance of the 2,500 smallest companies in the Russell 3000 Index. This index is constructed to provide a comprehensive and unbiased barometer for the small and mid-cap segment of the U.S. equity universe.

MSCI EAFE - MSCI EAFE Index is a market capitalization weighted index composed of companies representative of the 20 Developed Market countries in Europe, Australasian and the Far East. Net of taxes is calculated in U.S. dollars as dividend reinvested minus withholding taxes retained at the source for non-resident individuals who do not benefit from double taxation treaties.

MSCI EM - The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices. Net of taxes is calculated for Morgan Stanley Capital Intl Equity Indices in U.S. dollars as dividend reinvested minus withholding taxes retained at the source for non-resident individuals who do not benefit from double taxation treaties.

Bloomberg Intermediate Government/Credit – The Bloomberg Barclays Intermediate Government/Credit index measures the performance of U.S. dollar-denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

U.S. Aggregate Bond Index – The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Global Aggregate ex-USD – The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets excluding the United States. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers.

JP Morgan EMBI Global Diversified – The J.P.Morgan Emerging Markets Bond Index Global tracks total returns for traded external debt instruments in the emerging markets, including U.S. dollar-denominated Brady bonds, loans and Eurobonds with an outstanding face value of at least \$500 million.

US Corp High Yield – Barclays US Corporate High Yield Index represents the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded but, Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes corporate sectors. The corporate sectors are Industrial, Utility, and Finance, encompassing both US and non-US Corporations.

Bloomberg Global Inflation-Linked TIPS – The Bloomberg Barclays US Treasury Inflation-Protection Securities (TIPS) Index consists of inflation-protection securities issued by the U.S. Treasury. They must have at least one year until final maturity and at least \$250 million par amount outstanding.

MSCI U.S. REIT Index - The MSCI U.S. REIT Index is a free float-adjusted market capitalization index, aimed to reflect the performance of equity REIT investment opportunity set in the U.S.

S&P U.S. REIT – The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

S&P Global Infrastructure - The S&P Global Infrastructure Index tracks 75 companies from around the world chosen to represent the listed infrastructure industry and includes three distinct infrastructure clusters: energy, transportation, and utilities.

Bloomberg Commodity Index – The Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements.

Definitions & Disclosures

Nonfarm Payrolls measures the number of employees on business payrolls.

The Fed Trade Weighted Nominal Broad Dollar Index is a measure of the value of the United States dollar relative to other world currencies.

ICE BofA Merrill Lynch 91-Day Treasury Bill Index is an unmanaged index consisting of U.S. Treasury Bills maturing in 90 days.

Bloomberg Barclays Intermediate Gov/Cred Index tracks the performance of investment grade intermediate term U.S. government and corporate bonds with maturities between one and ten years.

MSCI All Country World Index (MXWD Index) offers a modern, seamless, and fully integrated approach to measuring the full equity opportunity set with no gaps or overlaps. MSCI ACWI represents the Modern Index Strategy and captures all sources of equity return in 23 developed and 26 emerging markets.

HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

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