Alternative investments report:

How to enhance diversification and long-term returns

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Non-traditional return streams: The importance in uncertain times

Alternative investments cover a wide range of investment strategies and return streams. Commonly used and referenced alternative investments include private debt, private real estate, private equity and hedge funds. However, the alternative investment industry has grown immensely since the 2007-2009 financial crisis to include other strategies and fund structures, including the growth of liquid alternative mutual funds (liquid alt mutual funds).

How alternative investments can enhance diversification and long-term returns

Hedge funds and liquid alt mutual funds

Allocating to hedge funds and liquid alt mutual funds can be a viable approach to using alternative investments for material, long-term diversification and return benefits, depending on an investor's investable assets, liquidity needs and other factors. Historically, we've used alternative investments to diversify more traditional portfolios. For example, an option investors should consider is going from a traditional 60/40 stock and bond portfolio to one that more closely resembles a 60/20/20 stock-bond and alternative investment portfolio with hedge funds and liquid alt mutual funds for the latter. We'll expand on this case study a little further down.

Incorporating a diversified alternatives allocation to reduce downside volatility

While hedge funds and liquid alt mutual funds aren't fixed income investments, incorporating a diversified allocation of alternative investments alongside traditional fixed income holdings may help enhance portfolio diversification. These strategies often seek to provide exposure to different return drivers and risk profiles, which could complement traditional bonds in managing portfolio risk and downside volatility.

However, the performance, liquidity and risk characteristics of alternative investments can vary significantly based on the specific strategy and market conditions. Some hedge fund and liquid alt mutual fund strategies may demonstrate lower correlation/sensitivity to equity and bond markets, offering potential diversification benefits in different economic and market environments. Investors should carefully consider the unique risks, fees and liquidity constraints associated with these investments before incorporating them into a portfolio.

Potential risks with the alternative investments we recommend

Our clients are exposed to alternative investments' unique, idiosyncratic risks:

- concentration risk;
- event risk;
- leverage via shorting specific securities (borrowing stock to conduct a short-sale or the use of options/derivatives); and
- in certain cases, leverage to increase long-exposure in certain event-driven investments.

Investors considering private capital strategies

Private capital strategies, like private debt, real estate and equity, may be appropriate for certain investors, as it can enhance long-term return potential and complement traditional (publicly traded) long-only stock, bond and real estate investments. It's important to stress that private capital cash flows and returns are vulnerable to economic and market downturns due to their illiquidity, dependency on favorable capital markets upon exit and absence of shorting or hedging strategies.

The returns experienced by two TruePlan clients

In this section, we'll discuss two TruePlan clients that experienced returns (net of fees) through a pension plan and a corporation's liquid asset reserves. The performance shown is specific to their alternative investment allocations; see pages three through six for graphs illustrating these performance results. It's important to note that TruePlan also advises these clients on their larger, broader portfolios containing traditional (long-only) investments. The timeframe captures the common inception date among the return streams, month-end November 2021.

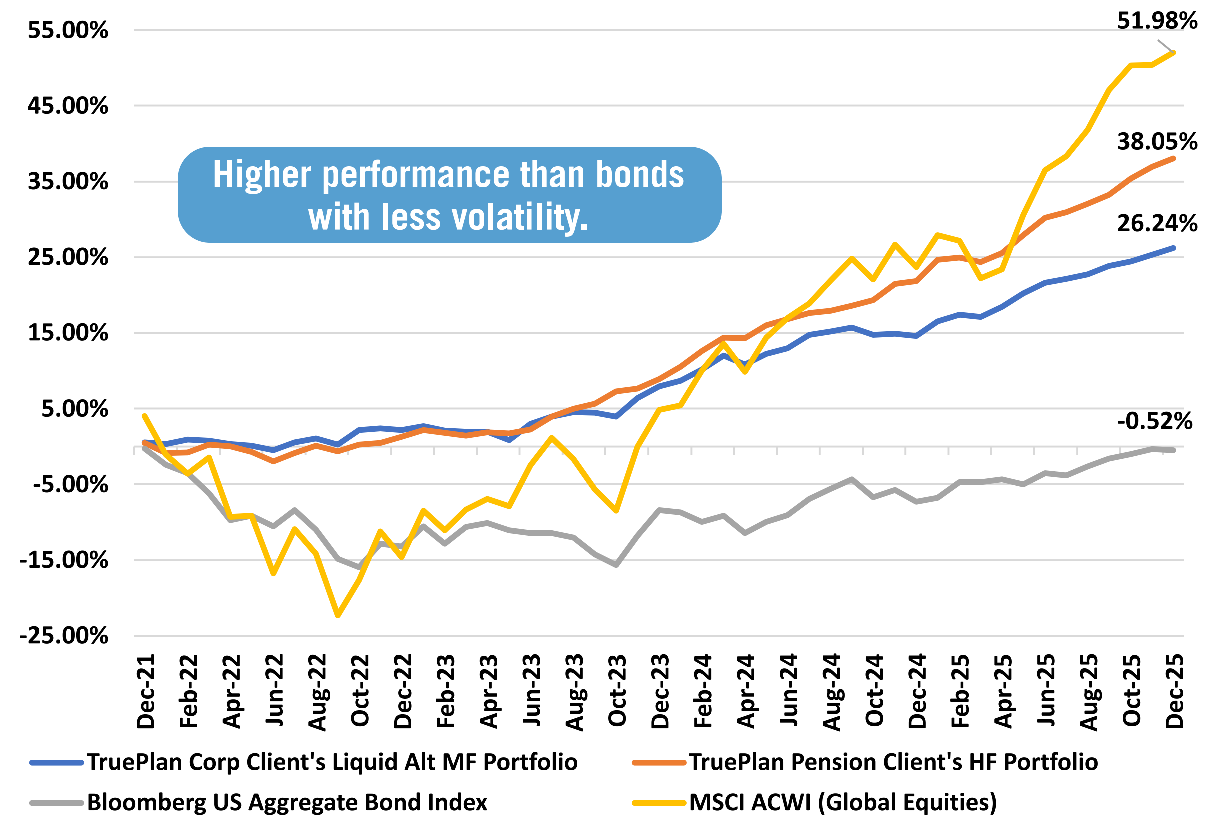
The investment strategies executed in these hedge funds and liquid alt mutual funds have historically had a substantial amount of short-term capital gains; however, past performance is not indicative of future results. The two clients are tax-exempt entities, and these investments may be suitable for such entities with similar investment objectives, risk profiles and liquidity considerations, though suitability should be assessed on a case-by-case basis.

The pension plan's alternative investment allocation currently consists of eight hedge funds,* while the corporation's alternative investment allocation consists of six liquid alt mutual funds.** These hedge fund and liquid alt mutual fund allocations have changed over the specified time period as managers have been added and removed and allocations have increased and decreased. The performance data captures the investment-related growth or decline in assets among the managers and the values are verified by account statements.

The hedge fund and liquid alt mutual fund allocations have exhibited notable periods of low correlation/sensitivity to broader stock and bond markets, including instances of downside protection. This can be seen in the cumulative and calendar year returns, including the gains experienced in 2022 when stock and bond markets declined. It can also be seen in periodic monthly increments, such as August-October 2023 when the noted global equity and U.S. bond indices were down 9.52% and 4.69% while the hedge fund and liquid alt mutual funds allocations were +3.21% and -0.04% net of fees.

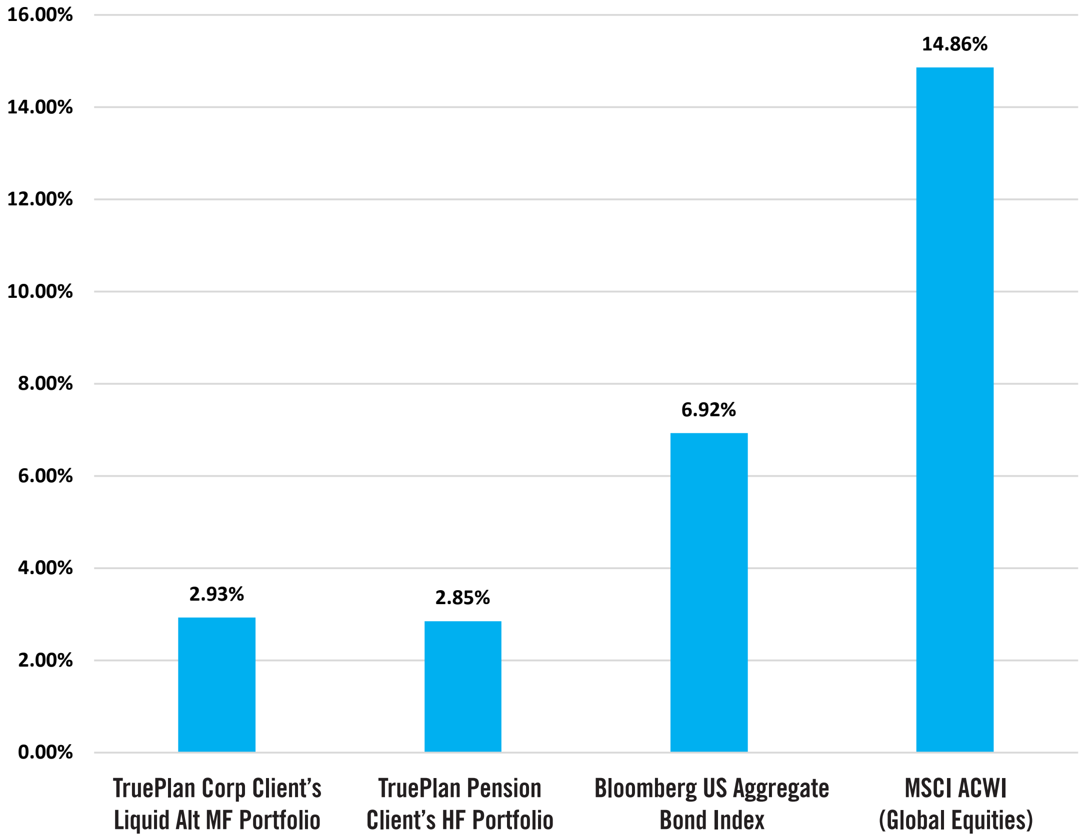
*Manager names and their specific fund performance are available upon request to qualified investors or entities.
**Symbols are: JAKUX, QQMNX, NLSIX, MERIX, HMEZX and BILPX.

Cumulative return (Nov. 30, 2021 – Dec. 31, 2025) Common inception date



The clients' total portfolio returns include both traditional and alternative allocations. Returns are based on specific allocations that may differ materially from a typical investor's portfolio.
Performance source: Client account statement values (net of fees) and Ycharts for index returns. Past performance is not a guarantee of future returns.

Annualized volatility of monthly returns (Nov. 30, 2021 – Dec. 31, 2025) Common inception date



Market sensitivity

EQUITY MARKET SENSITIVITY		BOND MARKET SENSITIVITY	
TruePlan Corp Client's Liquid Alt Mutual Fund Portfolio	TruePlan Pension Client's Hedge Fund portfolio	TruePlan Corp Client's Liquid Alt Mutual Fund Portfolio	TruePlan Pension Client's Hedge Fund portfolio
Equity beta* (sensitivity)	Equity beta* (sensitivity)	Fixed income beta* (sensitivity)	Fixed income beta* (sensitivity)
0.14	0.10	0.22	0.10

*Beta is a measure of market sensitivity, with a beta nearing or above 1 indicating a high degree of sensitivity, and a beta nearing or below 0 indicating little if any sensitivity. Equity beta is measured to the MSCI ACWI, and fixed income beta is measured to the Bloomberg US Aggregate Bond Index.

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	MSCI ACWI (Global Equities)	Bloomberg US Aggregate Bond Index	TruePlan Corp Client's Liquid Alt MF Portfolio	TruePlan Pension Client's HF Portfolio
Dec. 21	4.03%	-0.26%	0.54%	0.48%
Jan. 22	-4.89%	-2.15%	-0.25%	-1.34%
Feb. 22	-2.55%	-1.12%	0.63%	0.12%
Mar. 22	2.22%	-2.78%	-0.18%	1.04%
Apr. 22	-7.97%	-3.79%	-0.39%	-0.25%
May 22	0.19%	0.64%	-0.23%	-0.74%
Jun. 22	-8.39%	-1.57%	-0.59%	-1.26%
Jul. 22	7.02%	2.44%	1.05%	1.14%
Aug. 22	-3.64%	-2.83%	0.45%	0.96%
Sep. 22	-9.53%	-4.32%	-0.77%	-0.78%
Oct. 22	6.06%	-1.30%	1.93%	0.94%
Nov. 22	7.80%	3.68%	0.24%	0.24%
Dec. 22	-3.90%	-0.45%	-0.23%	0.78%
	-17.96%	**-13.01%**	**1.64%**	**0.80%**
Jan. 23	7.19%	3.08%	0.52%	0.86%
Feb. 23	-2.83%	-2.59%	-0.61%	-0.38%
Mar. 23	3.15%	2.54%	-0.11%	-0.31%
Apr. 23	1.48%	0.61%	-0.02%	0.41%
May 23	-1.00%	-1.09%	-1.08%	-0.17%
Jun. 23	5.85%	-0.36%	2.14%	0.54%
Jul. 23	3.69%	-0.07%	0.93%	1.63%
Aug. 23	-2.75%	-0.64%	0.59%	1.04%
Sep. 23	-4.10%	-2.54%	-0.08%	0.65%
Oct. 23	-2.98%	-1.58%	-0.55%	1.49%
Nov. 23	9.28%	4.53%	2.40%	0.34%
Dec. 23	4.84%	3.83%	1.41%	1.16%
	22.81%	**5.53%**	**5.60%**	**7.48%**
Jan. 24	0.61%	-0.27%	0.68%	1.52%
Feb. 24	4.33%	-1.41%	1.43%	1.86%
Mar. 24	3.20%	0.92%	1.63%	1.56%
Apr. 24	-3.26%	-2.53%	-1.07%	-0.02%
May 24	4.12%	1.70%	1.33%	1.45%
Jun. 24	2.26%	0.95%	0.63%	0.73%
Jul. 24	1.64%	2.34%	1.58%	0.69%
Aug. 24	2.57%	1.44%	0.37%	0.26%
Sep. 24	2.36%	1.34%	0.46%	0.56%
Oct. 24	-2.21%	-2.48%	-0.85%	0.60%
Nov. 24	3.77%	1.06%	0.16%	1.80%
Dec. 24	-2.33%	-1.64%	-0.24%	0.34%
	18.02%	**1.25%**	**6.22%**	**11.95%**
Jan. 25	3.38%	0.53%	1.62%	2.29%
Feb. 25	-0.57%	2.20%	0.79%	0.20%
Mar. 25	-3.90%	0.04%	-0.25%	-0.45%
Apr. 25	0.98%	0.39%	1.15%	0.98%
May 25	5.81%	-0.72%	1.48%	1.88%
Jun. 25	4.53%	1.54%	1.15%	1.77%
Jul. 25	1.38%	-0.26%	0.42%	0.57%
Aug. 25	2.51%	1.20%	0.53%	0.83%
Sep. 25	3.66%	1.09%	0.85%	0.94%
Oct. 25	2.26%	0.62%	0.46%	1.62%
Nov. 25	0.02%	0.62%	0.68%	1.11%
Dec. 25	1.07%	-0.15%	0.76%	0.84%
	22.87%	**7.30%**	**10.08%**	**13.28%**

Notes:

These are monthly total returns.

Gold represents full calendar year return/YTD return.

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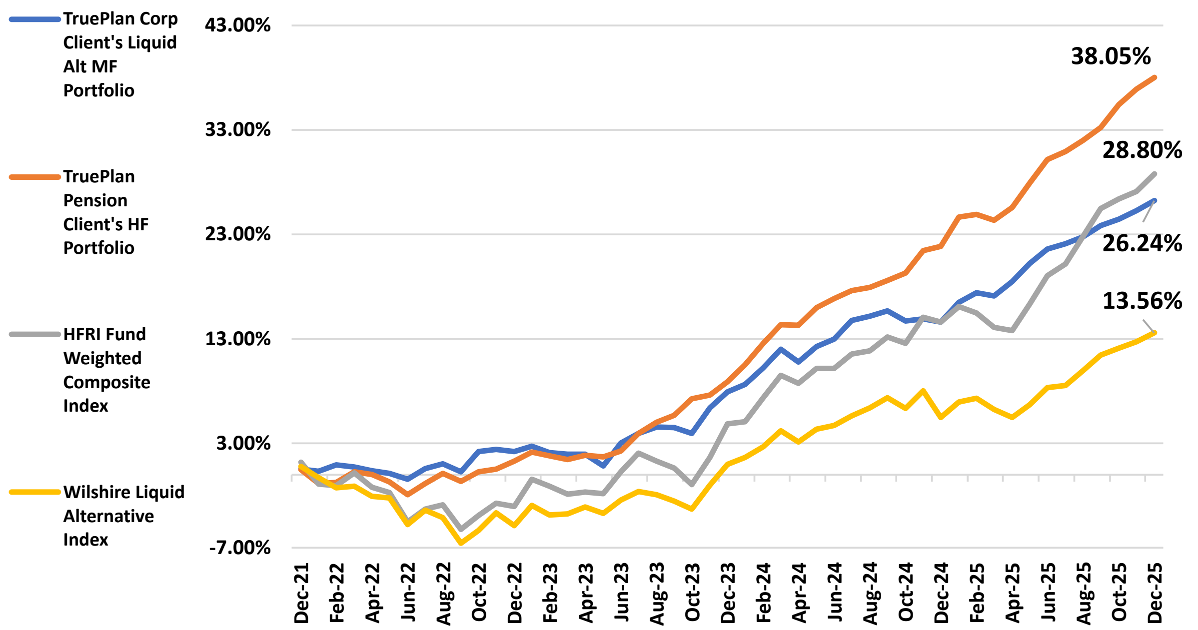
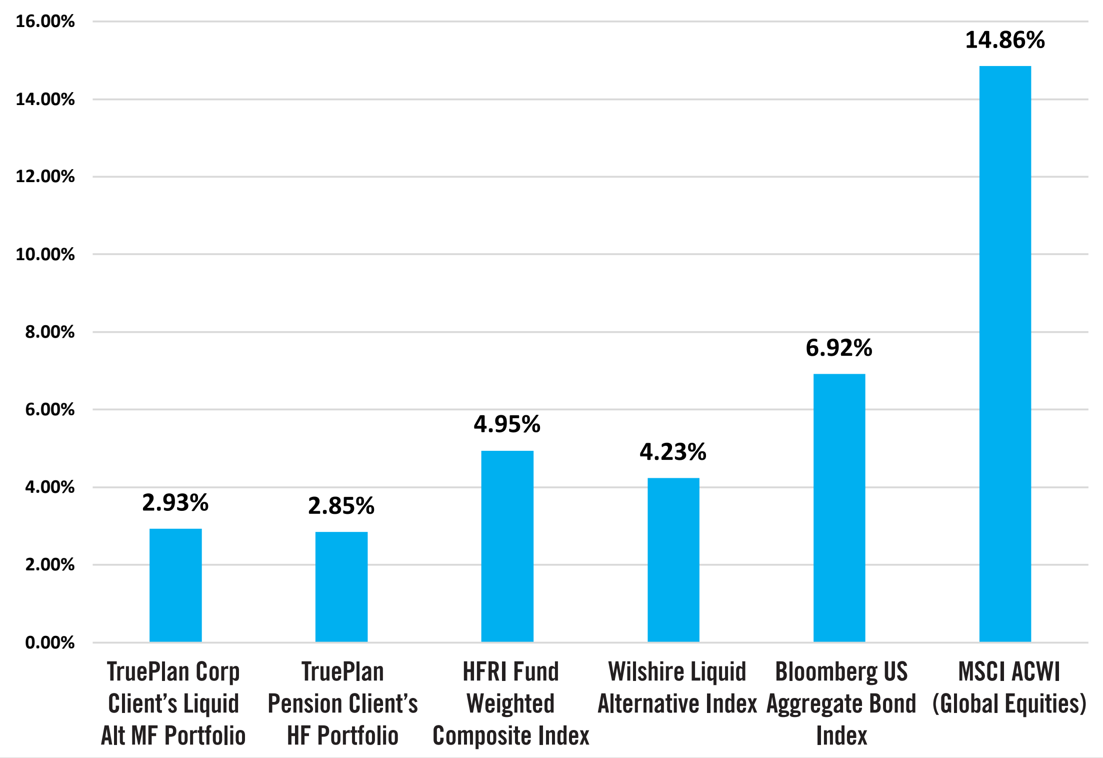
Performance source: Client account statement values (net of fees) and Ycharts for index returns. Past performance is not a guarantee of future returns.

Performance/volatility comparison versus industry standard hedge fund and liquid alt mutual fund indices.

Cumulative return (Nov. 30, 2021 – Dec. 31, 2025) Common inception date



Annualized standard deviation (volatility) of returns (Nov. 30, 2021 – Dec. 31, 2025) Common inception date



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