

Reviewing the Performance of Multi-Asset Class Solutions

Detailed Data Clarifies Their Role in Diversified Portfolios



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Members of the Segal Marco Advisors Absolute Return Team wrote this report in May 2022.

Summary

Multi-asset class solutions (MACS) are an evolution of the traditional balanced fund that include more dynamic asset allocation and a wider range of asset classes within the investable universe. While MACS are conceptually sound and intriguing as a component of a broadly diversified portfolio, they have struggled to generate consistently attractive and differentiated return streams. That performance has cast doubt on their longer-term value proposition.

The Segal Marco Advisors Absolute Return Team conducted an in-depth review of whether MACS have fulfilled their core objectives across their three investment tenets: risk, return and structure. This report presents our detailed findings. These are among the highlights:

- **Risk** — MACS have largely accomplished their established goals related to volatility dampening, diversification and protection during down markets. However, there was a slight degradation in the degree to which these mandates have provided diversification in recent years as correlations to traditional asset classes have increased.
- **Return** — Since 2000, MACS have struggled to produce strong positive returns, generally falling short of a target of cash plus 6 percent. In general, the inability of MACS to keep pace with overall market gains is a recent phenomenon. Previously, MACS experienced prolonged periods of outperformance.
- **Structure** — A large proportion of MACS offer more attractive fee profiles than traditional hedge fund structures, with greater liquidity characteristics. MACS with higher fees and less redemption liquidity have generally outperformed their lower-fee, more liquid counterparts.

We conclude with a going-forward assessment of the portfolio implications for MACS, which includes these implementation strategies:

- Defining the investment objective for a MACS allocation is key to evaluating the efficacy of the decision, the type of strategy used and the specific manager(s) selected or recommended.
- Although as a group MACS have struggled during specific periods, select managers have achieved their stated objectives over the long term.
- Strategies that focus more on alpha generation (returns), rather than on beta exposure (volatility and risk), may have a greater opportunity to outperform in the near future, given the level of uncertainty in markets.

Overall, the Segal Marco Advisors Research Team continues to view MACS as a viable and contributory investment option, but manager selection is critical.

Introduction to Multi-Asset Class Solutions

MACS represent an evolution of the traditional balanced fund, introducing more dynamic asset allocation and a wider range of asset classes into the investable universe. These strategies have garnered increased attention and popularity as they aim to provide strong risk-adjusted returns through relatively liquid structures, accommodative fee schedules, robust transparency, and low cross-asset class correlation profiles relative to traditional asset classes. However, the value proposition has come under increased scrutiny in recent years amid struggles to consistently and/or effectively deliver on their objectives.

Balanced funds develop strategic asset allocations to traditional asset classes, such as stocks and bonds, and generally remain fixed over time. MACS often overlay dynamic adjustments on this approach to provide a stronger risk-adjusted return profile.

The more strategic asset-allocation focus of balanced funds generally translates to long-only portfolio constructs. In contrast, MACS dynamically allocate capital across and within asset classes, including the ability to short if the opportunity set within a particular asset class is less attractive. For example, a balanced fund might allocate 60 percent of portfolio assets to global stocks and 40 percent to global bonds. While MACS might take this strategic allocation into consideration, they adjust these exposures to capitalize more effectively on current market dynamics.

Additionally, some MACS have expanded their investable universe to include commodities, options and currency swaps. MACS managers may also diversify their equity and fixed income exposures across region, size and style. This approach might result in a portfolio that has underlying allocations within equities to sub-asset classes, such as U.S. large cap and small cap, international growth or emerging markets, while also allocating to energy, agriculture, precious metals and other commodities.

Given the expansive purview of MACS, managers have developed different strategies to access market opportunities, which is why MACS should be thought of as a platform of strategy types rather than as an all-encompassing strategy. We compare the nuances and differences among the strategy types in the table on the next page.

In recent years, MACS have received criticism due to the perception that they're unable to produce the risk-adjusted return profile that investors expect. There are issues with the evaluation of MACS mandates that make it difficult to accurately assess their performance against the manager's objectives.

Comparison of MACS Strategy Types				
	Risk Parity	Global Tactical Asset Allocation (GTAA)	Style/Alternative Risk Premia	Other Liquid Alternative Solutions
Investment Objective(s)	<ul style="list-style-type: none"> • Diversification • Attractive risk-adjusted performance • Alpha through diversification benefit/low correlation dynamics 	<ul style="list-style-type: none"> • Diversification • Downside protection with upside potential • Inflation hedging • Alpha through tactical asset allocation (TAA) 	<ul style="list-style-type: none"> • Diversification • Downside protection with upside potential • Alpha through non-traditional, long-short market premia & TAA 	<ul style="list-style-type: none"> • Diversification • Downside protection with upside potential • Inflation hedging • Alpha through short-and medium-term market dislocations
Strategy Characteristics	<ul style="list-style-type: none"> • Risk weighted • Long only 	<ul style="list-style-type: none"> • Capital weighted but risk conscious • Generally long only, but may have shorting flexibility 	<ul style="list-style-type: none"> • Capital weighted but risk-conscious • Long-short orientation • Replicates investment style types using securities across capital markets spectrum 	<ul style="list-style-type: none"> • Contrarian • Leverage proprietary models and senior team experience to identify and exploit inefficiencies
How Strategy Is Used in the Broad Portfolio	<ul style="list-style-type: none"> • Complementary beta diversifying strategy to pair with more alpha-centric mandates 	<ul style="list-style-type: none"> • Core beta diversifying strategy with alpha potential through TAA • Complement to less liquid and/or more alpha-centric investment solutions; productive liquidity source 	<ul style="list-style-type: none"> • Complement to less liquid and/or more alpha-centric investment solutions; productive liquidity source • Substitute for traditional hedge fund investment 	<ul style="list-style-type: none"> • Complement to traditional allocations; used in part as a hedge • Core, standalone diversifying allocation • Substitute for traditional hedge fund investment
Fee Terms, on Average	<ul style="list-style-type: none"> • 0.30% to 0.50% management fee 	<ul style="list-style-type: none"> • 0.60% to 1.20% management fee 	<ul style="list-style-type: none"> • 0.60% to 1.20% management fee 	<ul style="list-style-type: none"> • Management fee + incentive fee
Liquidity Terms	<ul style="list-style-type: none"> • Daily • Weekly • Monthly 	<ul style="list-style-type: none"> • Daily • Weekly • Monthly 	<ul style="list-style-type: none"> • Daily • Weekly • Monthly 	<ul style="list-style-type: none"> • Daily • Weekly • Monthly

Source: Segal Marco Advisors, 2022

Benchmarking challenges

Benchmarking the MACS universe historically posed challenges for existing and prospective investors for myriad reasons, including:

- Readily available and consistently reliable composite data does not exist.
- The underlying strategies and objectives that comprise the MACS platform can be, and oftentimes are, vastly distinct from one another.
- The reasons for incorporating MACS into an investment portfolio tend to be highly individualistic to the investor's situation and current portfolio.

Despite these challenges, gauging performance of MACS relative to a reasonable alternative or proxy is important.

Historically, MACS have been benchmarked against a balanced 60 percent MSCI ACWI/40 percent Bloomberg Global Aggregate index. However, MACS, which tend to be more nuanced and tactical in nature, are less dependent on market beta to achieve risk and return objectives. Consequently, using this index as a benchmark to assess whether a MACS investment delivered on its stated objectives is oftentimes limiting and/or unfitting. **The balanced 60/40 index can be used as a valuable tool for framing a given MACS' realized risk and return profile, but indiscriminately using it as a tool to measure success is not ideal.**

Our approach to benchmarking

In acknowledging the challenges as well as the need, the Absolute Return Research Team developed a new approach to benchmarking MACS that more closely reflects both the nearer-term and longer-term expectations of incorporating MACS into portfolios: an objectives-based dual approach.

To address the “real-time” relative comparison challenge of MACS, our approach incorporates an **opportunity-cost benchmark**. By using this benchmark, we can directly assess the “how” and the “why” of a decision to invest in MACS. In other words, if an investor decides to pull capital from traditional equities or fixed income to fund a MACS investment, a benchmark that reflects the uncaptured returns derived from that source of capital can be used as a relative-value comparison. In the above example, the MACS investment is made because of the belief it is a better use of capital than the traditional equity and/or fixed income investment at that prevailing juncture, and the use of an opportunity cost benchmark gives investors with the ability to track the soundness of that decision on a more regular/frequent basis (i.e., monthly or quarterly to coincide with investment committee meetings and reporting requirements).

In addition to this nearer-term relative comparison, it's appropriate to evaluate MACS against their longer-term investment horizon. MACS incorporate return targets over full market cycles to account for changes in market dynamics. These longer-term return goals often come in the form of a "cash-plus" or a "CPI-plus" target return. They range from more modest targets to more aggressive targets. Given the unique nature of each strategy's longer-term absolute return objective, it is prudent and justifiable to hold each manager to that longer-term standard as a second layer of benchmarking: a **longer-term absolute return benchmark**, something more akin to a target return for which the manager aims to achieve.

At times, a **peer assessment** of MACS can be performed using HFRI indices, which are collections of hedge fund peer group composites. Although this comparison does not always yield valuable information, many MACS mandates are managed and/or structured like highly liquid hedge funds that use macro-level fundamental information to make decisions. In those cases, the HFRI Macro can offer investors an idea of where their MACS allocation performed relative to a composite peer group. Given the specifics of each strategy, it's important to select the peer group or index used on a case-by-case basis.



A Review of the Primary Investment Tenets of MACS

We examined the degree to which MACS have added value to our clients' portfolios.

We looked at three investment tenets:

- **Risk** — reducing portfolio volatility
- **Return** — providing consistent, absolute returns over time relative to traditionally balanced portfolios
- **Structure** — affording investors access to flexible and tactical mandates with favorable economics and liquidity profiles relative to more traditional hedged/alternative investment solutions

MACS composite screening process and construction

We constructed a universe of qualifying/eligible mandates that reasonably reflect the broader MACS population available to institutional investors. As an initial step, we used eVestment Alliance to identify all strategies categorized as absolute return or multi-market. This exercise resulted in an initial output of 3,000-plus constituents. Given the institutional nature of Segal Marco Advisors' client base, we imposed systematic screens to eliminate MACS that failed to meet specific criteria, including but not limited to:

- Assets under management must be greater than or equal to \$250 million
- Fund track records must exceed three years
- Strategies must offer liquidity terms of quarterly or better
- Strategies must exclude any initial lock-up period
- Strategies must maintain a broad investment scope

Following this systematic screening exercise, we conducted a discretionary review of the universe to ensure that: notable managers or products were not mistakenly excluded or included; the quality of the composite was prioritized over the quantity of products included; the composite accurately characterized MACS; and the composite was considered "investable" by an institutional client base.

The output from this thorough screening process resulted in a high-quality MACS composite (Broad MACS Composite) comprised of 174 distinct products that ranged in strategy type and focus. Given that these strategies have considerably different track record lengths, data before 2000 proved somewhat unreliable and arguably, was statistically insignificant given the peer group before then was too small and too focused (primarily on risk-parity strategies) to allow for any meaningful conclusions to be drawn. Accordingly, this report is based on data from 2000 onward and groups all MACS mandates together.

This Broad MACS Composite, however, does not accurately account for Segal Marco Advisors clients' experiences directly. Consequently, we constructed a second composite (Segal Marco Advisors MACS Composite) comprised of all MACS mandates across sub-strategies with client capital and/or a "recommended" rating. The Segal Marco Advisors MACS Composite includes 26 different MACS. This Segal Marco-specific composite is not only smaller than the broad MACS universe, it also doesn't offer adequate diversification of underlying strategy makeup until 2009, at which point there is more of a balance of risk parity, alternative/style risk premia, global tactical asset allocation and tactical/other strategies within the Segal Marco Advisors MACS Composite. With this in mind, data from the broad MACS peer group before 2009 was considered only relative to various market indices, and data from 2009 through 2021 is used as a comparison between the Broad MACS Composite and more targeted Segal Marco Advisors MACS Composite.

MACS success scorecard

We used the three MACS investment tenets as a framework to evaluate whether MACS have fulfilled their primary objectives and proven value-additive to client portfolios.

We assigned a score from 5 (best) to 1 (worst) to both the Broad MACS Composite and the Segal Marco Advisors MACS Composite to offer an objective, qualitative assessment of how each MACS composite performed with respect to the primary investment tenets:

5 Exceeded Expectations	4 Slightly Above Expectations	3 Met Expectations	2 Slightly Below Expectations	1 Failed/Significantly Below Expectations
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The analysis is purely based on the data output provided. To corroborate and/or further justify the assigned scores, we provide substantive commentary regarding market environment, return dynamics and portfolio implications. The scorecard summarizes our scoring for both the Broad MACS Composite and the Segal Marco Advisors MACS Composite.

	Broad MACS Composite	Segal Marco Advisors MACS Composite
Tenet #1: Dampen Portfolio-Level Volatility		
Lower target volatility profile	5	5
Provide diversification benefits	3	2
Avoid capital impairments	4	4
Tenet #2: Maintain Absolute Return Potential/Upside Optionality		
Produce consistent absolute returns	3	3
Participate during market rallies	3	3
Lowly correlated return profile	3	3
Tenet #3: Provide Structural and Economic Efficiencies to Portfolios		
Reduce cost	3	5
Increase liquidity	4	4
Increase transparency	4	4
Overall Average	3.56	3.67

Source: Segal Marco Advisors, 2022

Overall, the Broad MACS Composite and the Segal Marco Advisors MACS Composite have met expectations, though each struggled within specific tenets. The Segal Marco Advisors MACS Composite generally produced better returns than the Broad MACS Composite with a lower volatility profile. The Segal Marco Advisors MACS Composite, however, exhibited a notably higher correlation to public equities than the Broad MACS Composite, which likely contributed to the stronger returns in recent years.

In the sections that follow, we provide data analysis supporting these statements.

Review of MACS tenet #1: Dampen portfolio-level volatility

Conceptually, MACS are well-positioned to consistently accomplish this goal given that these strategies are generally structured with a lower risk target relative to more traditional “risk-on” asset classes, such as public equities; constructed to provide diversification benefits through low cross-asset class correlation dynamics; and designed to provide measurable downside protection, particularly during periods of severe market stress.

Overall, MACS have consistently provided a much lower volatility profile than conventional equities. That profile remained fairly consistent throughout market cycles. In this regard, both composites have met their expectations overall and have done well to provide diversification, operate at a low standard deviation and protect capital during several market stress events.

Lower-target volatility profile

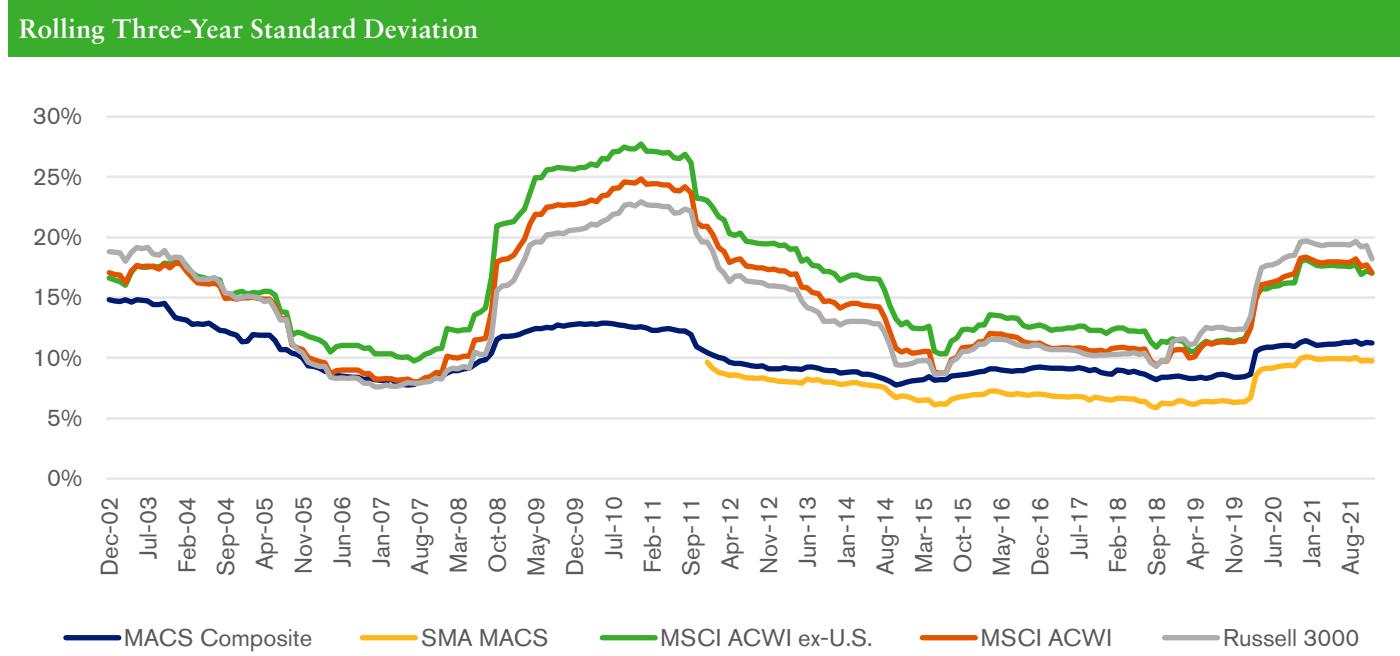
The data below examines the average volatility profile of managers within the Broad MACS Composite and, separately, the more focused Segal Marco Advisors MACS Composite relative to that of select public equity market indices over multiple trailing time periods through the lens of standard deviation:

Standard Deviation over Trailing Periods					
	1 Year (2021)	3 Years (2019–2021)	5 Year (2017–2021)	7 Year (2015–2021)	10 Year (2012–2021)
Broad MACS Composite	8.38%	11.22%	10.31%	10.17%	9.53%
Segal Marco Advisors MACS Composite	6.36%	9.54%	8.35%	8.11%	7.78%
Russell 3000	10.65%	18.19%	15.96%	14.97%	13.52%
MSCI ACWI ex-US	9.28%	17.01%	14.80%	14.56%	14.05%
MSCI ACWI	9.46%	17.07%	14.83%	14.19%	13.18%

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Managers within the Broad MACS Composite have exhibited a lower volatility profile over all trailing time periods relative to public equities. MACS’ ability to invest in asset classes outside of equities to create a diversified portfolio reduces volatility, as this data shows. Further, their ability to short markets also contributes to the volatility advantage relative to long-only equities, as it allows MACS to reduce their overall net exposure to underlying asset classes. This does carry additional risks, however, requiring stringent risk measures and leverage limits. The Segal Marco Advisors MACS Composite displayed a lower standard deviation than the Broad MACS Composite.

The graph displays the average rolling three-year standard deviations of the two MACS composites alongside those of the same equity market indices to measure consistency of volatility.



Source: Segal Marco Advisors based on eVestment Alliance data, 2022

The volatility of strategies within both the Broad MACS Composite and Segal Marco Advisors MACS Composite have been relatively consistent over time, far more so than that of public equities, which is certainly the goal as well as the expectation. There is some nuance here, however. Although these strategies overall have demonstrated an ability to operate at reduced volatility levels, some of the other beneficial risk characteristics of MACS have weakened in recent years.

Provide diversification benefits

Assessing the diversification benefits of MACS is yet another way to determine whether such strategies have objectively fulfilled the first primary investment tenet of dampening portfolio-level volatility. The table highlights the average betas of the managers within the Broad MACS Composite and the Segal Marco Advisors MACS Composite relative to the MSCI ACWI over various trailing time periods.

Beta to the MSCI ACWI Index					
	3 Years (2019–2021)	5 Year (2017–2021)	10 Year (2012–2021)	15 Year (2007–2021)	20 Year (2002–2021)
Broad MACS Composite	0.28	0.28	0.25	0.21	0.21
Segal Marco Advisors MACS Composite	0.45	0.43	0.43	—	—
Global 60/40	0.64	0.64	0.64	0.65	0.64

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

The data shows that the beta to the MSCI ACWI Index for a portfolio consisting of 60 percent equities (in this case the MSCI ACWI Index) and 40 percent bonds (Bloomberg Global Aggregate Bond Index) proved more consistent than the beta of the Broad MACS Composite over time.

However, the absolute value of the beta for the global 60/40 benchmark proved more elevated, which contributed to stronger absolute returns during a prolonged bull market. Equally noteworthy is that the average beta for the Broad MACS Composite increased in more recent trailing periods, demonstrating a growing sensitivity to equity risk. Delving deeper, the Segal Marco Advisors MACS Composite proved more sensitive to capital market fluctuations than that of the Broad MACS Composite over all trailing time periods, yet remained relatively consistent in terms of overall sensitivity level.

The two tables summarize the average correlation statistics of managers within the Broad MACS Composite and the Segal Marco Advisors MACS Composite against a selection of market indices over multiple time periods.

Correlation of Broad MACS Composite to Various Indices						
Broad MACS Composite	1 Year (2021)	3 Years (2019–2021)	5 Years (2017–2021)	10 Years (2012–2021)	20 Years (2002–2021)	2000–2009
vs. Russell 3000	0.32	0.43	0.42	0.38	0.36	0.22
vs. MSCI ACWI ex-U.S.	0.43	0.44	0.43	0.37	0.38	0.27
vs. MSCI ACWI	0.37	0.44	0.43	0.39	0.38	0.25
vs. Global 60/40	0.35	0.44	0.44	0.39	0.40	0.27

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Correlation of Segal Marco Advisors MACS Composite to Various Indices						
Segal Marco Advisors MACS Composite	1 Year (2021)	3 Years (2019–2021)	5 Years (2017–2021)	10 Years (2012–2021)	20 Years (2002–2021)	2000–2009
vs. Russell 3000	0.61	0.76	0.72	0.68	—	—
vs. MSCI ACWI ex-U.S.	0.67	0.77	0.75	0.72	—	—
vs. MSCI ACWI	0.68	0.78	0.75	0.73	—	—
vs. Global 60/40	0.70	0.79	0.77	0.75	—	—

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Correlations and betas to equities have increased over the trailing 10 years versus the first decade of the century. To offer context between these two periods, consider their rather distinct return environments. A U.S. 10-year Treasury note was yielding just under 4.5 percent between 2000 and 2009, which decreased to 2.0 percent over the trailing 10 years through 2021. The total return of the Bloomberg Global Aggregate Bond Index dropped from 6.5 percent in the decade from 2000 to 2009 to 1.8 percent from 2012 to 2021, while the S&P Goldman Sachs Commodity Index dropped from 5 percent to -5.5 percent over those same time periods.

Equity performance exhibited an opposite trend, with the MSCI ACWI Index returning 1 percent annualized from 2000 to 2009, and 12.4 percent annualized over the trailing 10 years through 2021. As a result, a greater portion of a multi-asset portfolios' performance was derived from equities, increasing its correlation to equity indices, even with no material changes to underlying exposure profiles.

The difference appears most stark relative to international equities, with the correlation between the MSCI ACWI ex-US and the Broad MACS Composite increasing from 0.27 during the first decade of the century to 0.43 over the trailing 10-year period. The Segal Marco Advisors MACS Composite saw correlations to public equities notably higher than those of the Broad MACS Composite over that same period.

Traditional asset class correlations tend to increase during periods of heightened market stress. Yet the unique and inherently diversified profiles of MACS, combined with their abilities to tactically shift across and within asset classes and, in some cases, undertake short exposures, should help combat the potentially negative impact of increasing correlations at the strategy and overall portfolio levels.

The two tables depict the correlations of the Broad MACS Composite and the Segal Marco Advisors MACS Composite against a selection of market indices during the three largest public equity drawdowns since the year 2000. The table summarizes only those results during the time periods for which the composite applies. As a reminder, the Segal Marco Advisors MACS Composite track record begins in 2009.

Correlation of Broad MACS Composite During Drawdowns			
Broad MACS Composite	8/2000–9/2002	10/2007–2/2009	1/2020–3/2020
vs. Russell 3000	0.18	0.23	0.48
vs. MSCI ACWI ex-U.S.	0.21	0.31	0.48
vs. MSCI ACWI	0.19	0.29	0.48
vs. Global 60/40	0.21	0.31	0.48

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Correlation of Segal Marco Advisors MACS Composite During Drawdowns			
Segal Marco Advisors MACS Composite	8/2000–9/2002	10/2007–2/2009	1/2020–3/2020
vs. Russell 3000	—	—	0.79
vs. MSCI ACWI ex-U.S.	—	—	0.80
vs. MSCI ACWI	—	—	0.79
vs. Global 60/40	—	—	0.80

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

This data shows the broad MACS universe's ability to remain uncorrelated during acute market corrections. During the unwinding of the tech bubble (August 2000–September 2002), the average correlation of MACS against equity market returns was low. This dynamic principally stemmed from negative equity market performance, which was largely concentrated in U.S. markets. MACS proved rather successful in their collective ability to diversify away from impacted markets during this period.

MACS also provided some diversification to global equity markets during and through the Global Financial Crisis (October 2007–September 2009), albeit to a lesser extent compared to the experience during the tech bubble, given the market crash during the Global Financial Crisis was more widespread. Correlations increased significantly during the COVID-19 market decline, which truly took hold in late February/early March 2020.

Protect during market downturns and avoid permanent capital impairment

The table compares average annualized returns for the two MACS composites relative to a selection of market indices during recent periods of significant equity market stress and heightened volatility, as measured by the CBOE Volatility Index (VIX):

Returns During Periods of High Market Volatility			
	8/2000–9/2002	10/2007–2/2009	1/2020–3/2020
Percent Change in VIX	108.13%	138.39%	314.15%
Broad MACS Composite Return	13.30%	0.92%	-7.16%
Segal Marco Advisors MACS Composite Return	—	—	-11.42%
Russell 3000 Return	-21.00%	-38.95%	-20.81%
Global 60/40 Return	-11.06%	-26.14%	-13.11%

Source: Segal Marco Advisors based on eVestment Alliance data and the Federal Reserve Economic Database, 2022

During the tech bubble, MACS tended to provide downside protection with attractive upside returns. This period of stress was more targeted than in subsequent downturns, resulting in MACS mandates proving rather effective in their abilities to largely avoid growth equities and find meaningful positive returns elsewhere or through the tactical implementation of market short positions.

The Global Financial Crisis presented considerably more widespread investment challenges and offered fewer areas to hide from negative returns. Nevertheless, MACS continued to produce significant protection against acute market stress. They essentially maintained value, while U.S. equities and the global 60/40 index declined in value rather significantly.

However, both MACS composites (and the underlying strategies from which they are comprised) generally struggled to preserve capital during the recent COVID-19 crisis in a manner commensurate to prior experiences. The rapidity with which markets crashed made it difficult for MACS managers to tactically adjust their portfolio compositions in time to avoid negative returns. In addition, the COVID-19 pandemic's negative impact on capital markets was widespread, eliminating any semblance of safe-haven assets to which to allocate.

If the MACS universe were broken down into sub-categories of investment style, the individual groupings would present very different pictures during these periods. Strategies that are more driven by market beta and follow a longer-term, long-only process, such as risk parity, would be expected to experience a more severe drop during periods of market stress relative to more alpha-driven strategies, which can more tactically adjust allocations or make use of shorting. Nonetheless, MACS have tended to afford investors some semblance of downside protection during periods of heightened volatility (as measured by a significant change in the VIX). However, while the analysis is backward-looking, recent results and prevailing macro dynamics do prompt us to question whether the favorable downside protection characteristics that have been demonstrated historically remain intact today and going forward.

Review of MACS tenet #2: Maintain absolute return potential and upside optionality

Overall, MACS have struggled to produce attractive absolute returns. Moreover, returns have deteriorated significantly over the trailing five years from both absolute and relative value perspectives.

Part of the issue with respect to relative returns, however, has to do with the benchmark to which the strategy grouping is regularly compared. As previously noted, when assessing the skill of an individual manager, comparing MACS to a traditional 60/40 index does not always yield the most accurate (or reasonable) comparison.

Produce consistent absolute returns

The data in the table shows average annualized returns from the Broad MACS Composite as well as the Segal Marco Advisors MACS Composite over multiple trailing time periods ending December 31, 2021. This data is compared to a global 60/40 index and an absolute return benchmark represented by the three-month U.S. Treasury Bill plus 6 percent:

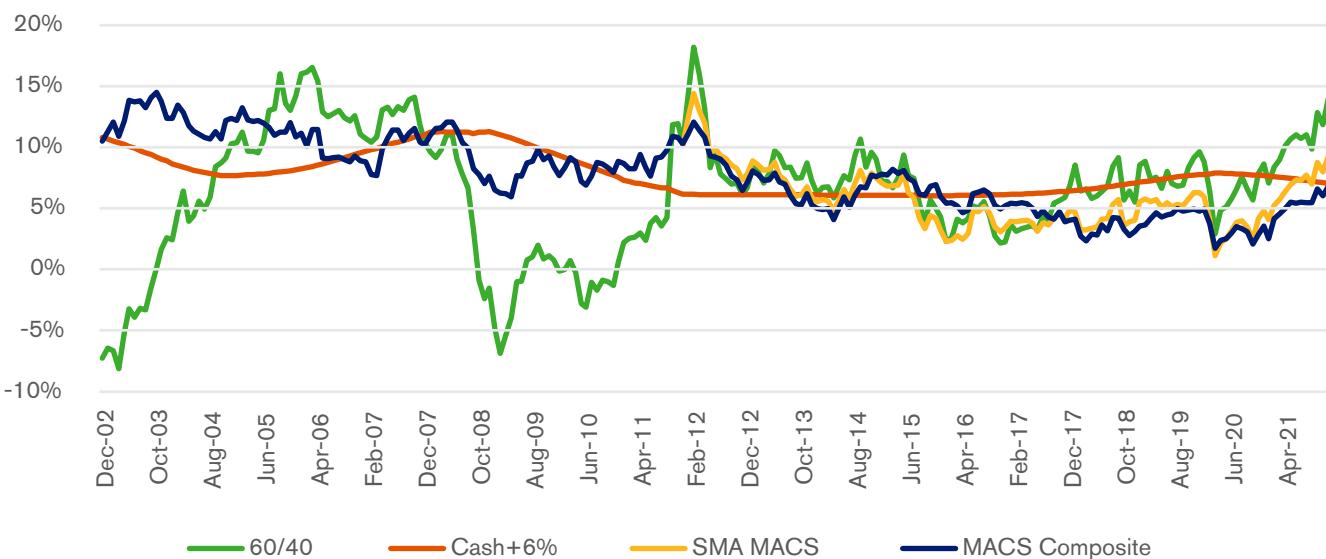
Annualized Trailing Returns Ending December 31, 2021				
	Broad MACS Composite	Segal Marco Advisors MACS Composite	Global 60/40	Cash + 6%
1 Year	7.27%	7.91%	9.05%	6.07%
3 Years	6.84%	9.28%	14.05%	7.05%
5 Years	4.92%	6.62%	10.45%	7.20%
7 Years	4.29%	5.26%	7.92%	6.92%
10 Years	5.27%	5.93%	8.25%	6.66%

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

The returns suggest that managers within both MACS composites have struggled to perform relative to the Global 60/40 Index and the absolute return benchmark over multiple trailing time periods. Importantly, the benchmark data is heavily skewed from strong recent performance of traditional risk assets. Over longer periods, MACS returns appear closer to benchmarks. Despite the headline underperformance of the MACS platform relative to benchmarks, the Segal Marco Advisors MACS Composite consistently outperformed the Broad MACS Composite over all noted time periods, reflecting the benefits of active manager selection.

The graph illustrates average rolling three-year returns of the two MACS composites relative to the benchmarks noted in the table above.

Rolling Three-Year Return Comparison of MACS Composites



Source: Segal Marco Advisors based on eVestment Alliance data, 2022

The Broad MACS Composite consistently produced rolling three-year annualized returns near 10 percent between the tech bubble and Global Financial Crisis, generating a 10-year annualized net return of 10.2 percent between 2000–2009. The consistent return profile during this period exceeds the absolute return goal outlined in this report. Over the same period, the Global 60/40 Index generated the lowest annualized return at roughly 3.5 percent. Since the Global Financial Crisis, however, rolling returns have deteriorated steadily, and MACS have consistently underperformed the cash benchmark over the last decade.

Delving deeper, market-return dynamics have been drastically different in recent years than in the early 2000s. From 2000 to 2010, the MSCI ACWI Index returned under 1 percent annualized, with international equities outperforming U.S. Equities (3.1 percent vs. -0.2 percent), while the Bloomberg Global Aggregate Bond Index returned roughly 6.5 percent and the S&P Goldman Sachs Commodity Index returned just over 5 percent. Within equities, negative returns were often more concentrated within select sectors. For example, Information Technology, Financials and Consumer Discretionary all had negative returns within the S&P 500, while all other sectors posted positive returns.

MACS often allocate less than 60 percent of their net exposure to equities and are able to position themselves across and within asset classes. Thus, the return environment at the turn of the century was much more conducive to MACS' diversified and tactically driven exposure profile relative to a static Global 60/40 benchmark. Strategies within MACS that adhere to a more tactical trading approach or alternative risk premia, which look to find returns outside of market beta, are better suited for periods like this, whereas risk premia and more strategic GTAA strategies might struggle relative to other MACS given the greater exposure to broad market risk.

Fast-forward to the most recent 10-year period through December 2021, and the return dynamics have reversed rather dramatically. Equity returns have been consistently strong, with the MSCI ACWI returning almost 12.4 percent annualized over the trailing 10 years, and nearly 15 percent annualized over the trailing five years. These results compare favorably to a 1.8 percent 10-year annualized return for the Global Aggregate and a -5.5 percent annualized return for the S&P GSCI.

Within equities, beta drove the market, with higher beta/cyclical sectors producing the strongest returns. With such strong returns from equities overshadowing other asset classes, it is not a significant surprise to see MACS underperform a Global 60/40 portfolio. MACS tend to invest with a lower beta to equities and in a more defensive fashion, which led to a double headwind to absolute performance in recent years. Within MACS, this environment presents the opposite preference for investment style. Risk parity and GTAA strategies are built to take advantage of strong market returns relative to their more alpha seeking counterparts.

Both MACS composites were successful in their aim to achieve an absolute return of cash plus 6 percent over the trailing one year, largely due to continued equity market strength and a strong commodity market. Over longer periods, returns for the MACS universe begin to look less attractive, though, remained close to the absolute return target. However, the universe rarely outperformed the designated absolute return benchmark over a rolling three-year period in recent history.

Participate during market recoveries

During periods of greater market predictability (i.e., lower and/or declining equity market volatility), MACS tend to underperform global equity markets. This stems largely from the strategies' inherently diversifying compositions and structures. Nonetheless, it is expected that MACS have the capacity to participate during bull-market rallies.

The table on the next page quantifies this dynamic. It shows that managers in the Segal Marco Advisors MACS Composite outperformed those in the Broad MACS Composite during each of the highlighted periods by considerable margins.

Returns During Market Recoveries			
	10/2002–11/2004	3/2009–1/2011	4/2020–12/2020
Percent Change in VIX	-63.94%	-62.00%	-46.03%
Broad MACS Composite Return	12.79%	15.59%	10.93%
Segal Marco Advisors MACS Composite Return	—	18.88%	20.01%
Russell 3000 Return	21.70%	38.61%	52.83%
Global 60/40 Return	19.47%	27.05%	31.81%

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Lowly correlated return profile

Delving deeper, a key component of the MACS value proposition is the underlying strategies' ability to use their respective multi-asset profiles and tactical maneuverability to capitalize on periods of greater market volatility. The table below compares the monthly returns of the Broad MACS Composite and a more conventional Global 60/40 portfolio during different volatility periods.

Returns During Market Recoveries			
	Broad MACS Avg Monthly Return	Global 60/40 Avg Monthly Return	Broad MACS Batting Average
High Volatility (VIX 23.46 – 62.67)	0.68%	-0.25%	60.61%
Moderately High Volatility (VIX 17.77 – 23.46)	0.48%	0.28%	56.06%
Moderately Low Volatility (VIX 14.12 – 17.77)	0.42%	0.84%	34.84%
Low Volatility (VIX 10.13 – 14.12)	0.96%	1.21%	40.91%

Source: Segal Marco Advisors based on eVestment Alliance data and the Federal Reserve Economic Database, 2022

Both the Global 60/40 Index and the Broad MACS Composite have generated their highest average returns during lower volatility environments, as public markets tend to produce strong performance during these periods. However, as volatility increases, both MACS and the Global 60/40 index generally see declines in performance, with MACS experiencing more meaningful losses. This pattern suggests that MACS might ride the performance of risky assets during stretches of low volatility, but struggle to tactically shift their portfolios from riskier assets when spouts of heightened volatility begin to take form.

In a more sustained environment of elevated volatility, the average monthly performance of MACS begins to rebound while performance for the Global 60/40 continues to slump. MACS monthly returns are lower than they were during periods of persistently low volatility, but they remain positive and are notably higher than that of the Global 60/40 portfolio. Within MACS, more tactical strategies are expected to perform best during the periods of heightened volatility, while strategy types which are more reliant on market risk to generate returns will benefit most during low volatility periods.

In addition to volatility, the level and direction of interest rate changes have a significant impact on market dynamics and, thus, the relative attractiveness and return profile of MACS. Given the movement in the U.S. 10-Year Treasuries in recent weeks and months, it is pertinent to consider MACS performance during periods of more meaningful and/or frequent interest rate activity. Consider periods of open-market activity by the U.S. Federal Reserve since 2000, presented in the table below as the average monthly return during periods in which the fed funds rate was increased.

Returns During Interest U.S Rate, Hikes (2000–2019)	
	Average Monthly Return During Months with a Rate Hike
Broad MACS Composite	0.63%
Global 60/40	0.79%
Russell 3000	0.70%
MSCI ACWI	1.06%

Source: Segal Marco Advisors based on eVestment Alliance data and the Federal Reserve Economic Database, 2022

Performance does not appear to shift much during months where rate hikes take place in isolation. During months where the Fed raised the federal funds rate, the average monthly return of the Broad MACS Composite since 2000 is 0.63 percent, only slightly lower than the average monthly return of the composite between 2000 and 2021.

Delving deeper, the next table highlights two specific periods over the last 15–20 years during which the Fed was consistently hiking rates and evaluates the annualized return profile of MACS relative to a Global 60/40 Index:

Annualized Returns During Periods of Consistent U.S. Rate Hikes		
	6/2004–7/2006	12/2016–12/2018
Change in Fed Funds Rate (Beginning – End)	1.25%–5.25%	0.50%–2.50%
Broad MACS Composite	8.59%	2.62%
Segal Marco MACS Composite	—	3.32%
Global 60/40	10.80%	5.60%

Source: Segal Marco Advisors based on eVestment Alliance data and the Federal Reserve Economic Database, 2022

Considering performance during extended periods, returns appear to have dipped slightly for the Broad MACS Composite during more recent periods of consistently rising rates. Recall that 2000–2009 MACS performance was 10.16 percent annualized, or roughly 157 basis points higher than the 2004–2006 stretch during which the Fed was raising the funds rate. This is consistent with returns over the trailing 10 years of 5.27 percent, 265 basis points higher than the annualized return presented between December 2016 and December 2018, the last time the Fed consistently raised interest rates. The market environments differed between these two periods, with higher absolute interest rates during the first period of rate increases, offering a more robust market environment and greater opportunity for diversification away from public equities. Performance was similar for the Segal Marco Advisors MACS Composite, as noted by the difference in 10-year returns and the returns during the aforementioned two-year period. The Federal Reserve lifted rates regularly during the first highlighted period, with the Fed raising the fed funds rate during each meeting it held.

Calendar-year returns during these years are shown in the table. The Global 60/40 index outperformed the Broad MACS Composite in both 2004 and 2006. However, the Broad MACS Composite outpaced the Global 60/40 by slightly under 2 percent during 2005. Following the end of the rate hike cycle in July 2006, rates remained stagnant until September 2007. During this period, the Broad MACS Composite returned an annualized 12.40 percent, while the Global 60/40 portfolio returned 17.36 percent. Considering the next period, the Segal Marco Advisors MACS Composite generated returns that outpaced the Broad MACS Composite but underperformed the Global 60/40 portfolio from December 2016 through December 2018, as shown in the table above.

Returns During Years Where U.S. Rate Hikes Consistently Occurred			
	2004	2005	2006
Broad MACS Composite	7.95%	6.74%	12.16%
Global 60/40	13.17%	4.86%	15.44%

Source: Segal Marco Advisors based on eVestment Alliance data, 2022

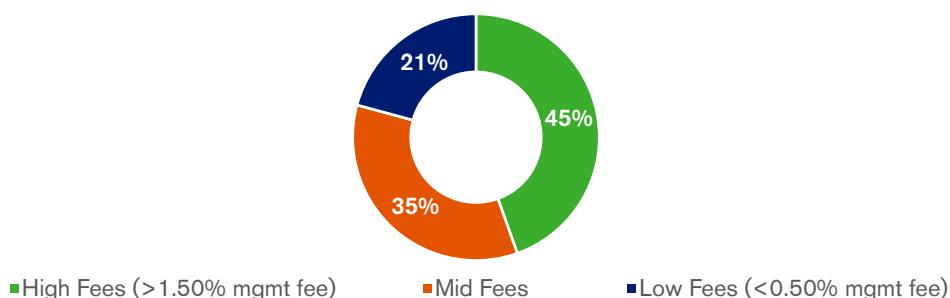
A review of MACS tenet #3: Provide structural and economic efficiencies to portfolios

Relative to more conventional hedged investment strategies, MACS are expected to offer lower fees, enhanced transparency and greater liquidity. They have generally offered investors improved structural and economical efficiencies. Importantly, in constructing the Broad MACS Composite, only those strategies that maintained quarterly or better liquidity terms were included. The Composite is absent any strategy with lock-up provisions.

Fee efficiencies

Roughly 45 percent of the constituents within the Broad MACS Composite that reported fees in eVestment incorporate fee schedules that are similar to traditional hedge funds — notably those that charge a management fee at or above 1.50 percent, plus an incentive fee. Meanwhile, approximately 21 percent of qualifying MACS mandate incorporated fee schedules below 0.50 percent management fees (oftentimes without any incentive fee), and the balance (roughly 35 percent of qualifying MACS mandates) instituted fee schedules with management fees between 0.50 percent and 1.50 percent and mixed-use incentive fees.

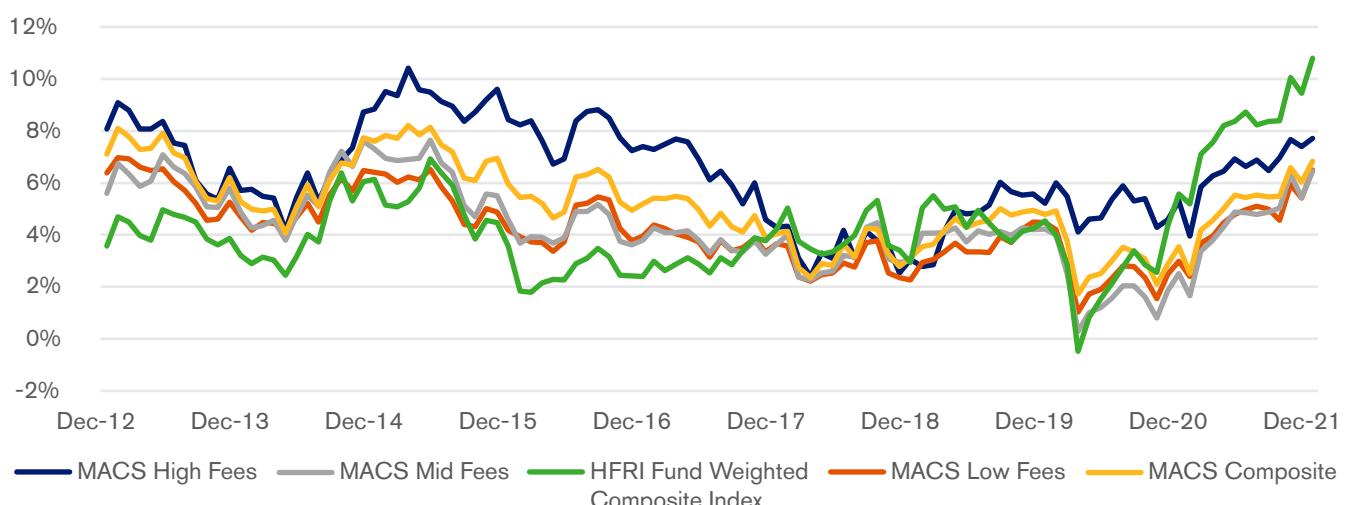
MACS Fee Schedules



Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Notably, an examination of the returns of the various groupings within the Broad MACS Composite reveals that, net of fees, the high-fee sub-composite tended to outperform the broader composite over the trailing 10-year period. Returns for the low- and mid-fee tiers are similar to those of the Broad MACS Composite and do not materially differ over the trailing 10 years.

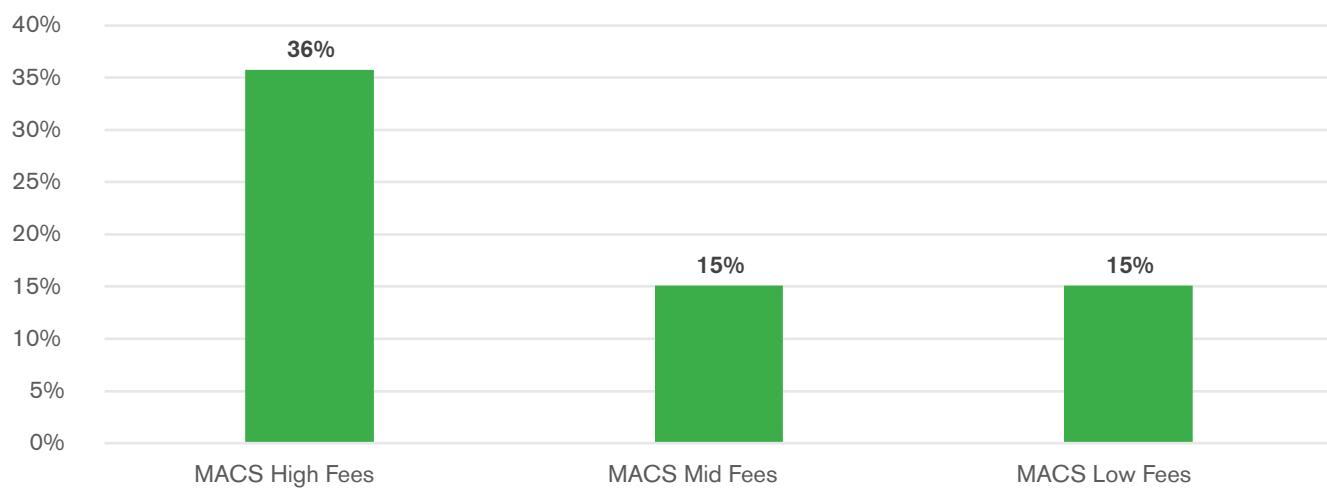
MACS Performance Sorted by Fee Schedules



Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Another way of examining the performance difference between the three fee tiers is to consider how often each tier outperformed a common index. The graph below shows how often the average manager in each fee tier outperformed the Global 60/40 Index during rolling three-year periods between January 2010 and December 2021.

MACS Periods of Outperformance vs. 60/40 Sorted by Fee Schedules

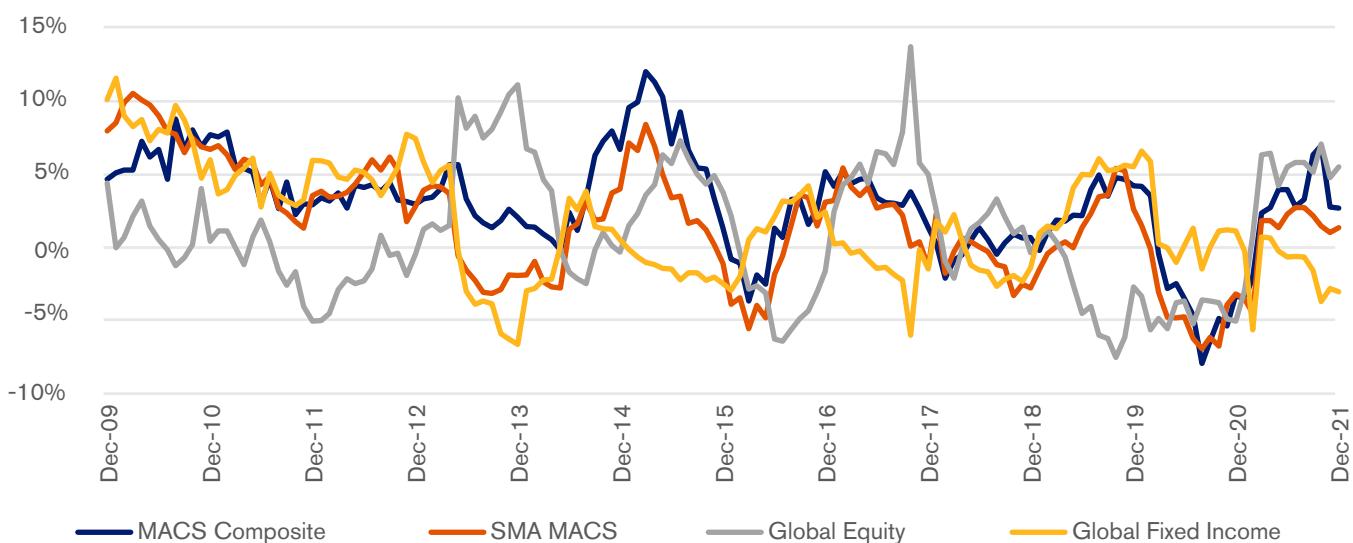


Source: Segal Marco Advisors based on eVestment Alliance data, 2022

The relative outperformance of the high-fee category within the broader composite suggests that those higher fees might be justified considering the outperformance that fee tier experienced relative to those which charge lesser fees. Next, consider the fee efficiency of the MACS universe relative to traditional asset classes. For this exercise, the median rolling one-year Jensen's alpha relative to the Global 60/40 Index from January 2009 through December 2021 was pulled from eVestment for managers within the Broad MACS Composite, the Segal Marco Advisors MACS Composite and eVestment Global Equity and Fixed Income peer groups.

The average management fee for managers within the Broad MACS Composite is 1.16 percent. Dividing the annualized median alpha of each peer group by this fee provides an alpha per basis point of management fee metric that can be used to compare to other asset classes. The graph on the next page shows the rolling one-year alpha relative to the global 60/40 index of various peer groups.

Rolling One-Year Alpha of Median Asset Class Peer Groups vs. Global 60/40 Index



Source: Segal Marco Advisors based on eVestment Alliance data, 2022

There is volatility in the alpha of each peer group, with the Broad MACS Composite and Segal Marco Advisors MACS Composite producing higher alpha relative to the Global 60/40 Index over several periods, particularly during 2014–2015 and 2019 through early 2020. Consider also the median annualized alpha in the following table, compared to the average management fee for the two MACS composites and the median management fee within the All Global Fixed Income and All Global Equity eVestment peer groups.

Peer Group Alpha Per Unit of Fees Comparison

	Management Fee	Annualized Alpha	Alpha/Fee
Broad MACS Composite	1.16%	2.65%	2.28
Segal Marco Advisors MACS Composite	0.82%	1.44%	1.76
Global Fixed Income	0.42%	1.23%	2.93
Global Equity	0.70%	-0.14%	-0.20

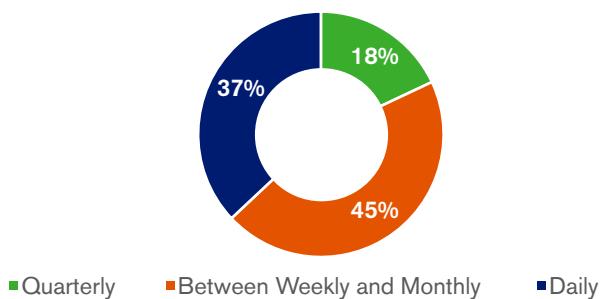
Source: Segal Marco Advisors based on eVestment Alliance data, 2022

The median alpha produced within the Broad MACS Composite from January 2009 through December 2021 of 2.65 percent is higher, on an absolute basis, than the median alpha within the Global Fixed Income and Global Equity universes. Optically, the higher fee for MACS relative to traditional asset class mandates was a headwind for many investors. However, when assessing the alpha generated per unit of fee charged, MACS have historically demonstrated an attractive value proposition relative to active global equity managers. Net of fees vehicles were used within eVestment, incorporating incentive fees, if applicable.

Liquidity

When assessing performance through the prism of liquidity, relatively less liquid (i.e., quarterly) strategies tend to outperform the relatively more liquid (i.e., daily or monthly) strategies. Said differently, affording active managers the ability to absorb volatility during fluctuating or extended periods of market turbulence proved beneficial over time. Roughly 18 percent of strategies within the Broad MACS Composite offer quarterly liquidity, while 45 percent offer weekly to monthly liquidity and 37 percent offer daily liquidity.

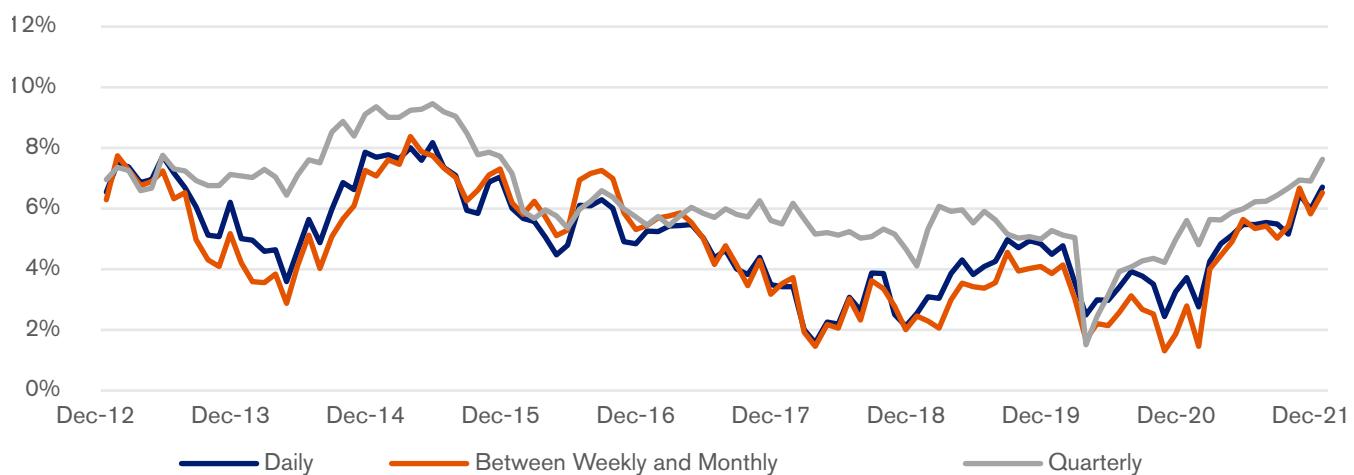
Broad MACS Composite Constituent Liquidity Profile



Source: Segal Marco Advisors based on eVestment Alliance data, 2022

The graph below shows rolling three-year returns of the various liquidity tiers. When returns differ, managers that restrict redemptions to quarterly liquidity have tended to outperform the other two tiers. This might be the result of those strategies being able to invest further along the liquidity spectrum into more illiquid positions and taking advantage of a (relative) illiquidity premium or it could simply be a byproduct of removing investor emotion to a greater extent when it comes to decision-making.

Performance of MACS by Liquidity Profile (Rolling 3-Year Returns)



Source: Segal Marco Advisors based on eVestment Alliance data, 2022

Transparency

With respect to transparency, MACS are expected to offer enhanced transparency into their respective allocations and processes relative to more traditional hedge funds. MACS managers tend to offer insights into asset class exposures, along with a fairly in-depth discussion/review of a strategy's philosophy and process.

Hedge funds, however, tend to vary in terms of their abilities and/or willingness to share data. Hedge fund fact sheets and monthly commentaries tend to mask positions and offer very high-level commentary on the market's impact on portfolio results. Websites for hedge fund managers may be sparse and offer little beyond high-level comments on the firm, team members and philosophy. That said, hedge fund transparency improved in recent years and is more on par with the level of transparency offered by MACS.



Portfolio Implications of Including Multi-Asset Class Solutions

What does the preceding analysis and observations mean for the MACS allocation moving forward and their roles in diversified portfolios?

First and foremost, this study demonstrates the importance of defining the investment objective for the MACS allocation in a multi-asset class portfolio given the wide range of MACS strategies. The goal of a MACS allocation will dictate which MACS will be most applicable for a portfolio.

MACS can be placed into several underlying categories, with each having different investment styles and potentially different objectives. **These categories include risk parity, global tactical asset allocation and style/alternative risk premia, among other strategies that are more specialized and thus are difficult to categorize.**

Understanding the primary source of returns within each category can inform which MACS sub-strategy is best suited for accomplishing a stated objective. If the objective of an allocation to MACS is to reduce the volatility within a portfolio while maintaining some market upside, an allocation to risk parity or strategic GTAA mandate are likely strong options. However, investors who want a truly uncorrelated strategy should look to make allocations to more tactical or risk-premia strategies.

Although MACS have experienced periods of weakened performance in recent years, they have continued to protect capital during market stress and remain good diversifiers. While it's impossible to predict the nature of a stressed environment before it happens, experience shows that eventually it will occur. As a result, MACS' abilities to dynamically tilt their portfolios and adjust exposures given prevailing market conditions in real time offer an attractive value proposition in stressed, challenged or uncertain environments.

Moreover, despite the Broad MACS Composite struggling to generate consistently adequate returns, this study shows that, on a relative basis, performance of Segal Marco Advisors MACS Composite was better. In part, this is attributable to an increased beta within recommended strategies relative to the broader composite. However, the range of betas within the composite is rather wide (trailing five-year beta relative to the Global 60/40 ranges from 0.26 to 1.22), which means the strategies that are ultimately put forward within searches will be determined based on market conditions and investor objectives.

Using the performance of MACS during the COVID-19 pandemic as the sole indicator for how the platform, broadly defined, will perform during future market dips is ill-advised. Global equity markets have been on a surge during 2020 and 2021, as forecasts have shown robust economic expansion on the back of positive momentum in vaccine distribution across many developed economies and highly accommodative "do-whatever-is-necessary" stimulus. Simultaneously, interest rates have been pushed (relatively) higher on the back end and oil prices saw strong gains in recent months.

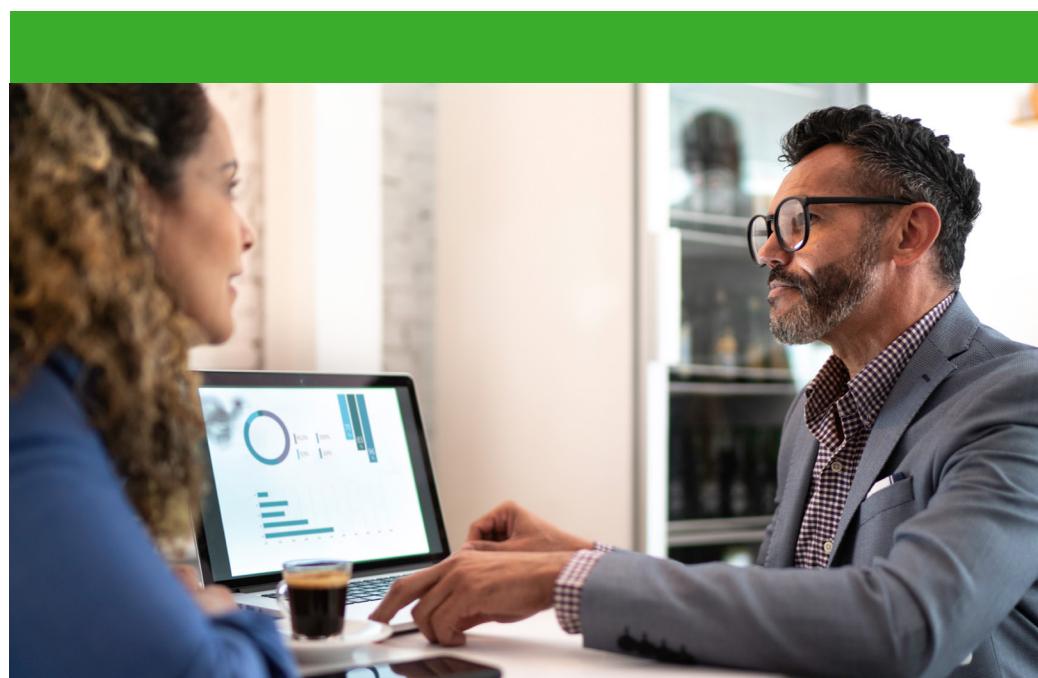
Nonetheless, cross-asset class correlation dynamics have increased in recent years, which can, and should, be used to inform the relative attractiveness of certain sub-strategies relative to others over the near- to intermediate-term. Growing inflation pressures across the globe due to supply chain bottlenecks should also factor into the decision of which type of MAC exposure to select.

Accordingly, the increasingly uncertain market environment poses greater near- to intermediate-term performance challenges for those strategies that are more reliant upon beta as a means to generating returns (e.g., risk parity). These strategies have performed very well in the quarters following the initial COVID-19 dislocation due to a more strategic, long-term focus within the asset allocation process.

Conversely, strategies that place a greater emphasis on alpha through effective shorting, tactical asset allocation decision-making, security selection and/or market expression remain well-positioned to achieve their respective return targets, but they may face greater headwinds if the prevailing markets' euphoria persists.

GTAA strategies, which generally have a strong beta exposure, but are more tactical in nature relative to risk-parity strategies, can find returns outside of market beta. Style/alternative risk-premia strategies remove much of the beta exposure from the portfolio through the use of shorting to take advantage of a specific alpha source. Tactical trading strategies accomplish a similar objective by taking advantage of short-term dislocations, seeking to generate alpha rather than achieve returns through beta exposure. A more muted-return environment can provide an opportunity for these strategies to outperform more beta driven strategies.

Overall, the Segal Marco Advisors Absolute Return Research Team continues to view MACS as a viable investment option for clients seeking more liquid expressions of differentiated return streams. However, we have grown increasingly selective in terms of the specific managers and mandates we recommend for inclusion in our clients' portfolios.



Contact the Authors

To learn more about how MACS can play a role in your investment portfolio, contact your Segal Marco Advisors investment consultant or get in touch with the members of the Segal Marco Advisors Absolute Return Team who conducted the MACS study discussed in this report:

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