

A background image featuring a dark blue grid with several glowing blue lines and a candlestick chart, suggesting a financial or data visualization theme.

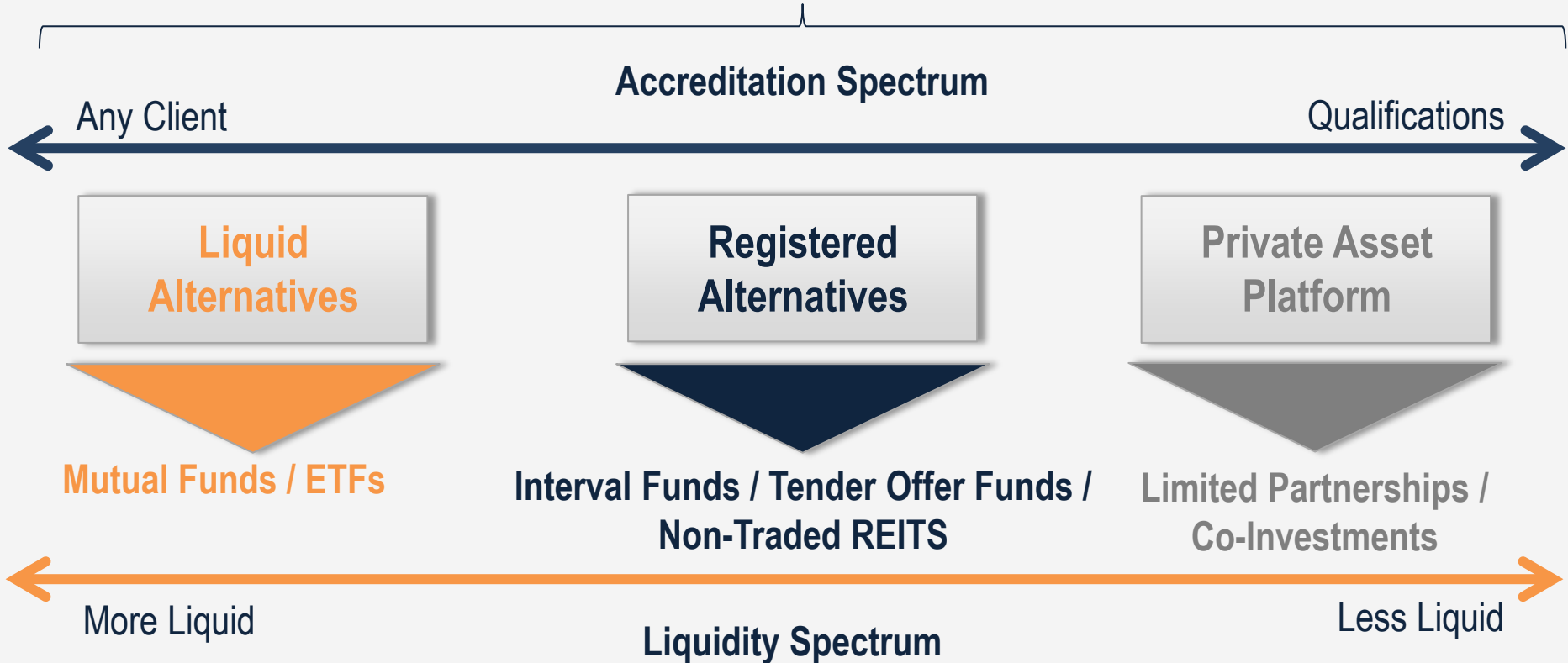
# CLIENT RESOURCE KIT ALTERNATIVES

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE

 First Trust



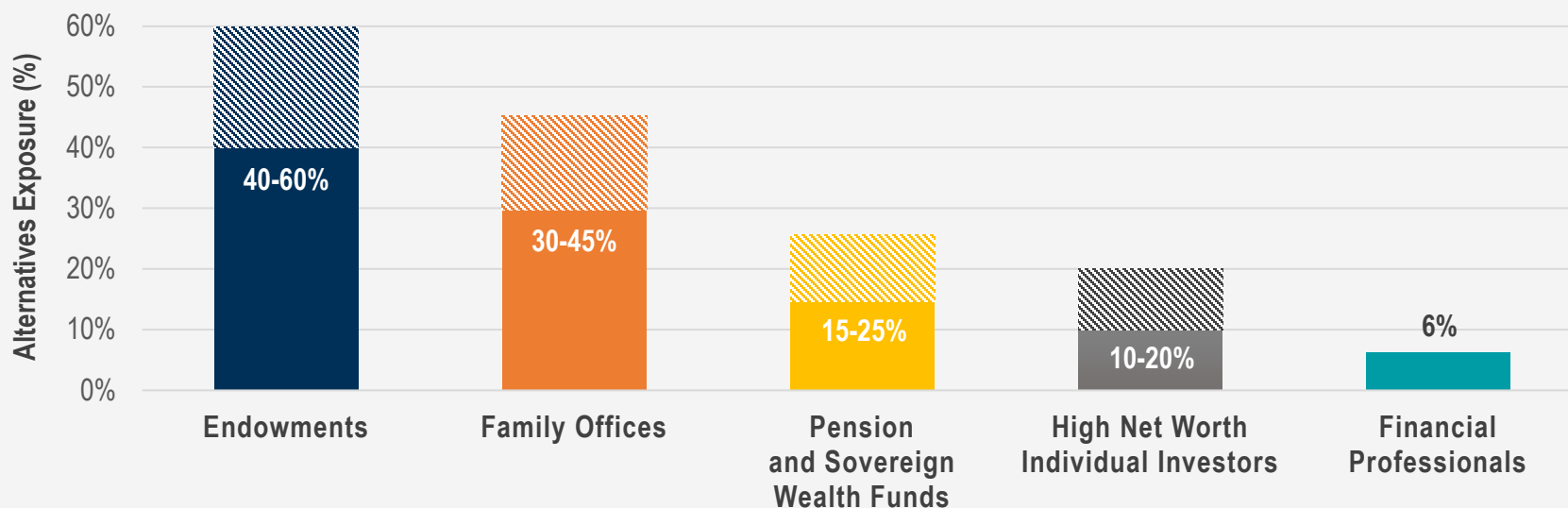
Alternative Investment Solutions	3
Allocation to Alternative Investments	4
The Efficiency of Adding Alternatives	5
Alternatives Enhance Risk Return Metrics	6
Manager Selection is Critical in Private Markets	7
Private Equity vs. Public Equity	8



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For many years, alternative investments have been limited to certain investors, but access to these types of solutions is growing. Exposure to alternative investments among wealth management clients is expected to grow by 50% in North America in the next few years.<sup>1</sup>

## Institutional vs. Individual Alternatives Exposure



Sources: Endowments, Family Offices, Pension and Sovereign Wealth Funds data from UBS Alternative Investments, December 2020 and UBS Global Family Office Report 2021. High Net Worth Individual Investors data from Statista. Financial Professionals data from FundFire.

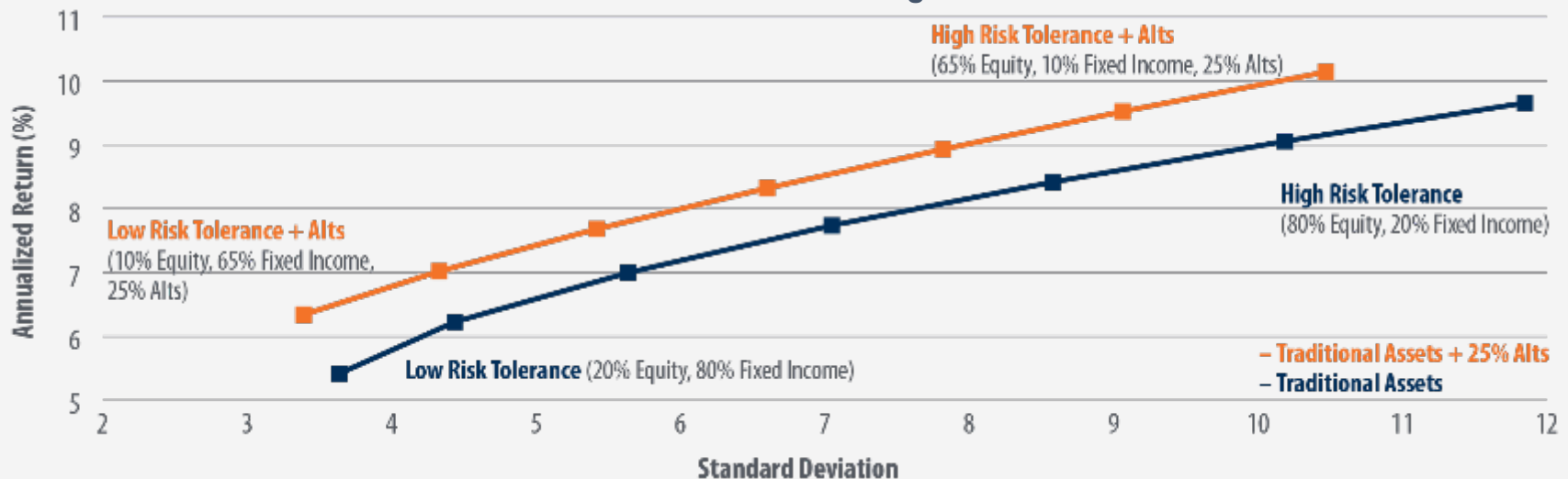
<sup>1</sup>Source: Statista, 2021. Based on a survey of 2,500 wealth management respondents.

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# The Efficiency of Adding Alternatives

When paired with traditional asset classes, alternative investments may add value to an overall portfolio that leads to more efficient outcomes. Consider the following hypothetical examples that show the risk/return effects of adding alternative strategies to traditional asset allocation models over the 15-year period ending 12/31/21:

## 15-Year Portfolio Effect of Adding Alternatives



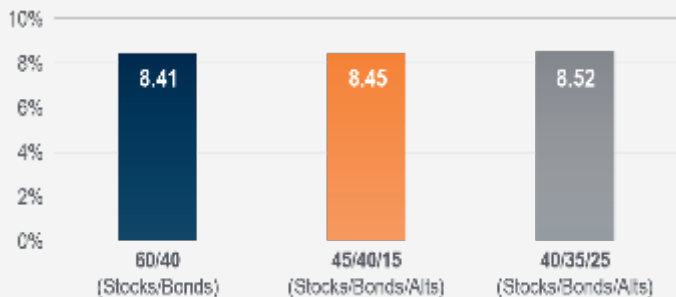
Source: Morningstar Direct, as of 12/31/21. Traditional Assets composed of Equity (S&P 500 Index) and Fixed Income (Bloomberg U.S. Aggregate Bond Index). 25% Alts composed of equally weighted portfolio across the HFRX Global Hedge Fund Index, HFRI 500 Equity Hedge Index, NCREIF Open-End Diversified Core Equity Fund Index (NFI-ODCE), Refinitiv Private Equity Buyout Index and Refinitiv Venture Capital Research Index. This mix was used to capture alternative investments broadly across the major alternative asset classes: Private Equity, Private Real Estate, and Hedge Funds. Indices do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The **Bloomberg U.S. Aggregate Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The **HFRX Global Hedge Fund Index** is comprised of funds representing all main hedge fund strategies. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry. The **HFRI 500 Equity Hedge Index** is a global, equal-weighted index of the largest hedge funds that report to the HFR Database which are open to new investments and offer quarterly liquidity or better. The **NCREIF Open End Diversified Core Equity Fund Index** is an equal-weighted index of the investment returns from a collection of open end commingled funds which focus on core real estate investment strategy. The **Refinitiv Private Equity Buyout Index** seeks to replicate the performance of the Refinitiv Private Equity Buyout Benchmark Index through a combination of liquid, publicly listed assets. The index is calculated from the performance of the individual private equity sector portfolios. The **Refinitiv Venture Capital Research Index** is calculated using Refinitiv data on financial rounds and other valuations of venture capital-funded firms.

Note: Graph illustrates a 15-year investing period from 1/1/07 through 12/31/21. The returns of each sample portfolio identified above represent the weighted average on the different asset mixes. The sample portfolios are for illustrative purposes only and do not represent actual portfolios for investors. Therefore, no investors experienced these returns. In addition, the returns do not account for the reduction of any fees, which would reduce the noted returns. **Past performance is not necessarily indicative of future results and there can be no assurance that any index or fund will achieve comparable results or avoid substantial losses.** Investors cannot invest directly in an index.

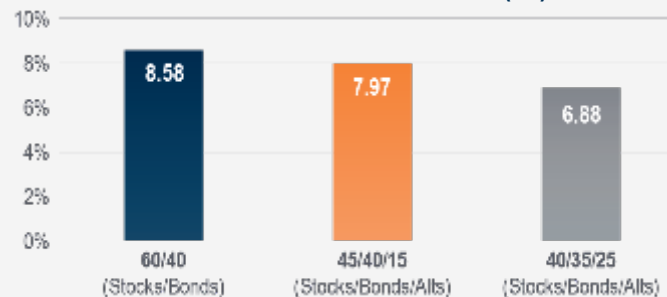
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Historically, adding alternative investments to traditional portfolios has been beneficial in a number of ways including increased diversification, lower volatility, and reduced drawdowns. Below you will find the risk/return effects of adding different percentages to alternative strategies over the 15-year period ending 12/31/21.

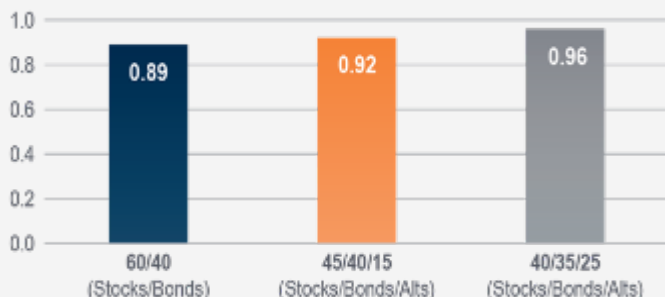
### AVERAGE ANNUAL TOTAL RETURN (%)



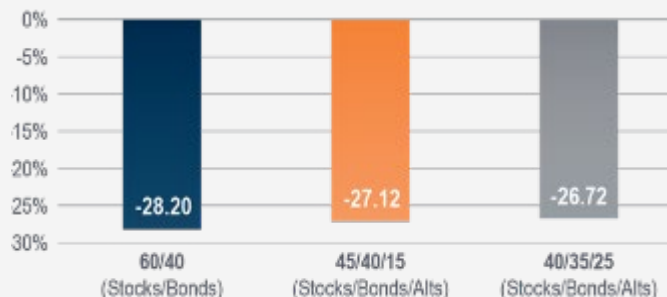
### STANDARD DEVIATION (%)



### SHARPE RATIO



### DRAWDOWN (%)



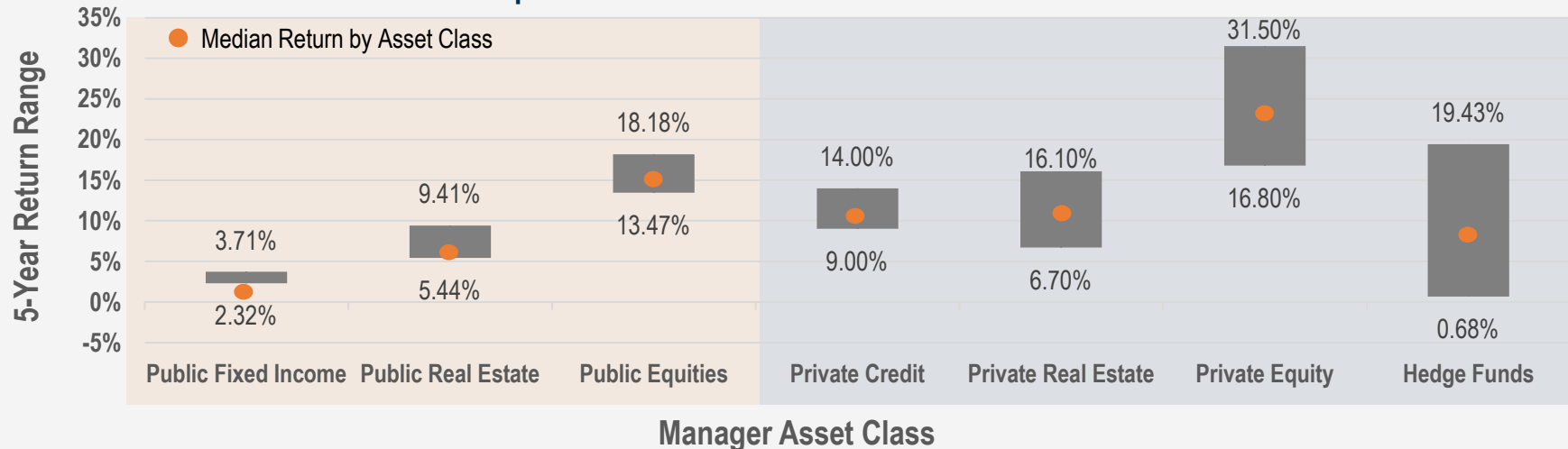
Source for charts: Morningstar Direct, data from 1/1/07 through 12/31/21. The returns of each sample portfolio identified above represent the weighted average on the different asset mixes. The sample portfolios are for illustrative purposes only and do not represent actual portfolios for investors. Therefore, no investors experienced these returns. In addition, the returns do not account for the reduction of any fees, which would reduce the noted returns. Investors cannot invest directly in an index. **Past performance is not necessarily indicative of future results and there can be no assurance that any index or fund will achieve comparable results or avoid substantial losses.** Diversification does not guarantee a profit or protect against loss. Stocks are represented by the **S&P 500 Index**, which is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Bonds are represented by the **Bloomberg U.S. Aggregate Bond Index**, which represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Alternatives are represented by an equally weighted portfolio across the HFRX Global Hedge Fund Index, HFRI 500 Equity Hedge Index, NCREIF Open-End Diversified Core Equity Fund Index (NFI-ODCE), Refinitiv Private Equity Buyout Index and Refinitiv Venture Capital Index. The **HFRX Global Hedge Fund Index**<sup>®</sup> is comprised of funds representing all main hedge fund strategies. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry. The **HFRI 500 Equity Hedge Index** is a global, equal-weighted index of the largest hedge funds that report to the HFR Database which are open to new investments and offer quarterly liquidity or better. The **NCREIF Open End Diversified Core Equity Fund Index** is an equal-weighted index of the investment returns from a collection of open end commingled funds which focus on core real estate investment strategy. The **Refinitiv Private Equity Buyout Index** seeks to replicate the performance of the Refinitiv Private Equity Buyout Benchmark Index through a combination of liquid, publicly listed assets. The Index is calculated from the performance of the individual private equity sector portfolios. The **Refinitiv Venture Capital Research Index** is calculated using Refinitiv data on financial rounds and other valuations of venture capital-funded firms.

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# Manager Selection is Critical in Private Markets

Over the past 5 years private assets have outperformed public markets. However, the dispersion between top and bottom managers show a wide range of outcomes. Manager selection and access to top-tier managers can have a significant impact in alternative asset class performance.

## Top Quartile/Bottom Quartile Fund Performance



Top/Bottom  
Return Spread

1.39%

3.97%

4.71%

5.00%

9.40%

14.70%

18.75%

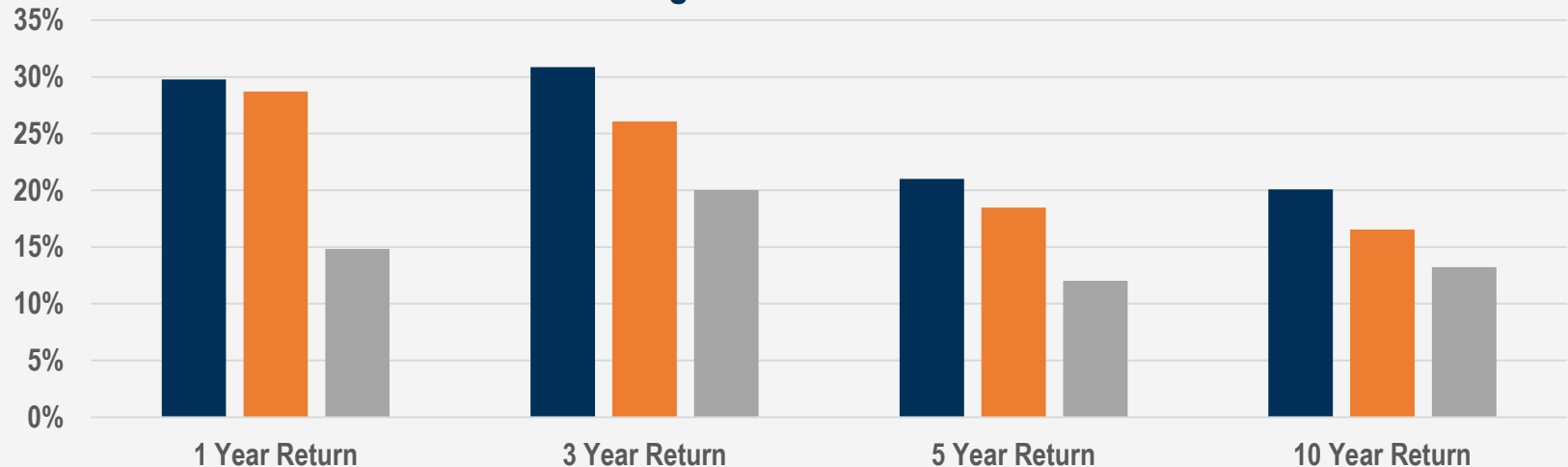
Source for public funds and hedge funds is Morningstar, returns are calculated over a five-year period from 6/30/2016-6/30/2021 using open-end funds. Public Equities are represented by Morningstar US Large Blend category. Public Fixed Income is represented by Morningstar US Intermediate Core Bond category. Public Real Estate is represented by Morningstar US Real Estate category. Hedge Funds are represented by the Morningstar Unlisted Closed-End Hedge Fund category.

Source for private funds is Preqin, returns are for all open and closed private funds in North America with 2016 vintages that have last reported on 6/30/2021. Private Equity represents all private equity as classified by Preqin, Private Credit represents all private debt strategies as classified by Preqin; Private Real Estate represent all co-investment, core, core+, debt, value added, and fund of fund real estate strategies. Investments in less liquid private market strategies are by nature risky and typically involve a high degree of leverage. The returns indicated above are long-term and represent well-known asset class indices and are not meant to be predictive of future performance of any particular fund, nor are they meant to suggest that all private funds result in positive returns or would avoid loss of principal. **Past performance is not a guarantee of future results.**

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There may be a broader opportunity set in private equity than public markets: in the United States there were approximately 16,000 private equity backed companies and 4,000 public companies in 2020.<sup>1</sup> Over the last 10 years, private equity has outperformed both the S&P 500 Index and the Russell 2000 Index.

## Historical Trailing Returns as of 12/31/21



<b>US Private Equity</b>	<b>29.76%</b>	<b>30.85%</b>	<b>21.02%</b>	<b>20.07%</b>
<b>S&amp;P 500 Index</b>	<b>28.71%</b>	<b>26.07%</b>	<b>18.47%</b>	<b>16.55%</b>
<b>Russell 2000 Index</b>	<b>14.82%</b>	<b>20.02%</b>	<b>12.02%</b>	<b>13.23%</b>

<sup>1</sup>Source for private companies: Ernst & Young, *Economic contribution of the US private equity sector in 2020*. May 2021. Source for public companies: McKinsey & Company, *Reports of corporates' demise have been greatly exaggerated*. October 21, 2021.

Source for historical returns is eVestment Analytics. The US Private Equity Universe is represented by the **Refinitiv Private Equity Buyout Index** which is made up of independent portfolios intended to track the return of the private equity universe by replicating movements in the Refinitiv Private Equity Buyout Research Index which tracks the performance of private equity-owned firms across a number of economic sectors.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The **Russell 2000 Index** is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. Indices do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Investors cannot invest directly in an index.

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