

# Insight Paper: Why Hedge Funds Matter

Travis Newman, Senior Consultant, Alternatives Manager Review Committee, December 2018



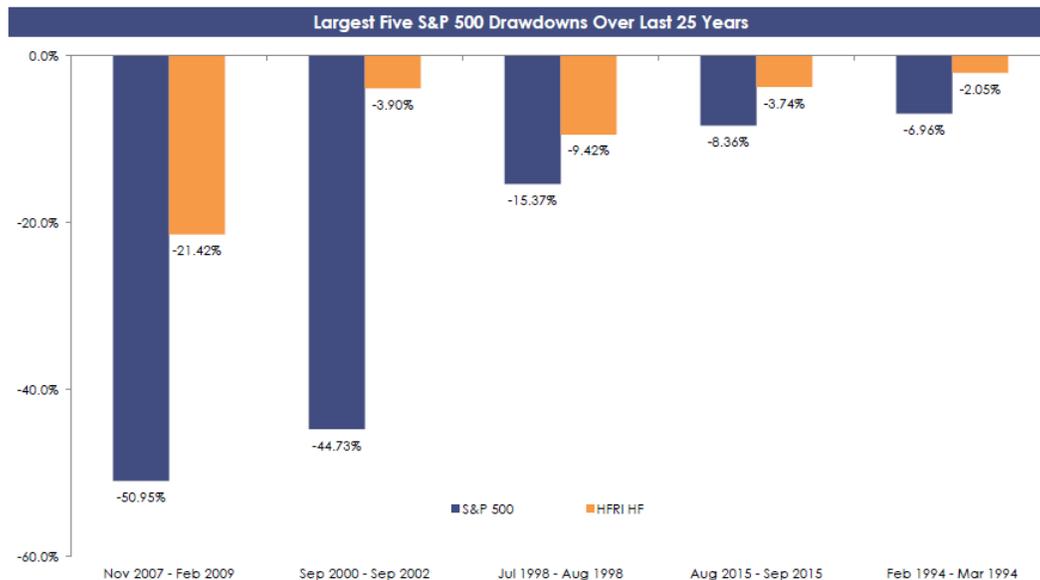
At our Annual Client Conference in September, we presented an analysis of the important role Hedge Funds can play in a globally diversified, opportunistic, all weather portfolio strategy. Corbin Capital Partners shared their perspectives on how Hedge Funds have delivered diversification benefits, alpha generation and downside capital protection over the long term.

**Diversification** - Allocations reduce overall portfolio risk and deliver lower correlation to traditional markets. Sources of return are differentiated.

**Alpha Generation** - Hedge Funds exhibit higher performance dispersion versus traditional long-only investing. Successful strategies are tactical and flexible and adapt to evolving market dynamics. Manager selection is key as top managers can deliver significant alpha.

**Downside Capital Protection** - Hedge Funds provide downside protection during stressed market periods. Compounding returns over time is key.

The chart below shows how Hedge Funds have provided significant protection during market stress. It compares the largest five S&P 500 index drawdowns over the last 25 years to the Hedge Fund Research Hedge Fund Index



Source: Corbin Capital Partners

Data represents last 25 years (July 1993 – June 2018). Performance results will differ for other time periods and with the use of different proxies for the asset classes. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index Please see Corbin endnotes and risk disclosures for important information. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.**

The key takeaways are as follows: Risk assets are unlikely to match their post-financial crisis performance. Increased stock price dispersion and volatility creates opportunities for Hedge Funds. Fundamental research will be rewarded by Central Bank policy divergence and rising interest rates. Hedge Funds are adaptable and dynamic in navigating evolving market dislocations and inefficiencies.

Put our research to work for you. DeMarche employs Hedge Fund of Funds in its discretionary global model portfolio. If you would like to know more about how these strategies have enhanced risk-adjusted returns for our clients, please contact Tom Woolwine, President, DMS, LLC; a DeMarche Affiliate, at [twoolwine@demarche.com](mailto:twoolwine@demarche.com) or 913.384.4994.

Disclaimer: The asset class and/or investment strategies described here may not be suitable for certain investors. We encourage you to work with your investment counsel to understand the risk characteristics and potential fit with your investment program.