TriDelta Private Wealth

Private Debt

A proven path to higher and stable returns

Over the past decade equity markets have recovered significantly and despite facing immense uncertainty they have largely outperformed even the most bullish forecasts. Bond markets have continued to experience 30+ years of declining interest rates with many Central Bank's expressing a "lower for longer" stance amidst seemingly unending stimulus. This suggests it is time to consider other asset class solutions such as global real estate, infrastructure, private debt, and hedge funds. In fact, a review of asset shifts amongst the world's largest pension and endowment plans reveal that this so called 'smart money' has already shifted their investment allocations significantly to alternative investments, focusing on private debt, reducing traditional stock, and bond market exposure. We at TriDelta believe that these strategies are equally suited for individual investors and over the past 8 years have implemented this approach for clients to great success.

An allocation to alternative investments can add real value to a portfolio by:

- **Providing high income**
- **Adding diversification to reduce risk**
- **Lowering portfolio volatility**
- **Enhancing returns**
- **Protecting capital during periods of market declines**

Find out how ▶

The case for investing in private debt and other alternative investments

At TriDelta, we research the marketplace for high quality portfolio solutions including an analysis of where leading pension and endowment funds invest. These institutions have been reducing their allocations to traditional equity and bond markets. Under the broad scope of alternative investments, many institutional investors have instead been investing between 25 per cent and as much as 80 per cent (Yale University Endowment Fund) in alternative investments. Consider that the top 1,000 pension plans in Canada shift allocations to various asset classes each year. Of particular interest is that allocations to alternative investments have increased by nearly four times since 1990.

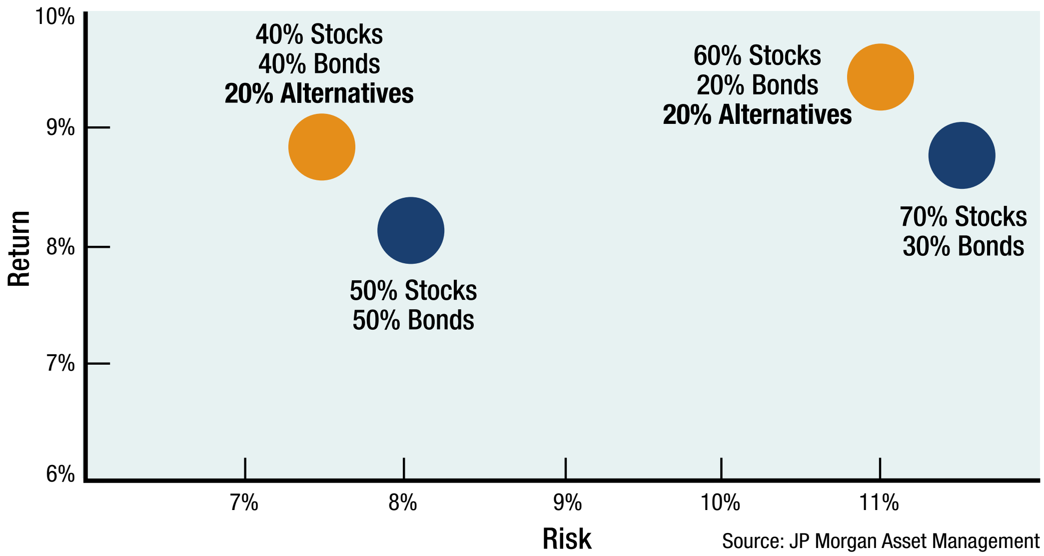
For details please refer to the **Asset Mix Report**.

What are Alternative Investments?

Alternative investments are essentially any asset that is not a public stock, bond, or cash security. Alternative investments often provide higher returns than these traditional assets by focusing on less efficient areas of the market or private asset classes, such as infrastructure and private equity. These investments often generate stable, high levels of income by investing in private income-oriented investments, such as real estate and private debt. There is also a wide array of strategies such as Market Neutral Hedge Funds which can reduce volatility and Event-Driven strategies which focus on merger arbitrage. The vast scope of this underutilized asset class is why we believe having a knowledgeable, professional advisor is essential in todays low-rate environment.

1. Returns can be improved and risk reduced by including alternative investments

According to JP Morgan research, portfolio returns were improved by more than 10% p.a. and volatility was significantly reduced by adding 20% to alternatives. A balanced investor with 50% invested in stocks and 50% invested in bonds would have seen their return improve and their risk reduced by moving to an asset mix of 40% stocks, 40% bonds and 20% in alternative investments. Growth oriented investors with 70% stocks, 30% bonds asset allocation would also have benefitted by including alternative investments to earn higher returns and reduced risk.



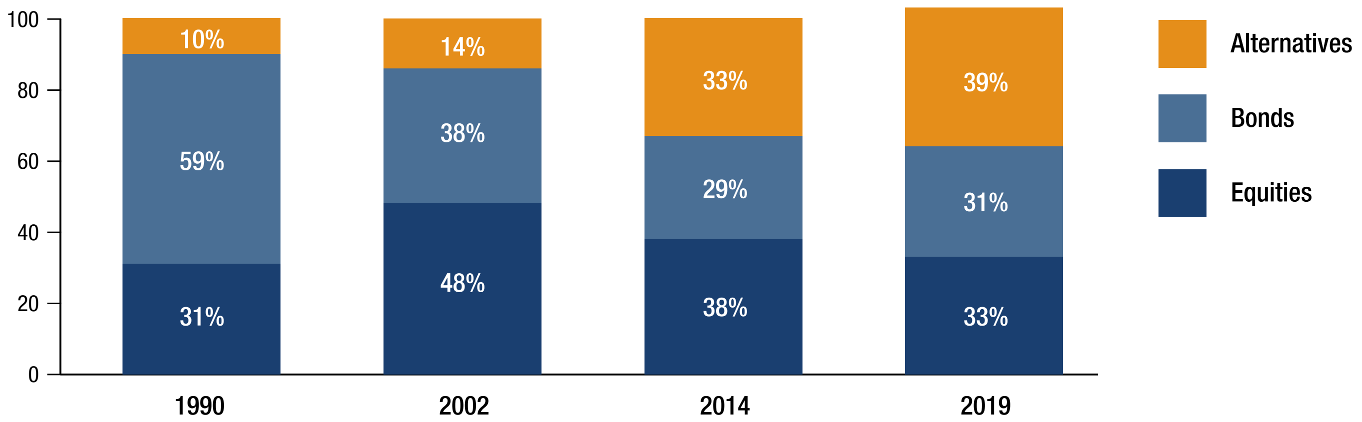
Source: JP Morgan Asset Management

[1] Calculation is based on analysis from JP Morgan Asset Management from the period 1991- Q3 2015.

2. Invest where the 'smart money' invests

The 'smart money' generally refers to professional institutional investment managers. We research where they invest given that they have consistently achieved superior investment returns versus more traditional models. We then tailor our own investment allocations and strategies based on the individual investor to develop each client's optimal portfolio. The Pension Investment Association of Canada, which includes Canada's largest pension plans and nearly $2.4 trillion of assets under management, provides an annual asset mix report. As the chart below highlights, in 1990 alternative assets comprised only 10% of the total asset mix. By 2019, alternative assets comprised almost 40% of these institutions' overall allocation.

Pension Investment Association of Canada Annual Asset Mix Report



Years ago, a Canadian Government bond portfolio could fund a long, prosperous retirement when the yield was between 8 and 12% (1980 – 1990s), but this is certainly not the case today. The new normal of ultra-low global yields and interest rates poses an unprecedented challenge for all investors and it is no wonder that premier institutions such as the Yale Endowment have a less than 10% portfolio allocation to bonds. U.S. Endowment funds, such as Harvard and Yale University, and Canadian Pension Funds, such as the Ontario Teacher's Pension Plan, have achieved some of the highest returns for their clients over the past 30 years. During that time, they have been significantly increasing their allocation to alternative investments to enhance overall returns and reduce volatility.

2020 US Endowment asset allocation†

†Data gathered from US endowments (by NACUBO) in FY2020

3. Changing Times

The world has changed in recent years; investors need to look beyond only traditional investments to achieve their goals of income, stability, and growth. As the chart below demonstrates, in 1990 an investor could earn 9.9% on a 10-year Government of Canada bond vs. only 1.2% in 2021. The equity market in 1990 was also much cheaper with a Price-to-Earnings ratio of only 15 versus 39.9 in 2021. Investors are also expected to live much longer, meaning that their investments have to work harder to meet their cash flow and spending needs.

	1990	2021
Bond Yield*	**9.9%**	**1.2%**
Equity Market P/E Valuation**	15.1	39.9
Baby Boomer	35 years old	65 years old
Retiree (OTPP)	Worked for 29 years; Retired for 25 years	Worked for 26 years; Retired for 30 years
Life Expectancy***	77 years	82 years

Sources: *bankofcanada.ca **S&P500 average P/E based on historical ***statcan.gc.ca

Historical relationships tell us that publicly traded bonds have an inverse relationship with interest rates. With interest rates currently at extreme lows and public equity markets at historic highs, a concern held by many in today's market is that rates are likely to increase. While increasing interest rates will increase the cost to borrow and negatively impact your bond portfolios, private debt investments can enhance returns with having the flexibility to increase interest rates attached to their loans.

The world around us is rapidly evolving and just as you don't look at many fashion trends from the 1990's the same way today, nor should you view your investment portfolio the same.

4. The TriDelta Strategy

TriDelta's Alternative Assets Investment Committee focuses on:

- **Proven managers with strong track records and disciplined investment philosophies**
- **Earning stable returns regardless of economic environment**
- **Generating premium yield in less liquid investments**
- **Solutions that lower clients' portfolio volatility**
- **Leveraging our size to receive preferential pricing**

Given our investment focus we are selective with the fund managers we choose to work with and have, over time, chosen to focus predominantly on the Private Debt space.

Why Private Debt?

The term 'private debt' is applied to debt investments which are not financed by banks and are not issued or traded in an open market. The word 'private' refers to the investment instrument itself and not necessarily the borrower – i.e., public companies can borrow via private debt just as private companies can.

Companies have increasingly looked to non-bank lenders as government regulations have curtailed traditional bank financing since 2008, making it much more expensive for banks to lend to many small- and medium-sized businesses. We have concentrated on this area because we believe these Alternative Investments can provide investors with the following benefits:

- **Generate significant client income** as most strategies we focus on pay monthly or quarterly income of 6%-9% annually
- **Improve Diversification** as many alternative investments have low correlation to the stock or bond markets
- **Enhance overall returns** as private debt focused alternative investments often generate annual returns of 6%-10%
- **Lower Volatility** as many of these funds have had no or extremely few down months.

Small- and medium-sized businesses in Canada support millions of jobs and make up over 50% of GDP (Government of Canada, Key Small Business Statistics January 2019). In leveraging decades of experience and a disciplined underwriting process, these non-bank lenders are able to generate favourable returns for investors and support high quality businesses which are negatively impacted by regulation of the big banks.

TriDelta has spent several years forging relationships with only the most trusted and highly skilled fund managers. This has allowed us to generate consistent returns for clients with little correlation to the traditional stock market. We believe in our disciplined investment approach and treat this as a co-investment opportunity usually only reserved for the largest institutional investors.

Alternative Investments generally make-up 25%-35% of our client's overall investment portfolios. In February 2020, we also launched our own private debt focused Alternative Investment fund, the **TriDelta Alternative Performance Fund**, which targets annual returns of 8%-10% by investing in specially selected alternative investment managers at preferred pricing.

Why a fund of funds?

Our TriDelta Strategy leverages a fund of funds structure actively managed by Head of Alternative Strategies, Lorne Zeiler, MBA, CFA, and governed by the TriDelta Investment Committee. A fund of funds structure has proven beneficial for clients in many ways:

- **Best possible pricing:** Investments are typically made at preferred institutional rates, further enhancing Fund returns.
- **Increased liquidity:** Investing into individual strategies often requires long lock up periods and early redemption penalties. The TriDelta Alternative Performance Fund is among the most liquid in this space.
- **Lower minimums:** The TriDelta Fund maintains a $5,000 minimum relative to some individual strategies which can have minimum investments of more than $250,000.
- **Diversification:** Investing in a single strategy can involve a high concentration in a certain area of the alternative asset space, the TriDelta Fund is able to provide exposure to a range of investments.

It is often difficult for investors to access these investments for three reasons:

1. Alternative Investments are often restricted only to Accredited Investors (those with family income of $300,000+ or an investment portfolio of $1 million+)
2. Many large Canadian financial firms simply do not make them available to their clients because alternative investments are often more complex and require a specialized skill set to analyze, review and select managers; and
3. Many of the best alternative managers provide only restricted or limited access to their funds.

As an investment counsellor, we are able to offer accredited investments to all of our clients on a discretionary account basis. Our expertise and reputation in this space allows us to gain access to the best alternative managers.

Contact us to discuss: