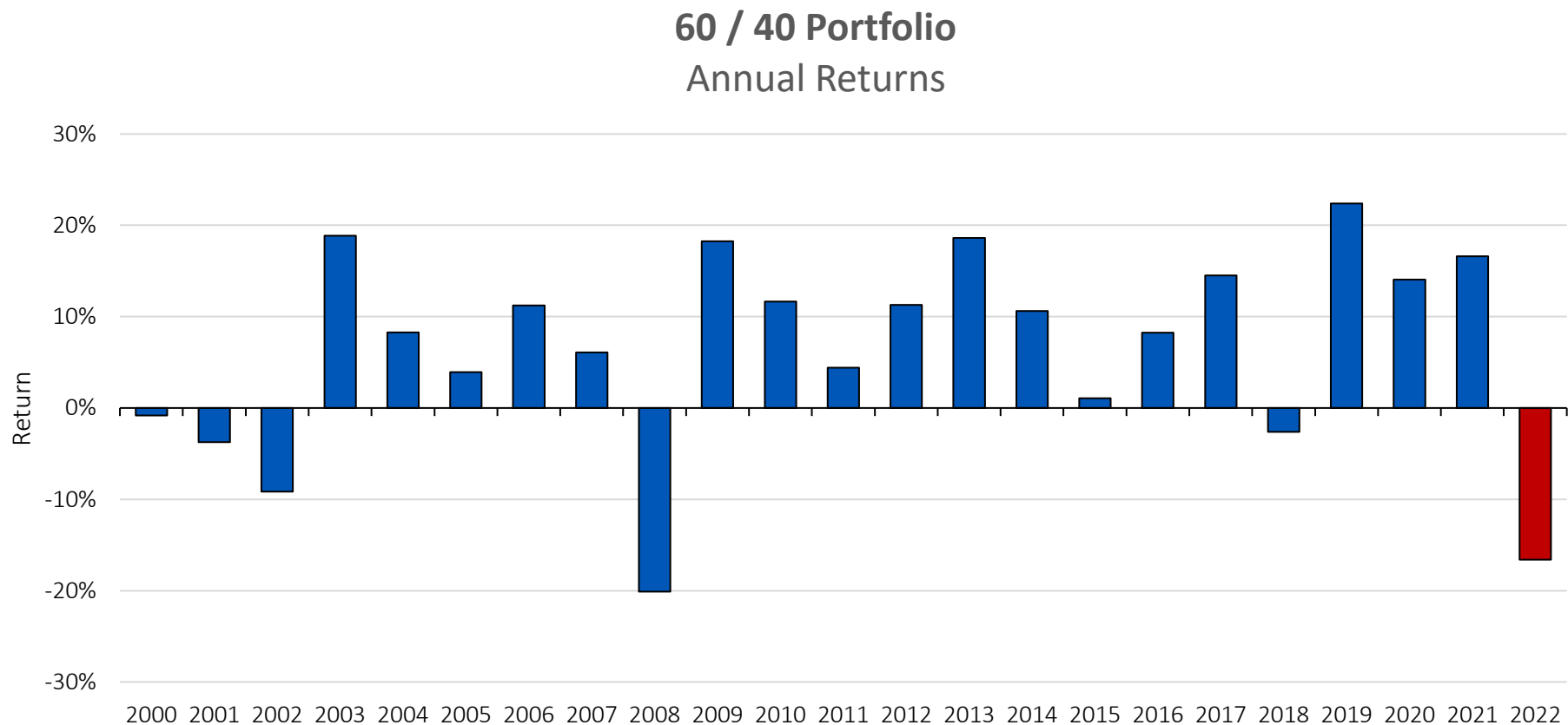


Unlocking Liquid Alternatives

Managing Volatility Through Liquid Alternatives

What Has Happened to 60/40?

This has been the worst period for stocks, bonds and 60/40 portfolios since 2008

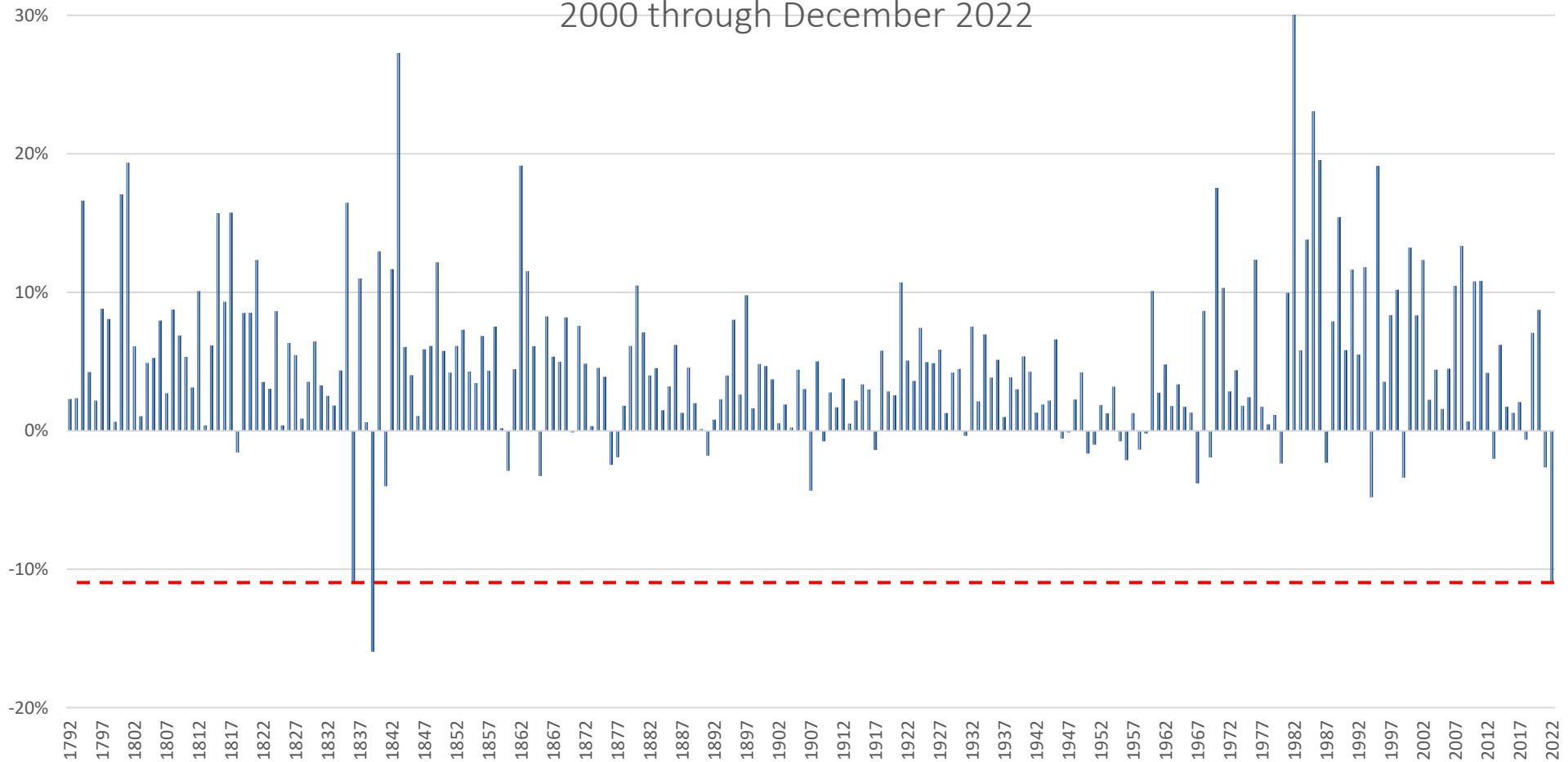


Source: Morningstar. As of Dec. 31, 2022. The 60/40 portfolio comprises 60% S&P 500 Index and 40% Bloomberg U.S. Aggregate Bond Index.

Yields Jumped

Bonds delivered the worst return since 1839

**U.S. 10-year Treasuries total return,
2000 through December 2022**

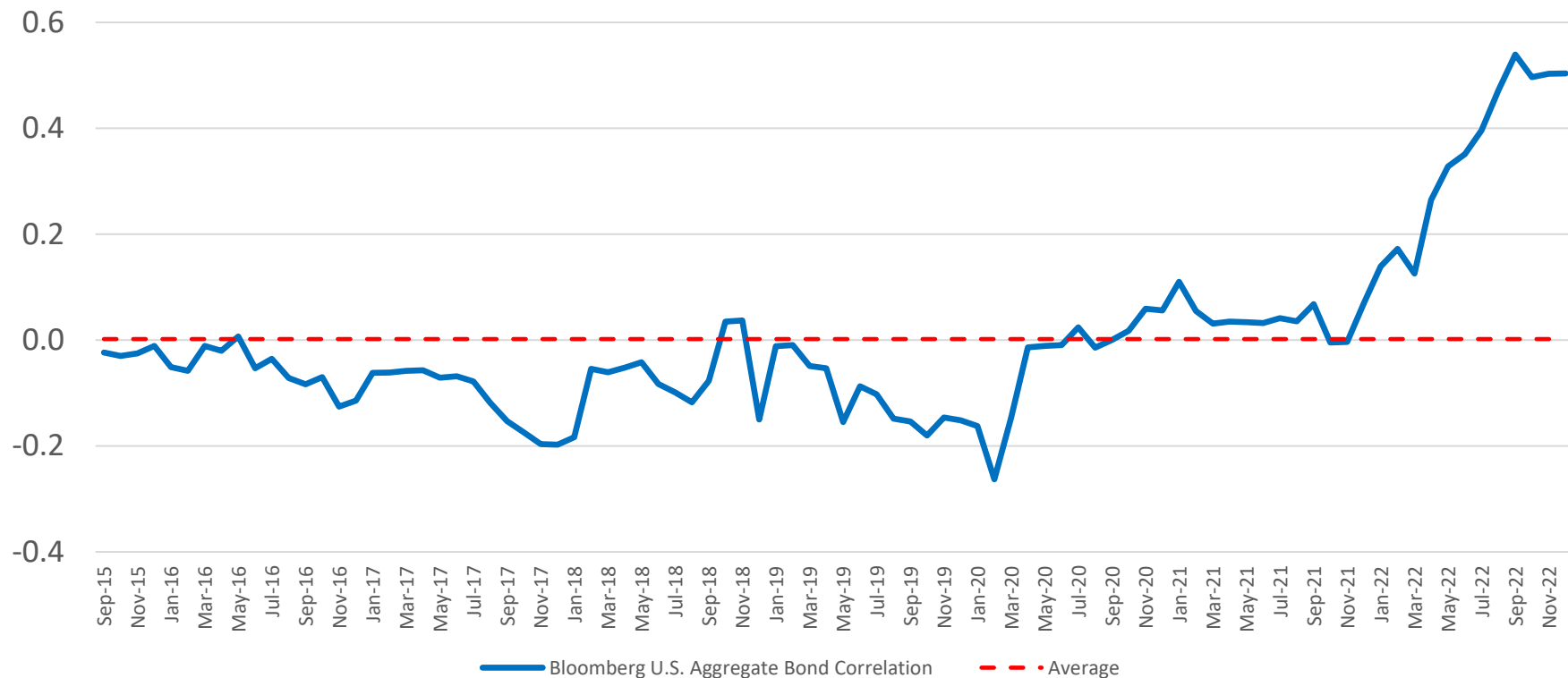


Source: Man Group database, GFD of 31 Dec 2022.

Traditional Relationships are Changing

The correlation between stocks and bonds is rising

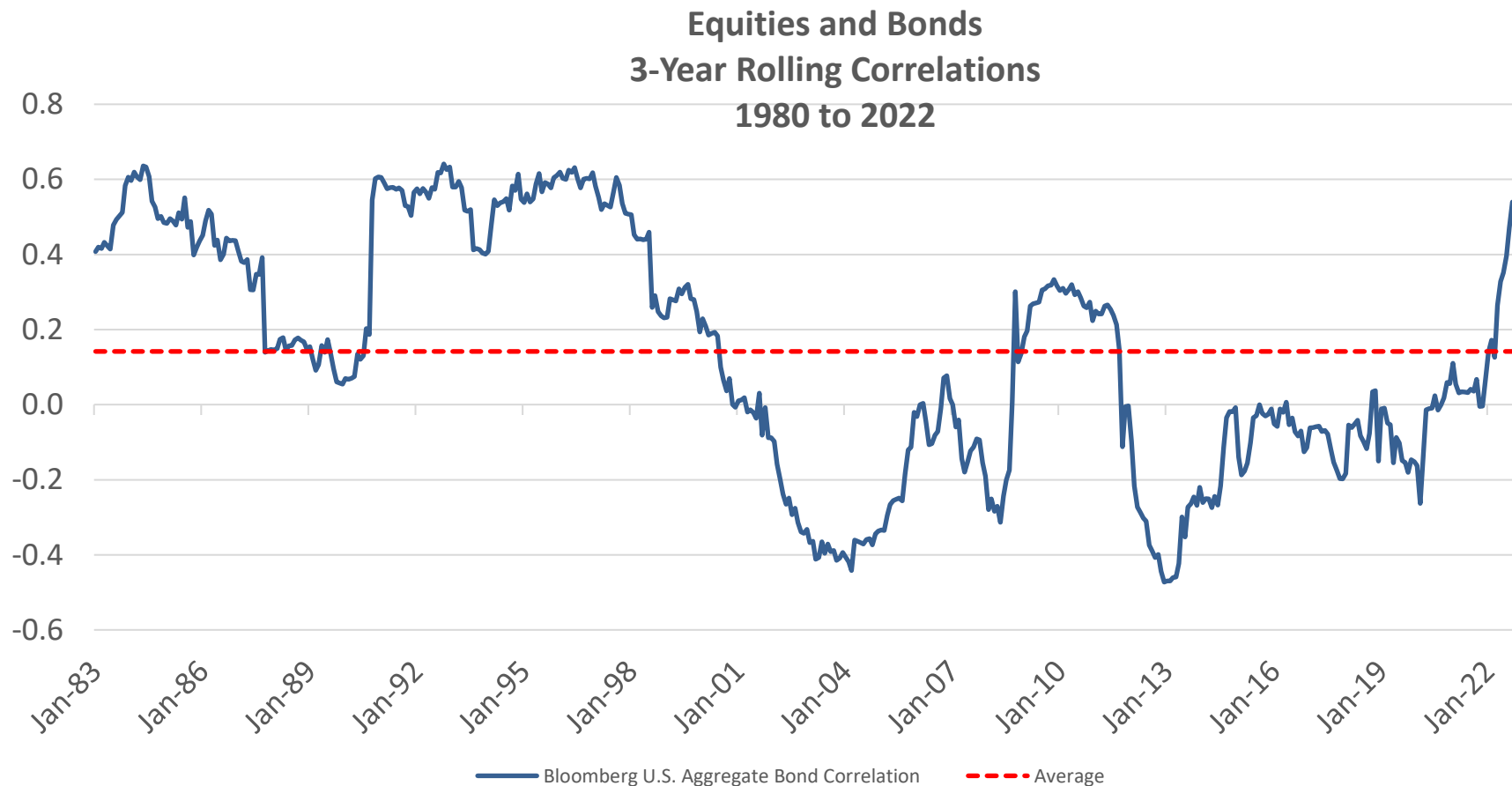
Equities and Bonds
3-Year Rolling Correlations
2012 to 2022



Source: Morningstar. As of Dec. 31, 2022.

Traditional Relationships are Changing

The correlation between stocks and bonds *has* been this high before

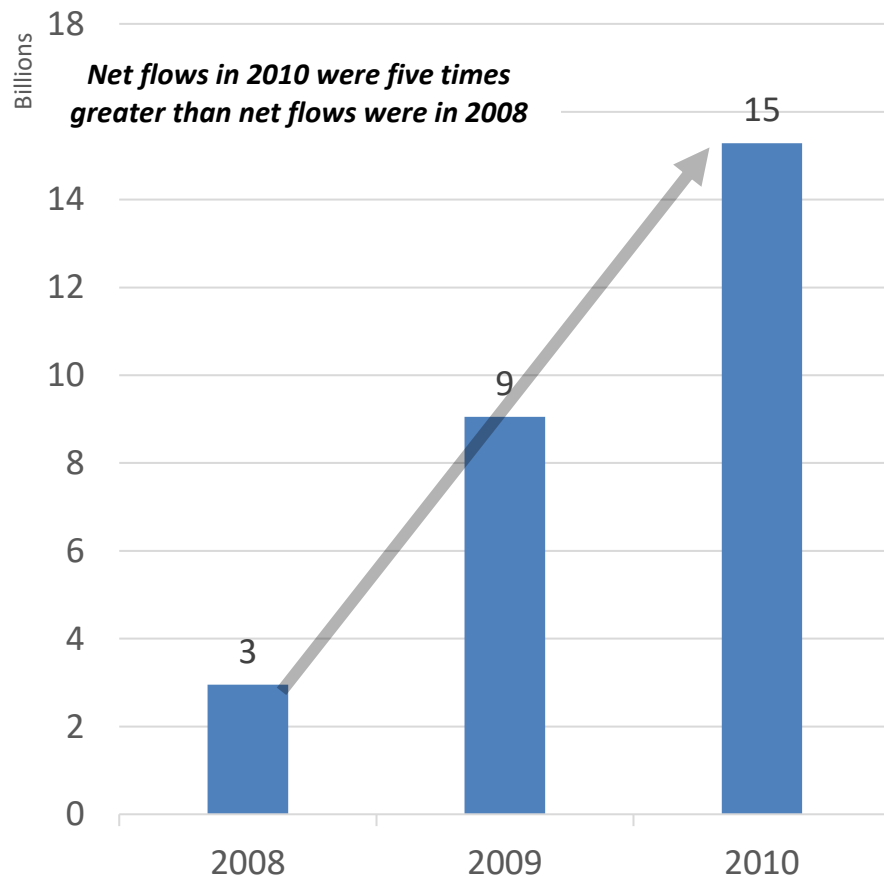


Source: Morningstar. As of Dec. 31, 2022.

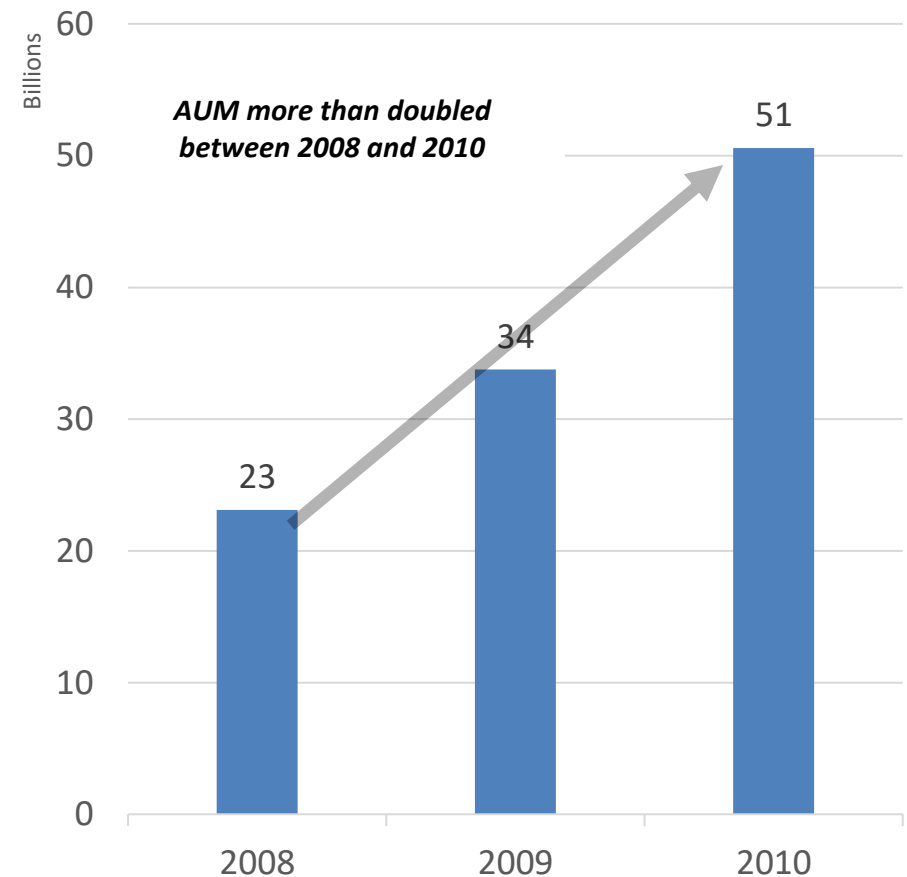
2008 to 2010 – A Case Study

After the last financial crisis alternatives experienced dramatic growth

Net Flow in Alternative Funds
(\$Billions)



AUM in Alternative Funds
(\$Billions)



Morningstar, as of December 2022,

Agenda

Why Are We Here?

Defining Liquid Alternatives

Expectations

Resolute's Perspective

Conclusions

Why Are We Here?

“Diversification has served investors well historically, but investing isn’t like physics ... Just because a certain relationship has been in place for many years doesn’t make it an immutable law.”

– Dan Lefkowitz, strategist at Morningstar Indexes

Why Are We Here?

Goals of this presentation

- ▶ Establish a categorization system to compare types of liquid alternatives
- ▶ Give you the questions to ask
- ▶ Help to determine funding

Defining Liquid Alternatives

Benefits Versus Typical LPs

- ▶ Greater access to principal
- ▶ Portfolio transparency
- ▶ Limited use of leverage
- ▶ Low fees
- ▶ Low minimum investments
- ▶ No K-1s; thus, easier tax reporting

Drawbacks Versus Typical LPs

- ▶ *Portfolio transparency*
- ▶ *Limited use of leverage*
- ▶ Difficult to evaluate the track record

Alternative Investments

Alternative investments are intended for qualified investors only. Alternative investments such as derivatives, hedge funds, private equity funds and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your client's investments. Before your clients invest in alternative investments, they should consider their overall financial situation, how much money they have to invest, their need for liquidity and their tolerance for risk.

Alternatives Come in Many Forms

**Alternative
Assets**

**Alternative
Strategies**

Alternatives Come in Many Forms

**Alternative
Assets**

**Directional
Strategies**

**Absolute
Risk/Return
Strategies**

Alternative Assets



Types

Benefits

Potential Drawbacks

<ul style="list-style-type: none"> ▶ Income <ul style="list-style-type: none"> – Real estate – MLPs ▶ Inflation hedge <ul style="list-style-type: none"> – Commodities – Natural resources – Precious metals 	<ul style="list-style-type: none"> ▶ Unique drivers of return ▶ Upside ▶ Ability to capture secular themes ▶ Portfolio diversification 	<ul style="list-style-type: none"> ▶ Higher volatility ▶ Drawdown ▶ Downside correlations
---	--	--

Directional Strategies



Types	Benefits	Potential Drawbacks
<ul style="list-style-type: none"> ▶ Long/short equity ▶ Nontraditional bond ▶ Derivative income ▶ Event driven ▶ Private debt ▶ Private equity 	<ul style="list-style-type: none"> ▶ Improved risk/return ▶ Increased opportunity set ▶ Upside potential ▶ Less “mark to market” 	<ul style="list-style-type: none"> ▶ Manager skill ▶ Alpha/cost

Absolute Risk/Return Strategies



Types

Benefits

Potential Drawbacks

- ▶ Managed futures
- ▶ Arbitrage
- ▶ Global macro
- ▶ Macro trading
- ▶ Market neutral
- ▶ Options trading

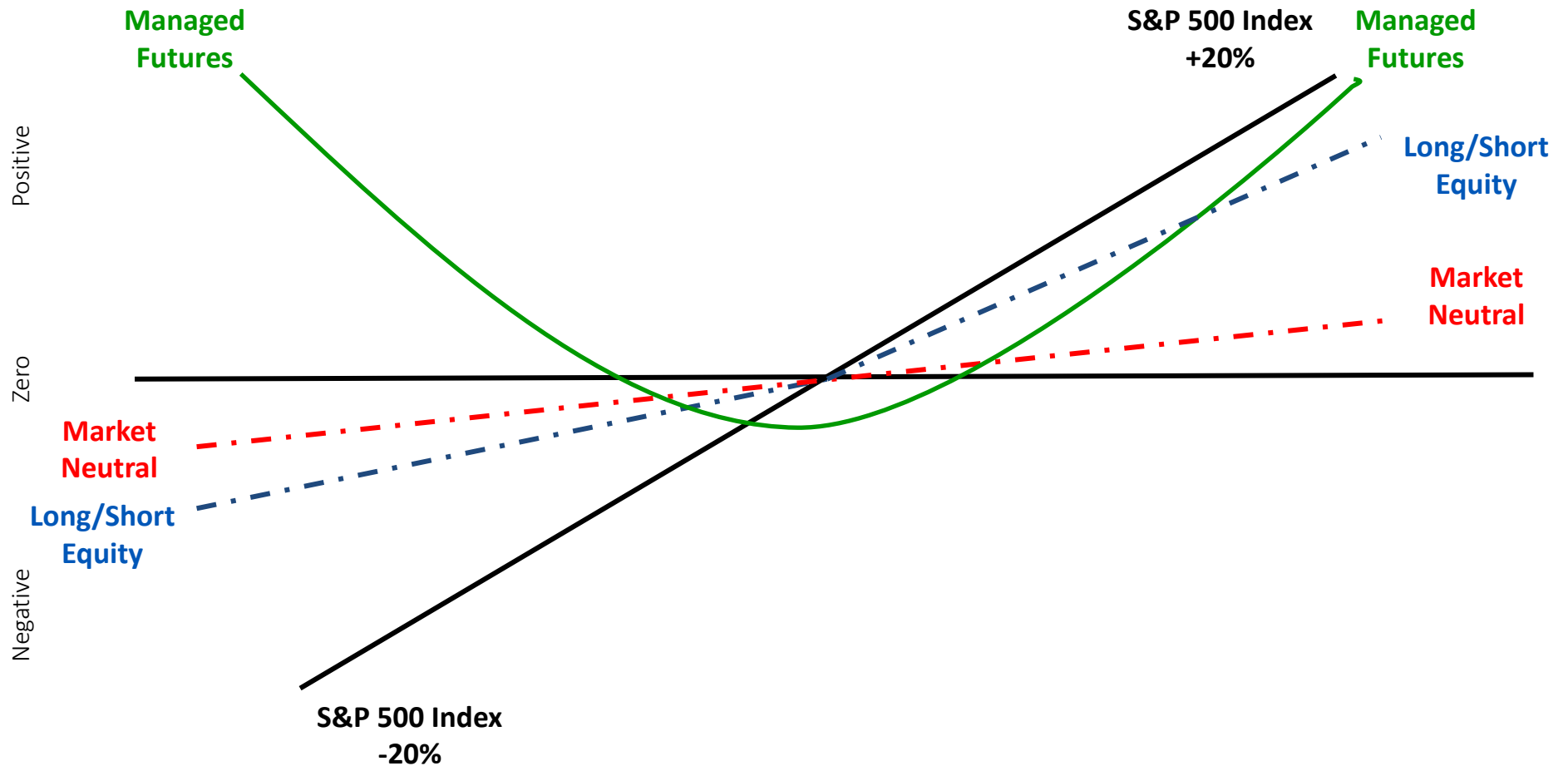
- ▶ Diversification
- ▶ Crisis alpha
- ▶ Long VIX
- ▶ Controlled volatility

- ▶ Inconsistency
- ▶ Diversification

Expectations

Illustration of Performance Potential

Liquid alternatives: Potential return stream by strategy



For illustrative purposes only. **Past performance is not necessarily indicative of future results.** It is not possible to invest directly in any index.

Alternative Assets

Morningstar Category	As of Dec. 31, 2022		
	10-Year Down Capture Ratio	10-Year Up Capture Ratio	3-Year Max Drawdown
Energy Limited Partnership	139.95	85.33	-50.98
Commodities Broad Basket	64.59	31.63	-25.67
Real Estate	84.11	67.26	-28.55
Global Real Estate	92.33	60.59	-30.72
Natural Resources	19.46	14.94	-8.47
S&P 500 Index (benchmark)	100.00	100.00	-23.87

Source: Morningstar. *Past performance is not necessarily indicative of future results.*

Directional Strategies

Morningstar Category	As of Dec. 31, 2022		
	10-Year Down Capture Ratio	10-Year Up Capture Ratio	3-Year Max Drawdown
Nontraditional Bond	19.46	14.94	-8.47
Event Driven	18.05	22.76	-8.08
Long-Short Equity	57.30	45.85	-12.76
Derivative Income	74.01	63.50	-19.39
S&P 500 Index (benchmark)	100.00	100.00	-23.87

Source: Morningstar. *Past performance is not necessarily indicative of future results.*

Absolute Risk/Return Strategies

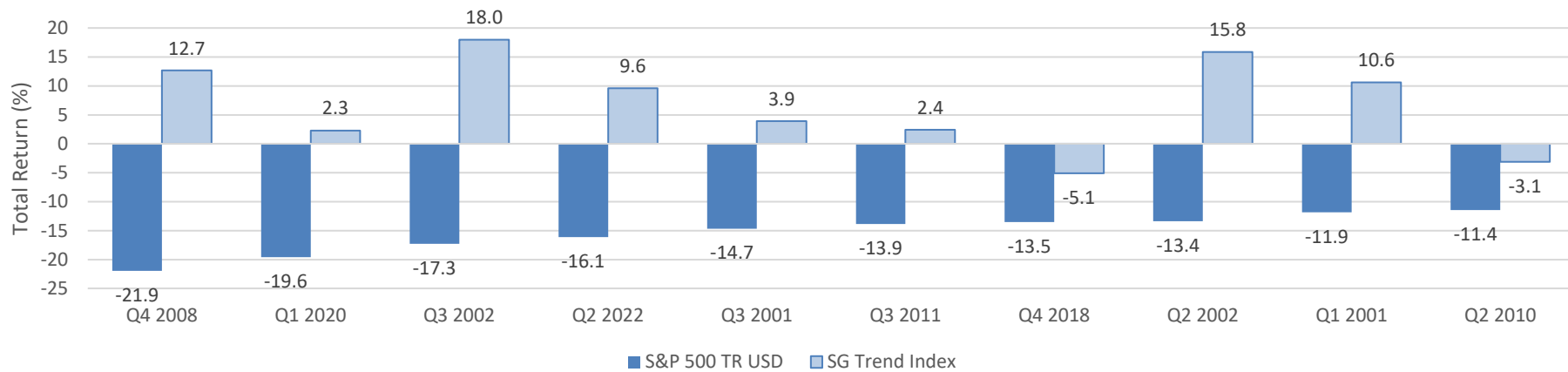
Morningstar Category	As of Dec. 31, 2022		
	10-Year Down Capture Ratio	10-Year Up Capture Ratio	3-Year Max Drawdown
Relative Value Arbitrage	12.99	16.56	-6.14
Systematic Trend	-0.42	8.81	-5.33
Event Driven	18.05	22.76	-8.08
Equity Market Neutral	0.40	7.76	-5.20
S&P 500 Index (benchmark)	100.00	100.00	-23.87

Source: Morningstar. *Past performance is not necessarily indicative of future results.*

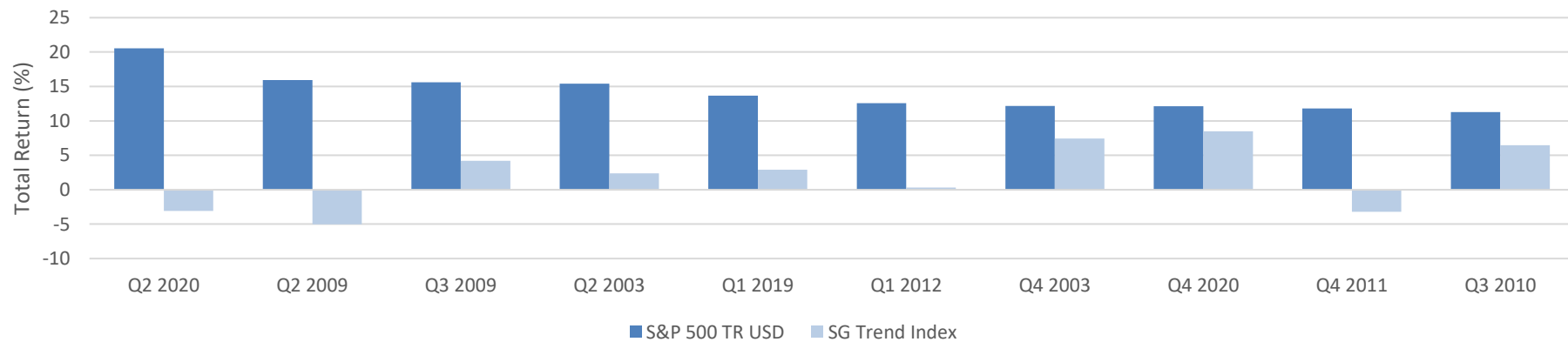
Adding Value in Difficult Markets

Managed futures have the potential to profit from negative market conditions

10 WORST S&P 500 Index quarters since 2000 vs. SG Trend Index



10 BEST S&P 500 Index quarters since 2000 vs. SG Trend Index



Source: Morningstar. *Past performance is not necessarily indicative of future results.*

Correlations Matters

Systematic Trend funds have negative correlations to stocks and bonds

Jan. 2008 - Dec. 2022

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Systematic Trend	1.00														
2 S&P 500 TR USD	-0.10	1.00													
3 Equity Market Neutral	0.09	0.31	1.00												
4 Event Driven	-0.19	0.85	0.32	1.00											
5 Long-Short Equity	-0.02	0.95	0.35	0.81	1.00										
6 Relative Value Arbitrage	-0.22	0.80	0.23	0.90	0.76	1.00									
7 Bloomberg US Agg Bond TR USD	-0.19	0.19	0.08	0.15	0.14	0.25	1.00								
8 Equity Precious Metals	0.02	0.32	0.10	0.34	0.35	0.41	0.39	1.00							
9 Global Real Estate	-0.12	0.85	0.36	0.82	0.81	0.81	0.35	0.39	1.00						
10 Natural Resources	-0.06	0.82	0.20	0.77	0.86	0.76	0.08	0.55	0.74	1.00					
11 Nontraditional Bond	-0.24	0.72	0.29	0.78	0.73	0.85	0.32	0.38	0.78	0.72	1.00				
12 Energy Limited Partnership	-0.01	0.64	0.18	0.63	0.69	0.61	0.06	0.34	0.56	0.73	0.69	1.00			
13 Derivative Income	-0.15	0.96	0.36	0.89	0.93	0.83	0.15	0.34	0.87	0.86	0.76	0.64	1.00		
14 Real Estate	-0.13	0.78	0.39	0.75	0.71	0.73	0.33	0.27	0.92	0.60	0.70	0.49	0.81	1.00	
15 60/40 Combination	-0.11	0.99	0.31	0.83	0.94	0.80	0.34	0.37	0.86	0.79	0.73	0.61	0.94	0.79	1.00

Source: Morningstar. *Past performance is not necessarily indicative of future results.*

Critical Factors to Consider

▶ Skill

- Managers who have proven track records managing the strategy
- Trading market risk for manager risk; show disparity of returns in each category

▶ Transparency

- Clear investment process

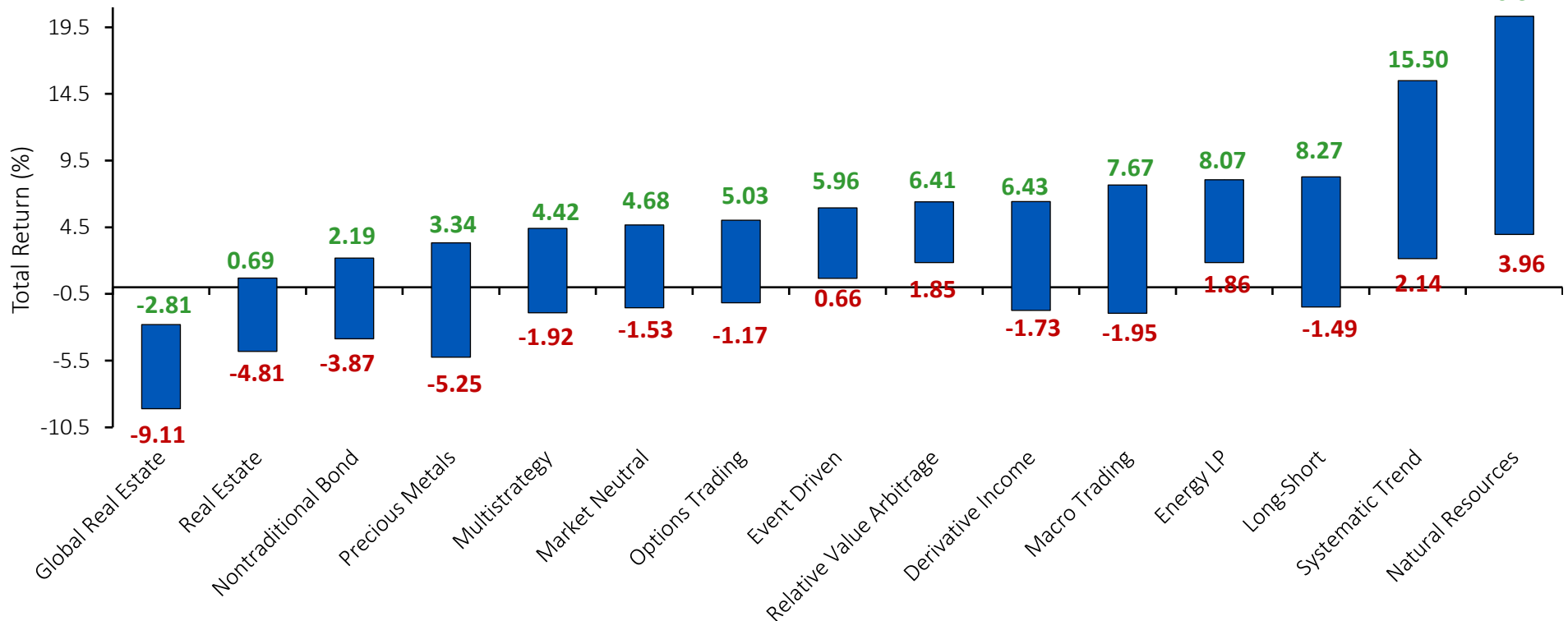
▶ Pricing

- No hidden fees

Category differences in returns between top 10th percentile and 90th percentile: Average Difference 7.9%

Category Top and Bottom Deciles

Three-Year Annualized Total Returns, as of Dec. 31, 2022

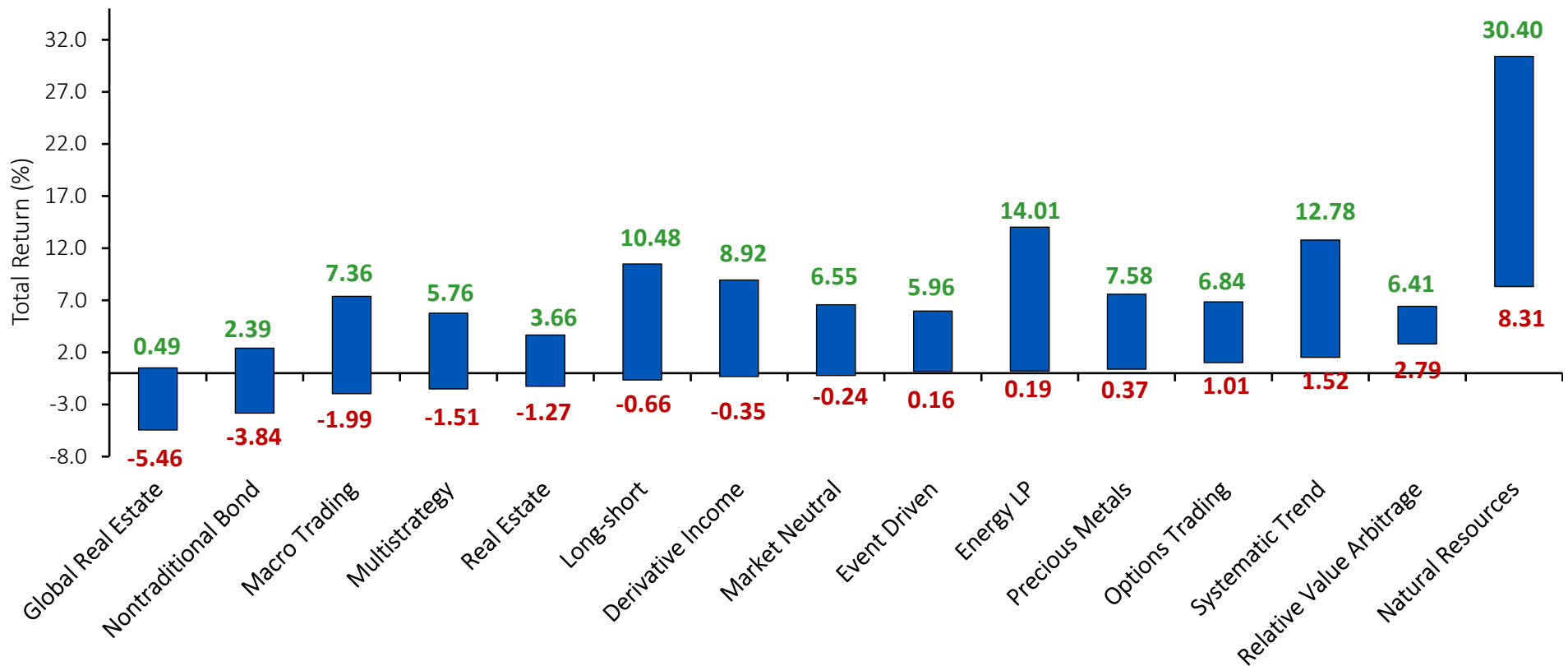


Source: Morningstar. *Past performance is not necessarily indicative of future results.*

Category differences in returns between top 10th percentile and 90th percentile: Average Difference 7.9%

Category Top and Bottom Deciles

Three-Year Annualized Total Returns, as of Dec. 31, 2022



Source: Morningstar. *Past performance is not necessarily indicative of future results.*

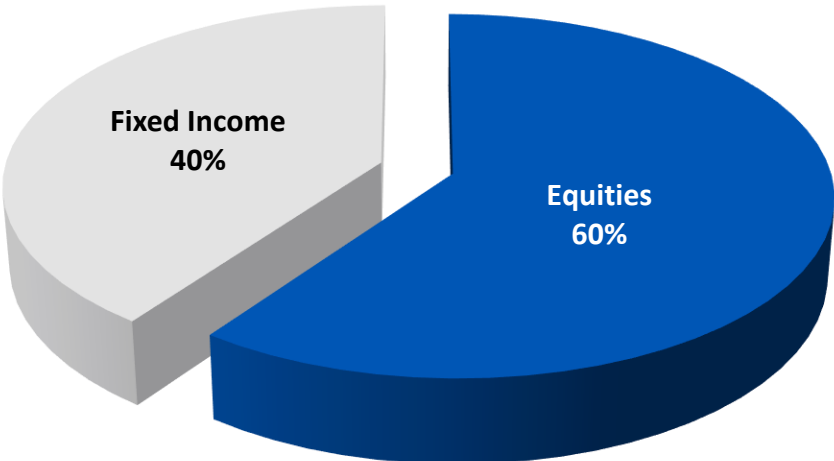
Resolute's Perspective

“The Secret of Change is to focus all your energy not on fighting the old, but on building the new.”

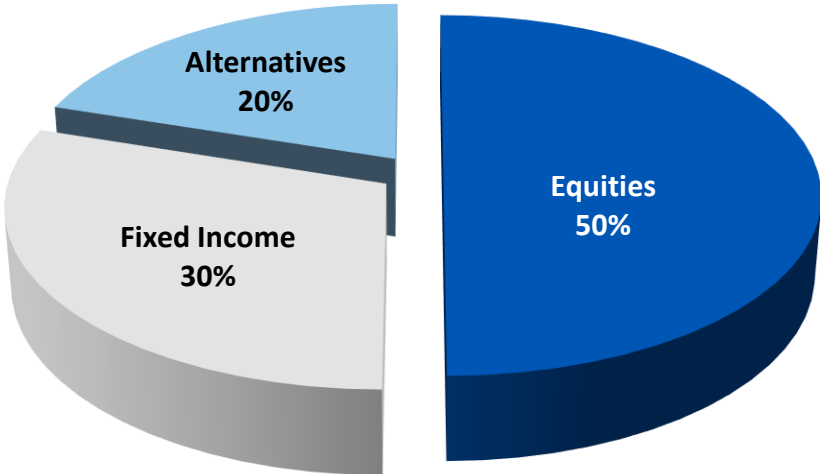
– Socrates

50/30/20 is the New 60/40

Traditional Portfolio



Modern Portfolio



Targeted Risk Budgets

Volatility



Relative Value Arbitrage	Nontraditional Bond and Event Driven	Macro Trading and Multi-strategy	Equity Market Neutral	Systematic Trend	Long/Short Equity	Derivative Income	Global Real Estate	Natural Resources	Precious Metals	Energy LP
~4 to 7	~6 to 8		~10 to 12		~11 to 14	~19 to 20	~23 to 29		~38 to 45	

Bloomberg U.S. Aggregate Bond Index
~4 to 5

S&P 500 Index
~18 to 20

Source: Morningstar, American Beacon Advisors, as of Dec. 31, 2022

Investor Liquidity Spectrum

Settlement



Checking, Savings and Money Market Accounts	T-Bills	Stocks, ETFs and Mutual Funds	Interval Funds	Typical Hedge Funds (LP)	Private Equity and Real Estate Partnerships and non-Traded REITs
Immediate	1 Day	2 Day	Quarterly	Quarterly after 1- to 2-year lockup	7- to 10-year term

Source: Morningstar, American Beacon Advisors

Conclusions

Questions to Consider

Alternative Assets	Directional Strategies	Absolute Risk/Return Strategies
<ul style="list-style-type: none">▶ Where are we in the current cycle?▶ Where do you see valuations today?▶ What are your return expectations going forward?▶ How do you add value in this space?	<ul style="list-style-type: none">▶ How much net-long exposure do you typically have and to which benchmark?▶ What are the expectable ranges for your net exposure?▶ What are your targeted up/down capture ratios?	<ul style="list-style-type: none">▶ What is your targeted volatility?▶ What are your return hurdles?▶ What type of correlation do you target?▶ Does your strategy attempt to provide “crisis alpha”?

Key Points to Remember

- ▶ Greater access to non-traditional assets
- ▶ Understand risk
- ▶ Funding matters
- ▶ Diversify
- ▶ Skill
- ▶ Transparency
- ▶ Pricing

Thank You

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- ▶ Sign the attendance form to receive CE credit*
- ▶ Complete our program survey

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