

Alternatives Pre-Flight Checklist

Most investors believe that uncorrelated investments are good to own because they help to diversify risk. But an uncorrelated investment doesn't help unless it's profitable as well. Many managers claim that their investments are uncorrelated and profitable. But as an educated investor, how can you verify or sense check these claims? Here's a simple four point pre-flight checklist for anyone who is contemplating an allocation to an uncorrelated asset class.

01

Intuitively uncorrelated.

When examining the correlation between investments, the reason for low correlation should be clear and intuitive. Don't just trust a historical test—it's better if there is a simple explanation for why the risks of an investment are uncorrelated. A good example of this is reinsurance, where common sense suggests that there is no relationship between natural disasters and financial markets.

02

Uncorrelated even in financial crises.

We now have two major financial crises during which we can check the correlation of investments—the Financial Crisis of 2007-08, and the COVID-19 Crisis of 2020. Since an important part of the value of uncorrelated investments is weathering the storm during crises, it's useful to check how alternative investments performed during these periods.

03

Good reason to be profitable.

It's good to understand who is setting the prices for taking on risk and why they have both the incentive and discipline to ensure profitability over time. For example, the profitability of co-investing in reinsurance contracts is driven by a small number of large reinsurers, who have priced these contracts with the goal of earning an equity-like return on capital.

04

Profitable over cycles.

Any asset that earns a return over the risk-free rate will have the risk of occasional drawdowns. If you want to get an idea of the long-run average profitability of an investment, then you need to look at profitability over a long period—ideally a period that captures more than one or two periods of stress.



Legal Disclaimer The information contained herein has been prepared solely for informational purposes and does not represent investment advice or provide an opinion regarding the fairness of any transaction to any and all parties nor does it constitute an offer, solicitation or a recommendation to buy or sell any particular security or instrument or to adopt any investment strategy. Charts and graphs provided herein are for illustrative purposes only. The information contained herein is not research and should not be treated as research. It should not be assumed that Stone Ridge will make investment recommendations in the future that are consistent with the views expressed herein. There can be no assurance that any investment strategy or technique will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment, which may differ materially, and should not be relied upon as such. The information provided herein is valid only for the purpose stated herein and as of the date hereof (or such other date as may be indicated herein) and no undertaking has been made to update the information, which may be superseded by subsequent market events or for other reasons. The information included herein may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations. Stone Ridge assumes no duty to update any forward-looking statements. There is no assurance that any forward-looking events or targets will be achieved, and actual outcomes may be significantly different from those shown herein. The information contained herein, including statements concerning financial market or other trends, is based on current conditions, which will fluctuate and may be superseded by subsequent events or for other reasons.

Information furnished by others, upon which all or portions of the information contained herein are based, are from sources believed to be reliable. Stone Ridge makes no representation as to the accuracy, adequacy or completeness of such information and it has accepted the information without further verification. No warranty is given as to the accuracy, adequacy or completeness of such information. No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise the information contained herein to reflect changes, events or conditions that occur subsequent to the date hereof. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. Before deciding to proceed with any investment, investors should review all relevant investment considerations and consult with their own advisors. Any decision to invest should be made solely in reliance upon the definitive offering documents for the investment. Stone Ridge shall not have any liability to any third party in respect of the information contained herein or any actions taken or decisions made as a consequence of the information set forth herein. By accepting the information contained herein in its entirety, the recipient acknowledges its understanding and acceptance of the foregoing terms.

The Stone Ridge Funds are distributed by ALPS Distributors, Inc.
SRG001722 Exp: 07/01/2022