

Introducing Asset Allocation

Takeaways

- **New research note:** This is the first in a regular series of notes from Addepar Research providing a view into asset allocations for high-net-worth (HNW) investors. This note is derived from aggregated and anonymized portfolio data captured on the Addepar platform.
- **Unique data:** What makes this analysis especially noteworthy is that it's not derived from surveys. Rather, it's based on the \$3.5 trillion in assets we have on the Addepar platform. This unique dataset has attracted a number of academic researchers whom we're collaborating with, and we hope to continue to publish a range of information and insights that our clients will find useful.
- **Overall allocations:** On average, the two largest asset classes our clients hold are equities (46%) and alternatives (19%).
- **Risk-based allocations:** Risk allocations drive performance. Looking at risk-weighted allocations (i.e., dollars x volatility) rather than dollar allocations, on average 81% is allocated to public equities and alternatives (61% and 20%, respectively)¹.
- **Allocations by portfolio size:** Larger clients tend to have larger allocations to alternatives, in terms of both capital and risk.
- **Allocations within alternatives:** Regardless of portfolio size, investors have similar allocations to the different alternative sub-asset classes.
- **Changes to allocations over time:** Since the pandemic, we've seen increased allocations to equities (from 43% to 46%), which is consistent with the exceptionally strong performance over the period.
- **Investor flows:** When we look at investor flows (e.g., buys, sells) in Q1 2022 for individual equity positions, we see net flows out of technology and into more defensive sectors such as consumer staples, telecommunications and utilities.

¹ Based on asset class volatility, not factor models. That is, dollars x realized annual volatility for that asset class.



Introduction

Addepar is a leading wealth management platform. When the company was founded in 2009, one of the most pressing challenges in financial services was a lack of transparency. Addepar was built with the mission of unlocking the power of informed, data-driven investing and advice. In keeping with that mission, we established Addepar Research to carry out research on investment organizations—their governance, management, operations and decision-making—by leveraging the power of the Addepar platform to improve collective performance.

The platform natively supports all asset categories, with a particular focus on alternative asset classes such as hedge funds and private capital. In this analysis, we focus on assets held on the platform by independent registered investment advisors (RIAs) and single family offices (SFOs). This sample of on-platform assets represents over 90,000 portfolios and over \$3.5 trillion in assets (see Exhibit 1).

Exhibit 1

RIA and SFO Assets Reported on Addepar USD

\$, Billions²



² All analyses referenced in this research note exclude individual investments that exceed \$1 billion in value, along with unusually small or large portfolios. These exclusions make our findings more representative of “typical” holdings on the platform.



The unique breadth and depth of the dataset generated by the Addepar platform offers transparency into the investment themes and trends of sophisticated HNW investors. Particularly for investors with a significant allocation to less-traditional investments, we hope to provide a relevant point of comparison that complements other benchmarking analyses.

The goal of this note is to provide transparency into asset allocations across the HNW investors on the platform. While this is the first time we've published these insights, we plan to provide updates on a quarterly basis. We'll also regularly publish companion pieces that focus on investment [performance](#).

This report was influenced by work Professor Cynthia Balloch has done with the Addepar dataset at the London School of Economics. Her work can be found [here](#) for interested readers. In particular, she highlights interesting relationships between investor size, the composition of alternatives portfolios and performance.

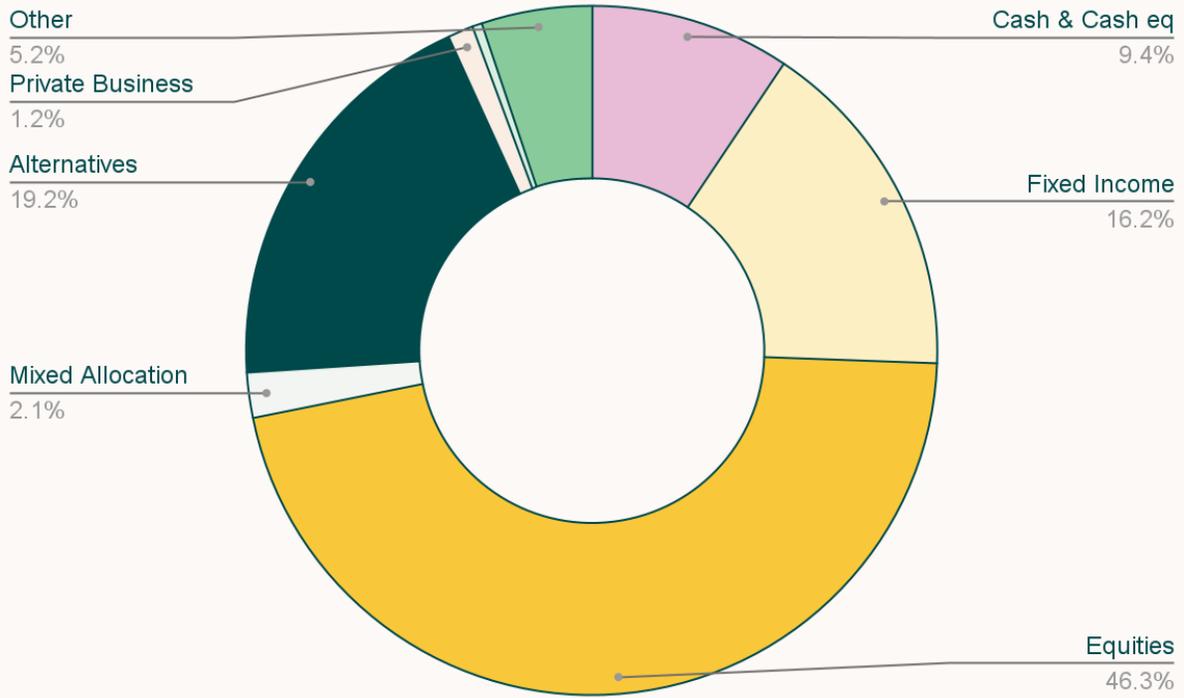
Asset Allocations Today

We start by examining the average asset allocation across the platform (see Exhibit 2). As noted above, these assets represent client holdings at RIAs and SFOs. The percentages shown are dollar-weighted across 90,000 portfolios. Equities (49%) and alternatives (17%) together make up over two-thirds of capital allocations.



Exhibit 2

Aggregate Asset Allocation
Percent, Q1 2022

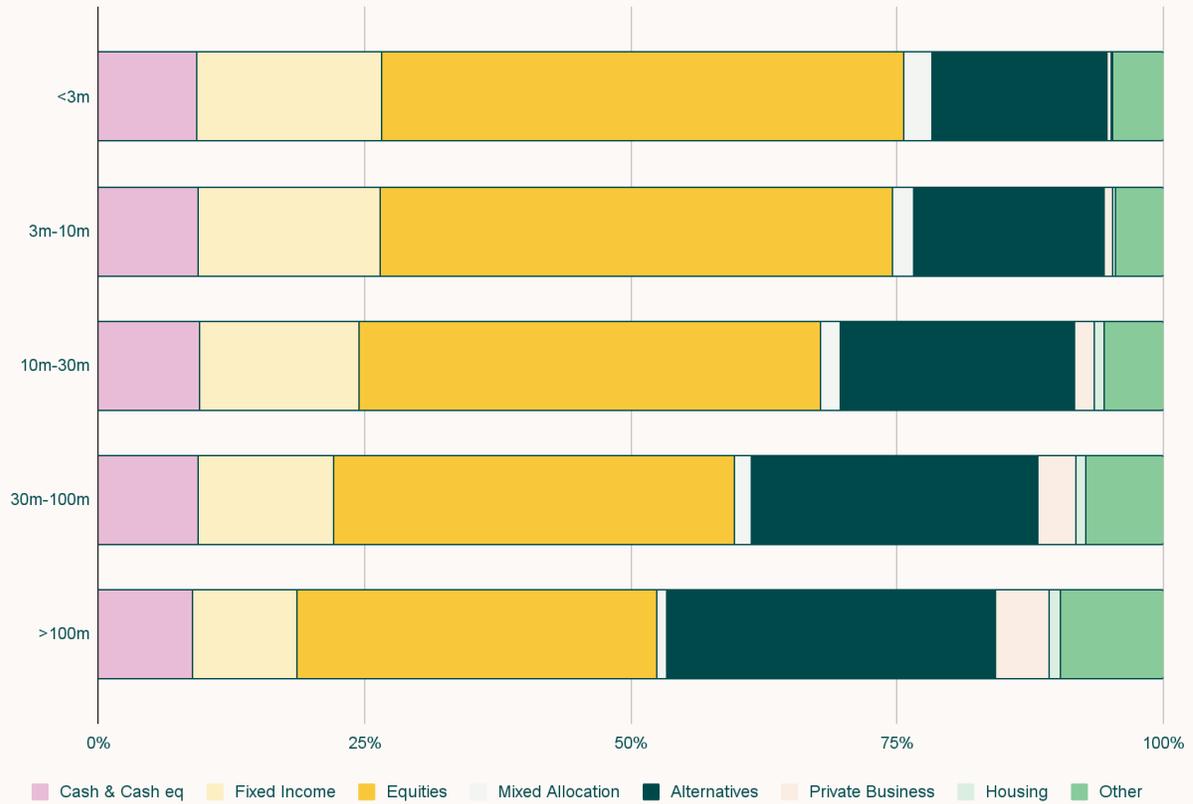


Addepar is used by a diverse set of investors. One dimension we examine is how asset allocations differ by the size of their portfolio (see Exhibit 3). We see that larger investors make proportionally smaller allocations to public equities and larger allocations to alternatives.



Exhibit 3

Asset Allocation by Portfolio Size
Percent, Q1 2022

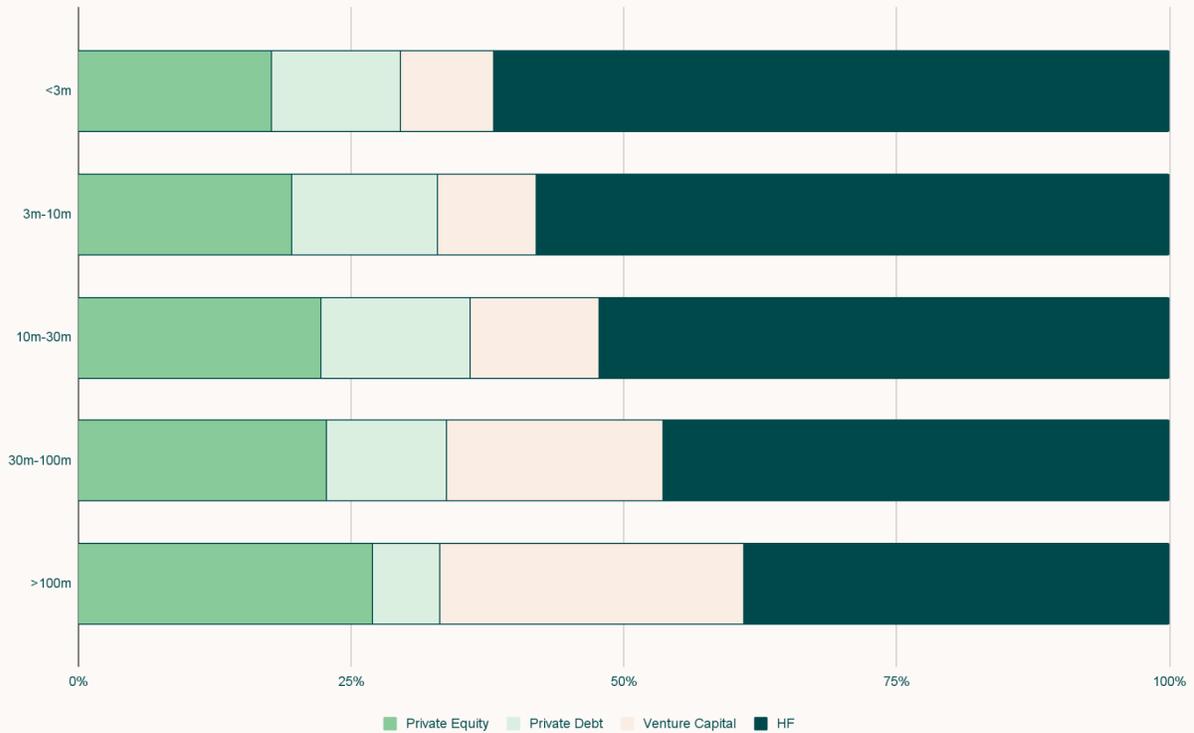


We then dive into allocations of alternatives by portfolio size (see Exhibit 4). Here, we see that larger investors tend to make more substantial allocations to private equity and venture capital than smaller investors do. These larger allocations are at the expense of allocations to hedge funds and related strategies (e.g., funds-of-funds, CTAs).



Exhibit 4

Alternatives Asset Allocations by Portfolio Size
Percent, Q1 2022

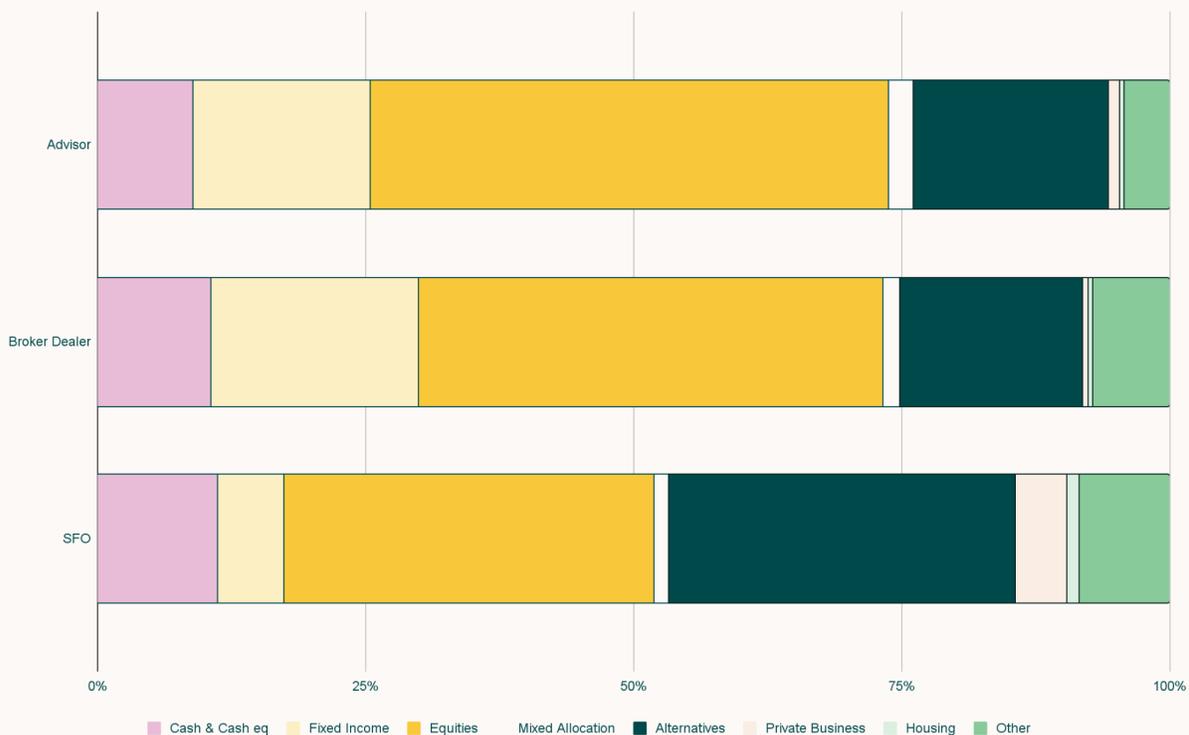


Per Exhibit 5, SFOs have significantly larger allocations to alternatives (33%) than accounts managed by advisors (16%) and broker-dealers (16%). SFOs’ larger allocations to alternatives come primarily at the expense of allocations to fixed income.



Exhibit 5

Asset Allocation by Firm Type
Percent, Q1 2022



Asset Allocations Today—Risk-Weighted

Asset allocations are typically considered on the basis of how much capital is allocated to different investments. While this illustrates how the money is allocated, it doesn't provide a good view of which assets actually drive performance. For example, in a classic portfolio with a 60/40 allocation to equities and bonds, equities will drive the performance of the portfolio because they represent the bulk of the risk in the portfolio (i.e., equities will be roughly 80% of the risk and bonds will be roughly 20%). So a risk-weighted view of asset allocations can provide further insight into what drives the performance of portfolios.

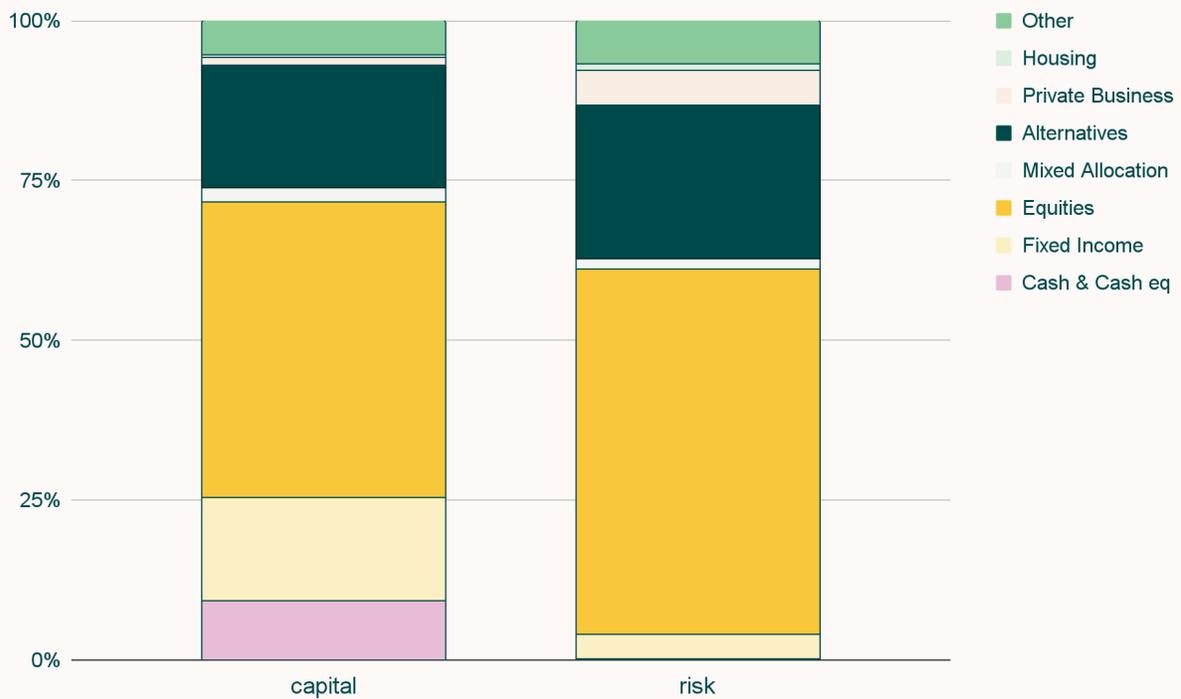
We calculate the risk-weighted asset allocations by multiplying the dollar allocations by the realized annual volatility of the asset. While past volatility is certainly not an indication of future



volatility, it can help provide a better sense of the risk profile of investments and what allocations are broadly driving the performance of the portfolio.³

Exhibit 6

Allocation of Capital vs. Risk
Percent, Q1 2022



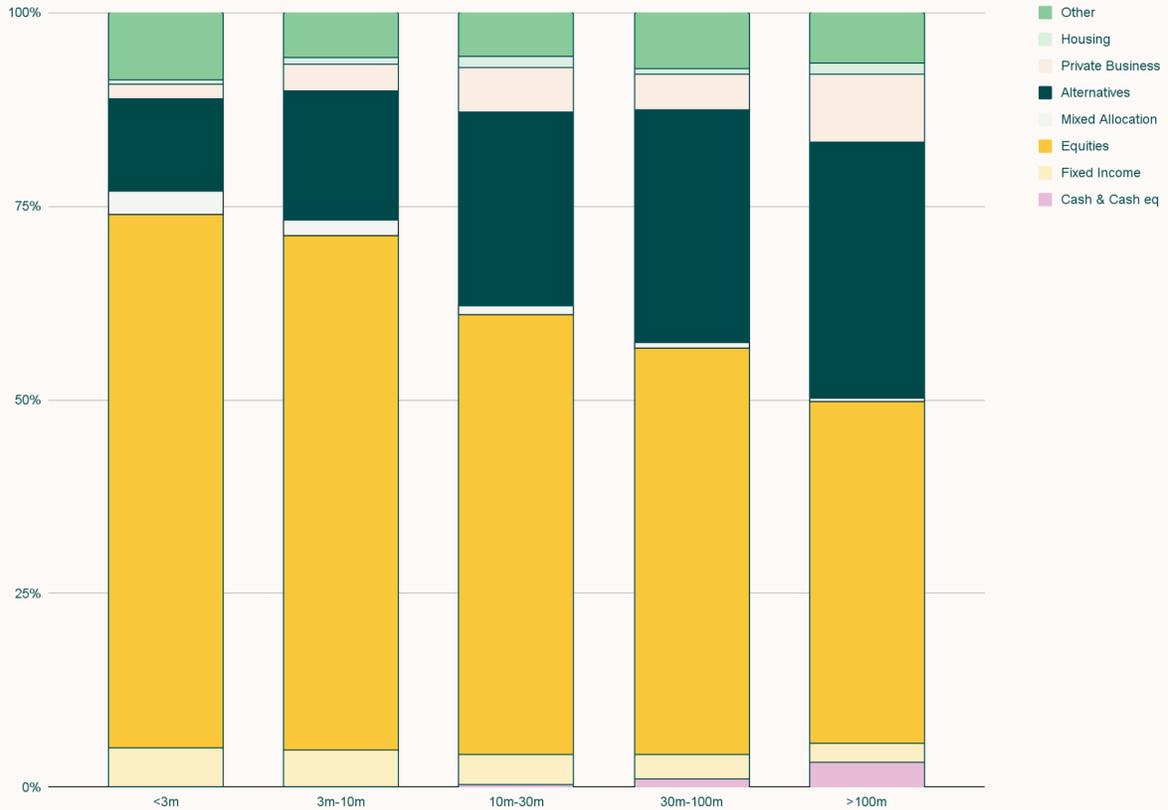
In Exhibit 6, we see a comparison of capital allocations versus risk-weighted allocations. The results may be surprising. While the capital-weighted portfolio appears to be roughly diversified, we see far less diversification in the risk-weighted view. In particular, equities and alternatives dominate the portfolio (82% of risk, combined) with very little allocated to fixed income (4%).

³ As shown in Appendix



Exhibit 7

Risk Allocation by Portfolio Size
Percent, Q1 2022

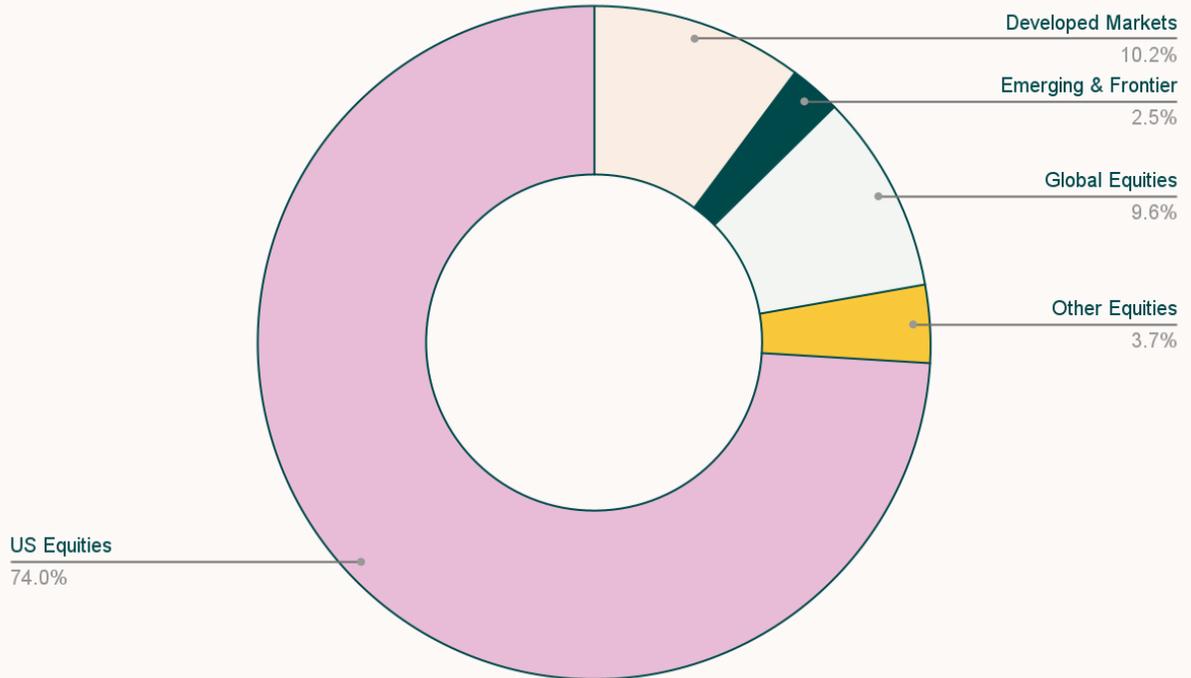


When analyze risk allocations across portfolio size, equity-dominated portfolios lead the way at smaller portfolio sizes. We also note progressively higher allocations to alternatives as portfolio size increases. This tracks with the general theme we described earlier of higher capital allocations to alternatives with an increase in portfolio size. Having said that, we notice that private equity and venture capital performance typically tracks the broader public equity market indices. Thus, overall portfolio performance may still be highly correlated with the broader equity markets.



Exhibit 8

Risk Allocation of Equities
Percent, Q1 2022

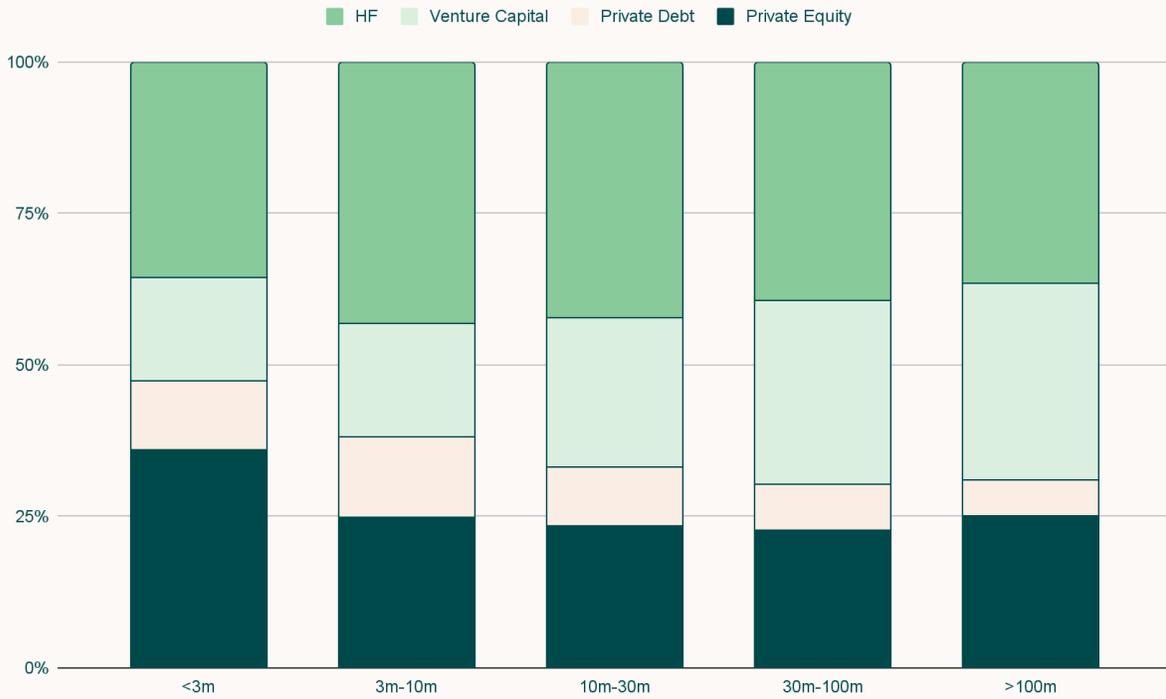


We observe that not only are investors concentrated in equities, but they are also particularly exposed to U.S. equities. This has served these portfolios well over the past ten years, as U.S. equities have outperformed. Whether this remains true in the future is a question for investors.



Exhibit 9

Alternatives Risk Allocation by Portfolio Size
Percent, Q1 2022



When we look at risk allocation to alternatives by portfolio size, we see modestly increasing allocations to venture capital with increasing portfolio size, and correspondingly lower allocations to hedge funds.

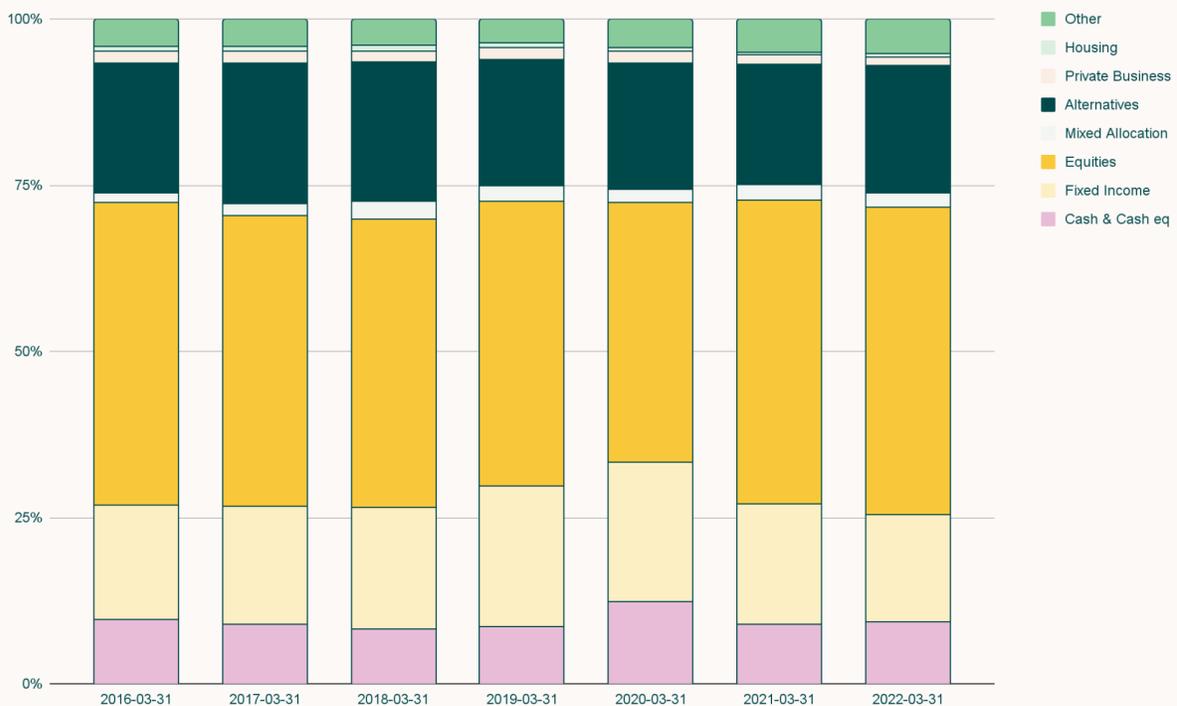


Asset Allocations Over Time

Below, we examine how asset allocations have changed from 2016 to 2022. Broadly, asset allocations have remained largely stable over time. We do see modestly increasing equity allocations since the beginning of the pandemic (39% to 46%). This is consistent with the impact of strong equity performance during this period (i.e., in lieu of rebalancing, stronger performing assets will naturally become a larger allocation within portfolios). We can also see that increased equity allocations generally came at the expense of smaller fixed income allocations.

Exhibit 10

Asset Allocations Over Time
Percent, Q1 2022



When we look at risk allocation to alternatives by portfolio size, we see modestly increasing allocations to venture capital with increasing portfolio size, and correspondingly lower allocations to hedge funds.



Asset Allocations Flows

Asset allocations change over time, based on a combination of (1) Investment flows into and out of individual assets (e.g., buying, selling) and (2) The investment performance of individual assets. In this section, we examine investment flows in isolation. Investment flows are highly informative due to the fact that they are an outcome of the investor decision-making process.

Flows are an “over-time” concept, and we’ve chosen a 3-month look-back period, balancing the need to capture flows over a significant period with the desire to focus on more recent information. In this note, we take a closer look at flows related to equity sectors because equities represent the largest asset class. In subsequent briefs, we’ll expand on flows among other asset classes.

The table below outlines net investor flows into and out of equities by Morningstar sector definitions. These flows represent individual equity positions without “looking through” into fund instruments, which may also hold equities (see below for fund flows). The values are “z-scores,” which are measures of how unusual a value is relative to past history (in this case, 2016–2022)⁴. Note that we have filtered out unusually large positions and portfolios to avoid skewing results.

As the reader can see, there were notable positive flows into the utilities sector, considered a defensive sector.

⁴ Z-scores (or “standard scores”) are defined as $z = (x - \mu) / \sigma$, where μ is the mean of the population and σ is the standard deviation of the population. In this case, we calculate the mean of quarterly flows (i.e., Buys–Sells) from Q1 2016 to Q1 2022. Similarly, the standard deviation is calculated based on quarterly flows over the same timeframe. For reference, a z-score with a magnitude larger than -1 or 1 has a probability of ~16%. A z-score with a magnitude larger than -2 or 2 has a probability of ~4%.



Exhibit 11

Equity Sector Flows

Z-Scores of Net Buying and Selling by Sector, Q2 2020–Q1 2022

	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1
Basic Materials	0.3	1.0	0.1	1.7	3.7	0.4	0.0	-0.5
Communication Services	-0.9	-1.2	-2.4	-2.4	-0.9	-0.7	-1.0	1.0
Consumer Cyclical	2.7	-0.3	-0.6	0.5	0.2	0.6	-3.3	-0.3
Consumer Defensive	-3.4	-1.0	0.1	0.2	-0.2	-1.6	1.0	1.5
Energy	-2.9	-1.1	-1.2	1.2	-0.8	0.9	0.7	0.1
Financial Services	-0.9	1.8	0.8	3.0	0.4	-0.2	-0.3	0.8
Healthcare	0.0	1.0	-0.5	0.4	0.4	0.3	-2.7	-0.8
Industrials	-3.2	0.0	-1.2	0.8	0.9	0.2	0.3	1.8
Real Estate	-1.3	1.9	0.2	-2.0	-0.5	0.6	0.5	0.6
Technology	-1.0	-0.4	-0.5	-0.8	-1.5	-2.5	-2.5	0.7
Utilities	-3.1	-0.4	-0.6	0.6	1.3	0.8	-0.4	2.5

We also examine net flows into and out of mutual funds and ETFs by Morningstar fund category. Again, we provide the data in terms of z-scores, which represent how unusual the size of the flow is relative to the history of that particular fund category.



Exhibit 12

Mutual Fund and ETF Flows

\$ Millions, Q2 2020–Q1 2022

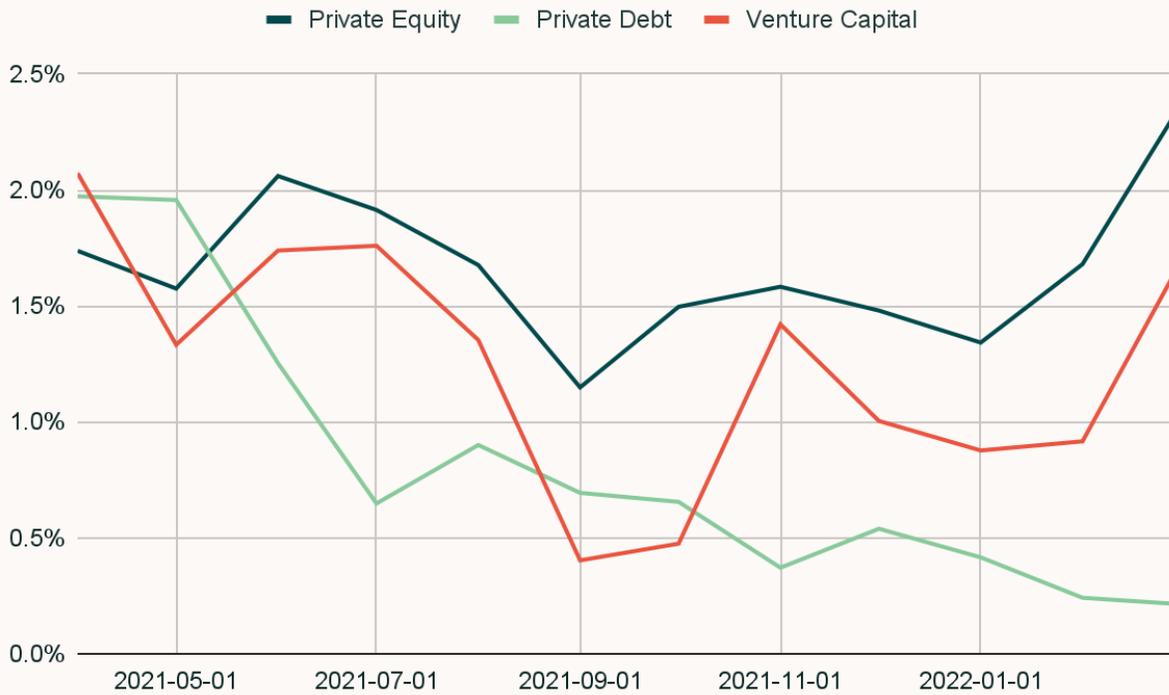
	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1
Allocation	-0.4	0.0	1.4	1.4	0.6	1.5	2.4	-0.2
Alternative	-1.1	0.0	0.7	1.2	0.7	1.8	1.6	1.8
Commodities	2.7	2.2	-0.7	1.0	1.0	-1.2	-1.2	1.7
International Equity	-2.6	0.1	1.1	2.1	1.6	0.8	1.9	-0.1
Miscellaneous	-0.6	2.3	-1.2	1.6	0.2	0.4	1.1	-1.1
Municipal Bond	0.5	0.9	1.0	1.2	-1.8	0.6	0.4	-3.2
Nontraditional Equity	-0.4	0.6	0.0	0.7	0.4	0.4	1.4	2.2
Sector Equity	-0.5	-0.1	1.9	2.2	1.7	1.0	1.6	-2.0
Taxable Bond	2.2	1.6	1.0	1.5	0.0	1.3	-1.1	-1.5
U.S. Equity	-1.6	-0.9	0.9	1.1	1.1	0.6	3.1	1.6

Here, we see unusually large flows out of municipal bond funds. And we see large inflows into alternative, commodities, and nontraditional equity funds. We saw significant drawdowns in equities and bonds and gains in commodities in Q1 2022.



Exhibit 13

Net Commitments (New Commitments, Minus Distributions and Redemptions)
 6-month moving average
 Q2 2021–Q1 2022

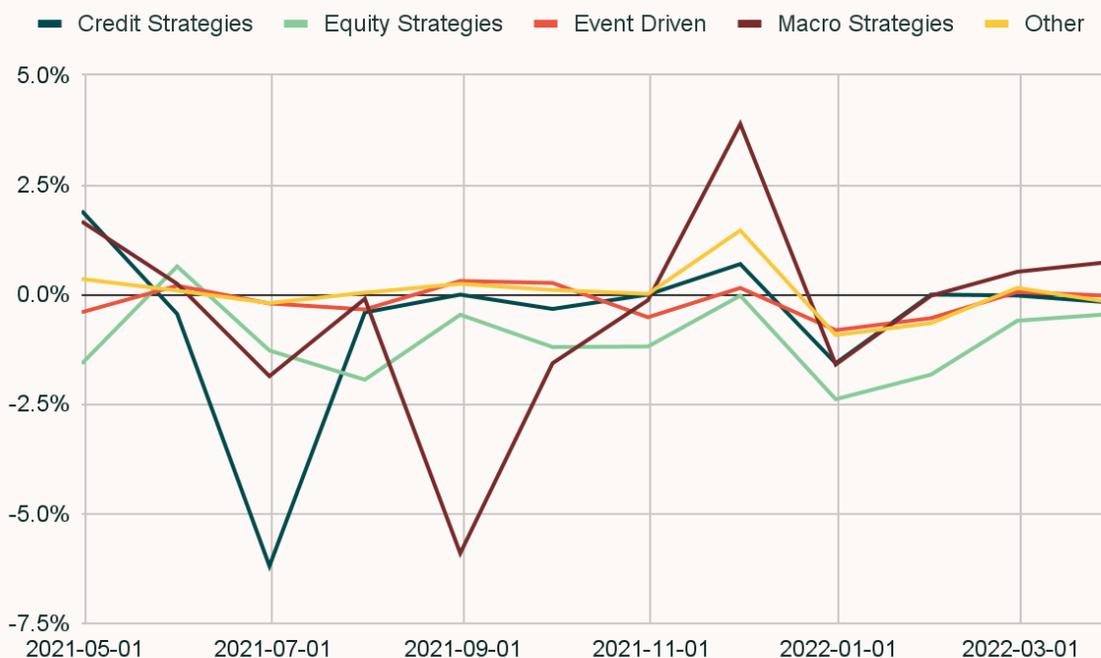


Finally, we look at net new commitments, which are the sum of new commitments to funds minus fund redemptions and distributions as a percentage of the position. Commitments in private equity and venture have been increasing, which should flow through to increased allocations over time.



Exhibit 14

Hedge Fund Net Contributions (New Contributions, Minus Distributions and Redemptions)
Q2 2021–Q1 2022



Conclusion

In this research note, we’ve provided a range of views and transparency into the asset allocations on the Addepar platform:

- Dollar-weighted allocations
- Risk-weighted allocations
- Investor flows

We hope this transparency is helpful to investors utilizing our platform. As noted, we’ll be publishing updated versions of this note each quarter to provide timely data and also include deeper dives into selected topics of interest. Additionally, look for the companion piece we’re publishing on Q2 2022 investment performance based on the same \$3.5 trillion dataset.

Please email research@addepar.com if you have any thoughts or suggestions on how this publication can be improved.



Appendix

Asset Classifications

Asset class	Sub-asset class
Cash	Cash Cash equivalents
Fixed income	U.S. Treasuries and Agencies U.S. TIPS U.S. investment-grade credit U.S. high yield U.S. bank loans International developed markets Emerging markets Opportunistic Other fixed income Unknown fixed income U.S. municipals/tax exempt
Equities	U.S. equities Global equities Developed markets–Americas Developed markets–EMEA Developed markets–Asia Pacific Emerging & frontier markets Other equities Concentrated equity positions Unknown equities
Mixed allocation	Asset allocation vehicles Held-away accounts
Alternatives	Hedge funds Concentrated alts positions Private equity & venture Real estate funds Other alts Unknown alts
Private business	Direct private companies
Direct real estate	Direct real estate
Other	Collectibles Direct loans Unknown Liability



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