

# Introducing Portfolio Performance

## Takeaways

- **New research note:** This is the first in a regular series of notes from Addepar Research outlining aggregate performance of portfolios.
- **Unique data:** This report is notable in that it's not based on survey results, but rather draws on performance data from the \$3.5 trillion of assets we have on the Addepar platform.
- **Equities and alts lead:** Most portfolios on the platform have had strong performance since Q2 2021, with alternatives and equities driving returns.
- **Returns proportionate to risk:** On a risk-adjusted basis, most asset classes (except for fixed income) had a fairly comparable performance.
- **New Year's hangover:** Though trailing performance over the past year has been strong, year-to-date performance in 2022 has been weak, with the average client in a 4% drawdown from their year-end 2021 peak.

## 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—leveraging the power of the Addepar network to improve collective performance.

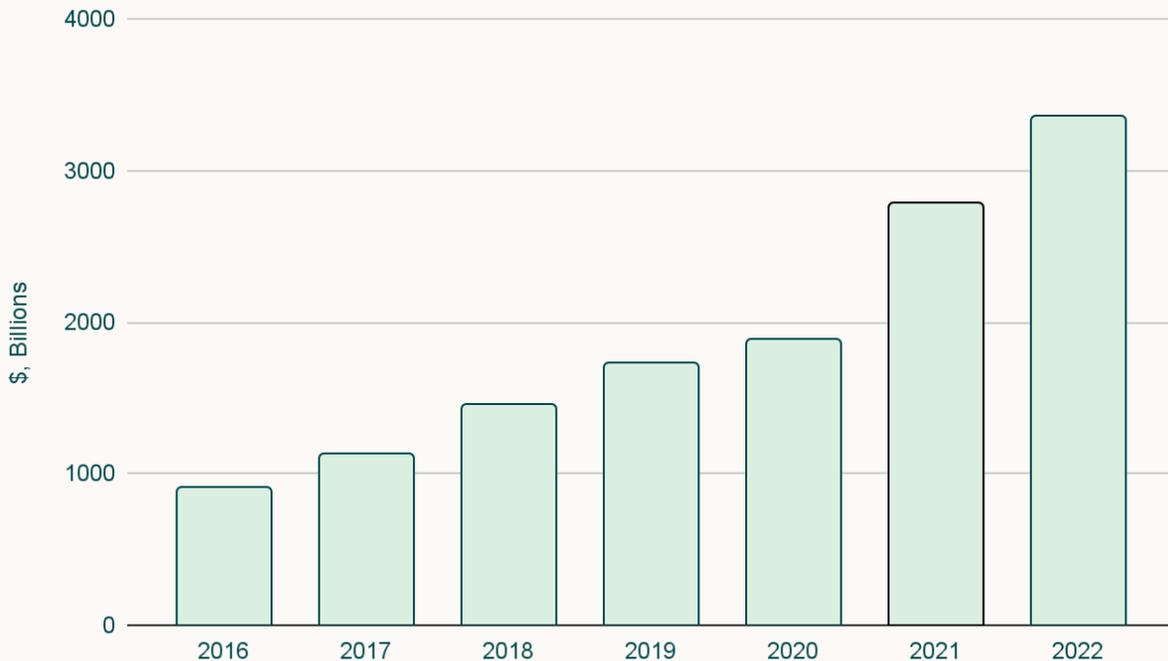


The platform natively supports all ownable asset categories, with a particular focus on alternative asset classes such as hedge funds and private equity. In this analysis, we focus on assets of independent registered investment advisors (RIAs) and single family offices (SFOs). This subset of the assets represents over 90,000 portfolios with more than \$3 trillion in assets (see Exhibit 1).

**Exhibit 1**

RIA and SFO Assets Reported on Addepar USD

\$, Billions<sup>1</sup>



The unique breadth and depth of the dataset generated by the Addepar platform offers transparency into the investment themes and trends of sophisticated high-net-worth (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.

<sup>1</sup> All analyses shown in the report exclude individual investments that exceed \$1 billion in value along with very small and very large portfolios. This avoids introducing significant skew into the results.



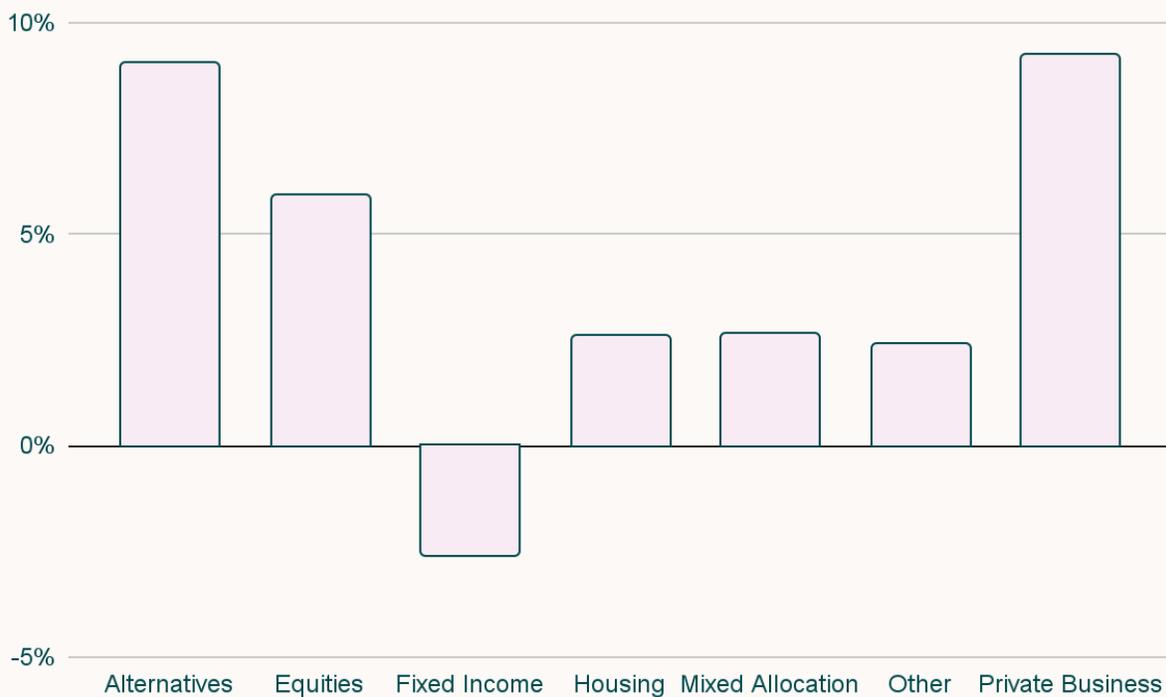
The goal of this particular report is to provide transparency into portfolio performance across the platform. While this is the first time we’ve published this data, we plan to provide updates on a quarterly basis. We’ll also regularly publish companion pieces that focus on [asset allocation](#).

## Performance Q2 2021–Q1 2022

We start by examining the average performance by asset class (see Exhibit 2) for the previous year.

### Exhibit 2

Aggregate Performance by Asset Class  
Percent, Q2 2021–Q1 2022



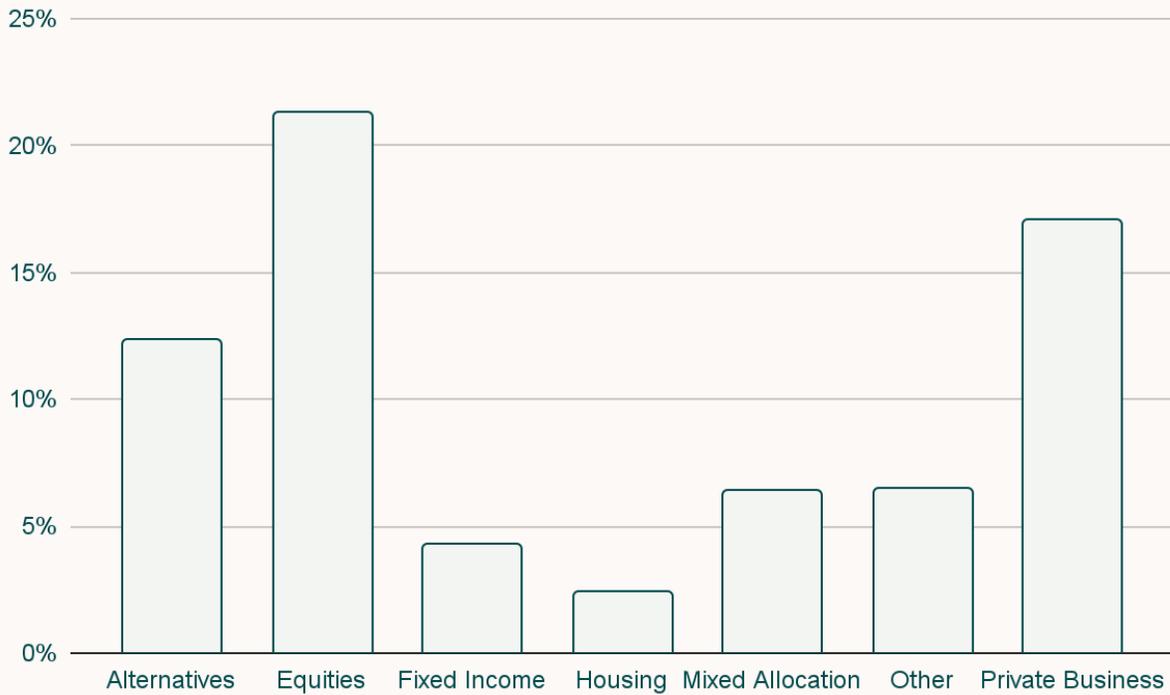
All the data shown excludes portfolios with individual investments that exceed \$1 billion in value. The two asset classes with significant outperformance from Q2 2021–Q1 2022 were equities and alternatives. These also tended to be the riskiest asset classes (see Exhibit 3). Fixed income was the only losing asset class, because rising inflation and growing expectations of monetary tightening have taken their toll on bonds.



In both of the public markets where we compare portfolio performance to benchmarks<sup>2</sup>, Addepar's portfolio performance was more muted in magnitude.

**Exhibit 3**

Aggregate Risk by Asset Class  
Percent, Q2 2021–Q1 2022



Asset class riskiness (the average monthly standard deviation of returns, annualized) lined up in typical fashion, with equities, alternatives and private businesses as the riskiest asset classes and fixed income and housing as the least-risky ones.

<sup>2</sup> We use the S&P 500 and the Bloomberg U.S. Aggregate for equity and fixed income benchmarks, respectively.



Although the average return was lower (in magnitude) for client portfolios than for benchmark portfolios in public markets, average riskiness was higher, because the typical client portfolio is more concentrated than the benchmarks.

On a risk-adjusted basis, performance was more consistent across asset classes (see Exhibit 4):

**Exhibit 4**

Sharpe Ratio by Asset Class  
Percent, Q2 2021–Q1 2022



With the exception of fixed income, which faced negative macro headwinds, and cash, most assets had fairly strong and comparable risk-adjusted performance in aggregate over the past year.



# Performance by Portfolio Type

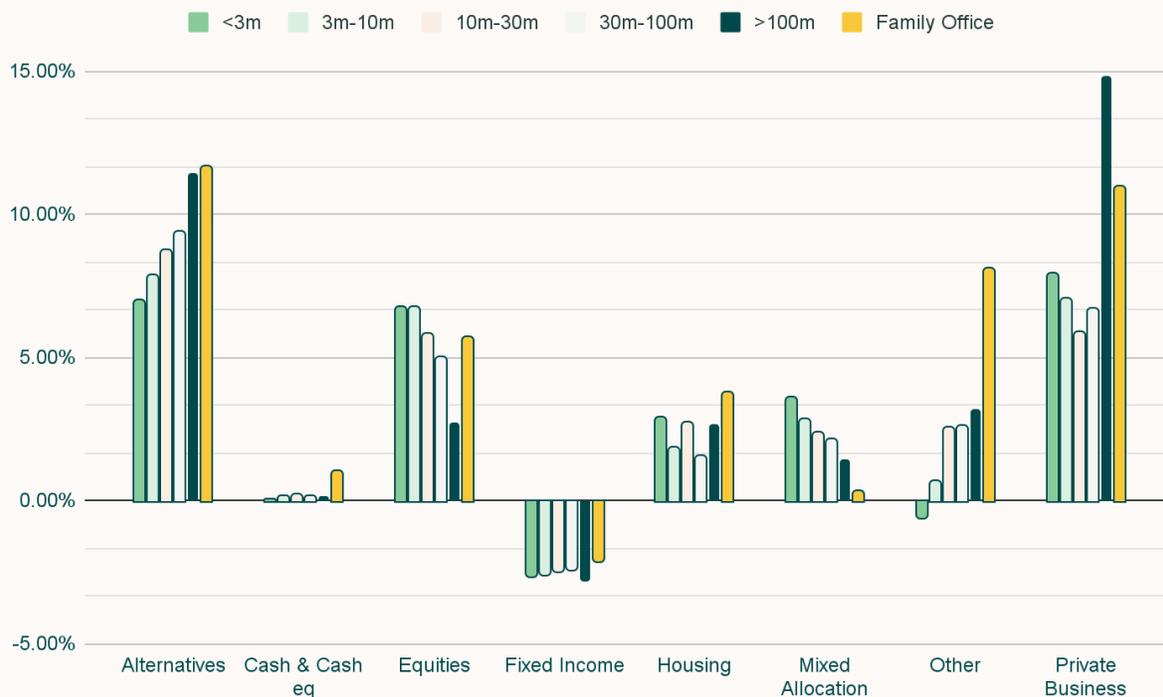
Aggregate performance was fairly consistent across most asset classes in Q2 2021–Q1 2022, but different classes of investors experienced divergent outcomes.

In general, the very largest portfolios tended to achieve outperformance in alternatives, while smaller portfolios outperformed in public equities (except for family offices).

## Exhibit 5

### Performance by Portfolio Size/Type

Percent, Q2 2021–Q1 2022



This difference in return in public equities is unexpected and cuts against the general trend we’ve seen of larger investors outperforming. We examine this further by looking at returns by sector, where relative negative performance for the largest portfolios is replicated across most sectors.



**Exhibit 6**

Equity Returns by Sector  
Percent, Q2 2021–Q1 2022

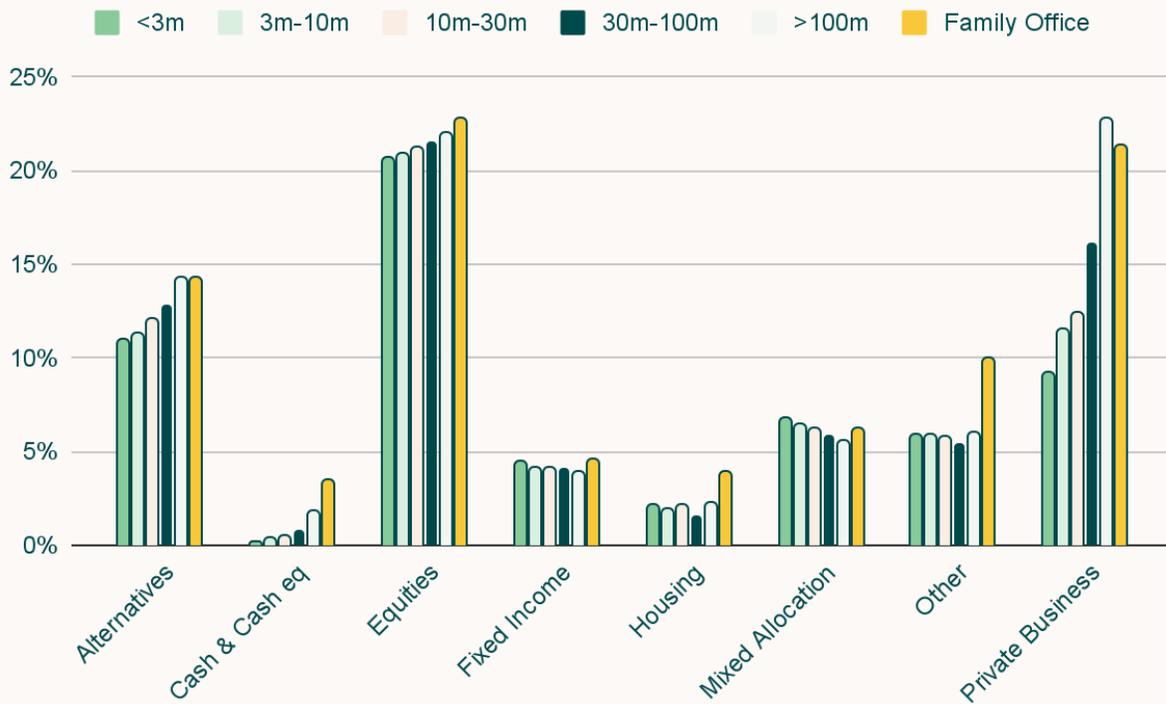


Zooming out to the asset-class level, while it's true that the largest investors tended to take a bit more risk in their portfolios (see Exhibit 7), the scope of the outperformance exceeds that of the risk differential (see Exhibit 8).



**Exhibit 7**

Aggregate Risk by Asset Class & Portfolio Size/Type  
Percent, Q2 2021–Q1 2022

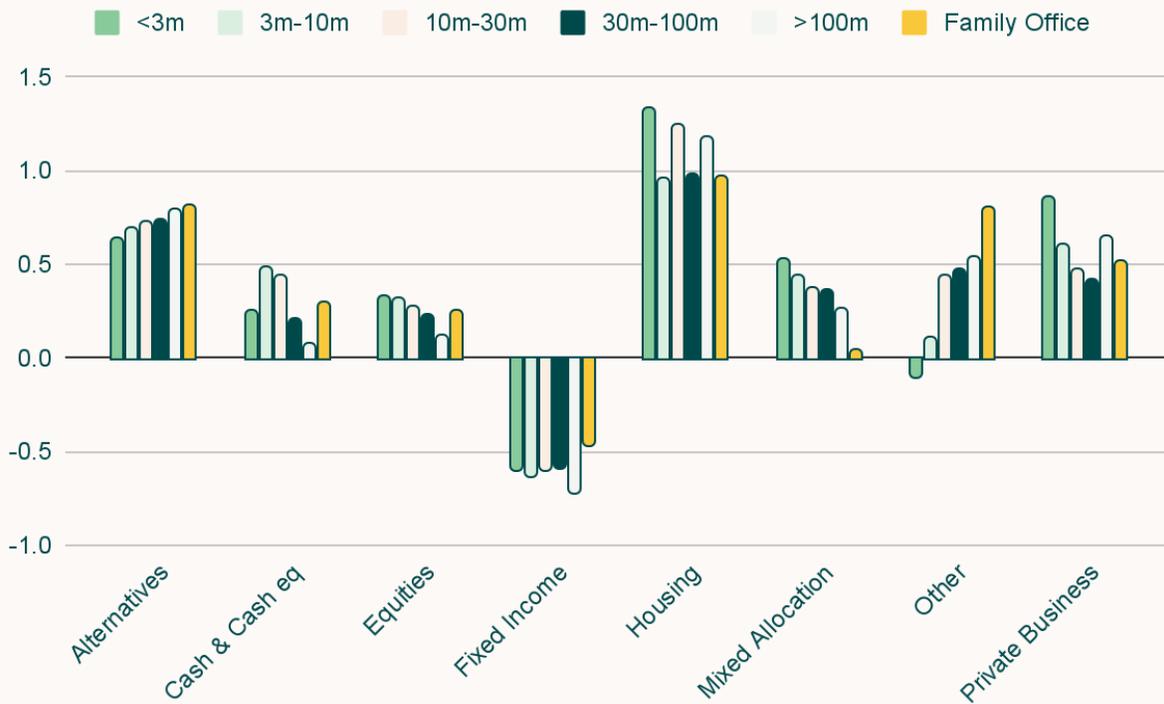


In Sharpe ratio terms, there’s less of a clear pattern aside from the tendency of larger investors to perform better in alternatives. Note that while equities were the best returning asset class, on a risk-adjusted basis, alts and housing performed the strongest, while equities were more in line with other holdings.



**Exhibit 8**

Sharpe Ratio by Asset Class  
Percent, Q2 2021–Q1 2022



While performance was fairly similar across asset classes, the correlation structure varied greatly. Fixed income and housing were meaningfully less correlated than other asset classes (although still quite positive), while alternatives and equities were extremely well-correlated (which is to be expected, as private equity, the largest alternatives sub-component, is more or less levered equity beta in aggregate).

**Exhibit 9****Correlation Across Asset Classes<sup>3</sup>  
Percent, Q2 2021–Q1 2022**

	Alternatives	Cash & Cash eq	Equities	Fixed Income	Housing	Mixed Allocation	Other	Private Business
Alternatives	1.00	0.79	0.81	0.54	0.69	0.81	0.93	0.85
Cash & Cash eq	0.79	1.00	0.82	0.76	0.49	0.94	0.92	0.63
Equities	0.81	0.82	1.00	0.56	0.40	0.95	0.84	0.70
Fixed Income	0.54	0.76	0.56	1.00	0.02	0.70	0.78	0.59
Housing	0.69	0.49	0.40	0.02	1.00	0.42	0.52	0.38
Mixed Allocation	0.81	0.94	0.95	0.70	0.42	1.00	0.92	0.64
Other	0.93	0.92	0.84	0.78	0.52	0.92	1.00	0.79
Private Business	0.85	0.63	0.70	0.59	0.38	0.64	0.79	1.00

While performance was fairly similar across asset classes, the correlation structure varied a lot. Fixed income and housing were meaningfully less correlated than other asset classes (although still quite positive), while alternatives and equities were extremely well-correlated (which is to be expected, as private equity, the largest alternatives sub-component, is more or less levered equity beta in aggregate).

<sup>3</sup> To construct this table, we calculated the correlation of the mean monthly return by asset class for each Addepar portfolio (unweighted) over the past twelve months (April 2021–March 2022).

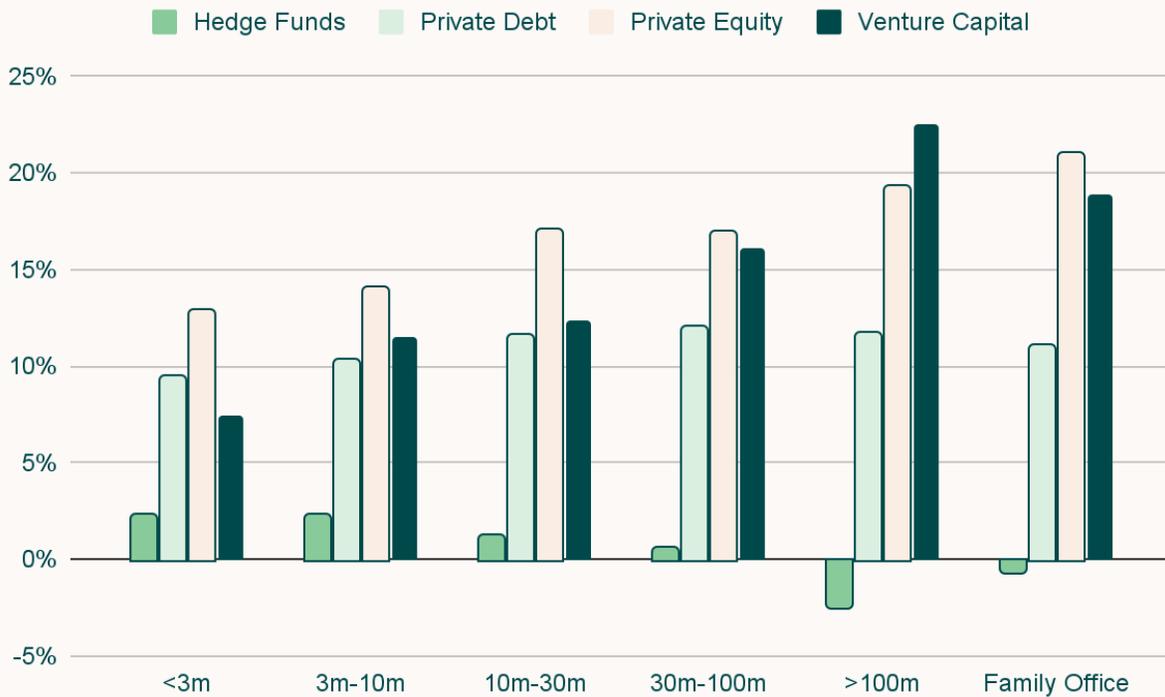


# Sub-asset Class Performance: Alts

While performance across alts was generally strong, private equity and venture capital substantially outperformed all other categories across most portfolios. Hedge funds had significantly worse performance than other alternative strategies.

## Exhibit 10

Performance of Alts by Portfolio Type  
Percent, Q2 2021–Q1 2022

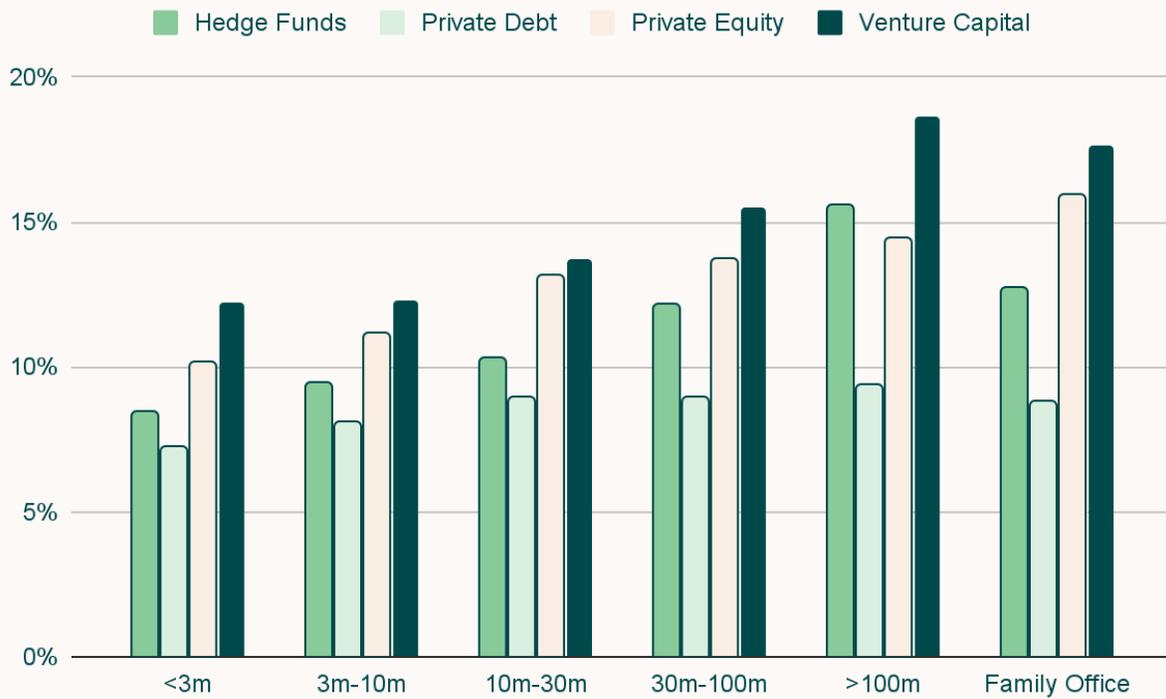


In terms of risk, PE & VC risk was only modestly higher than other categories (although the illiquidity of PE & VC assets probably means the measured market-to-market risk understates the true risk of these assets).



**Exhibit 11**

Risk of Alts by Portfolio Type  
Percent, Q2 2021–Q1 2022

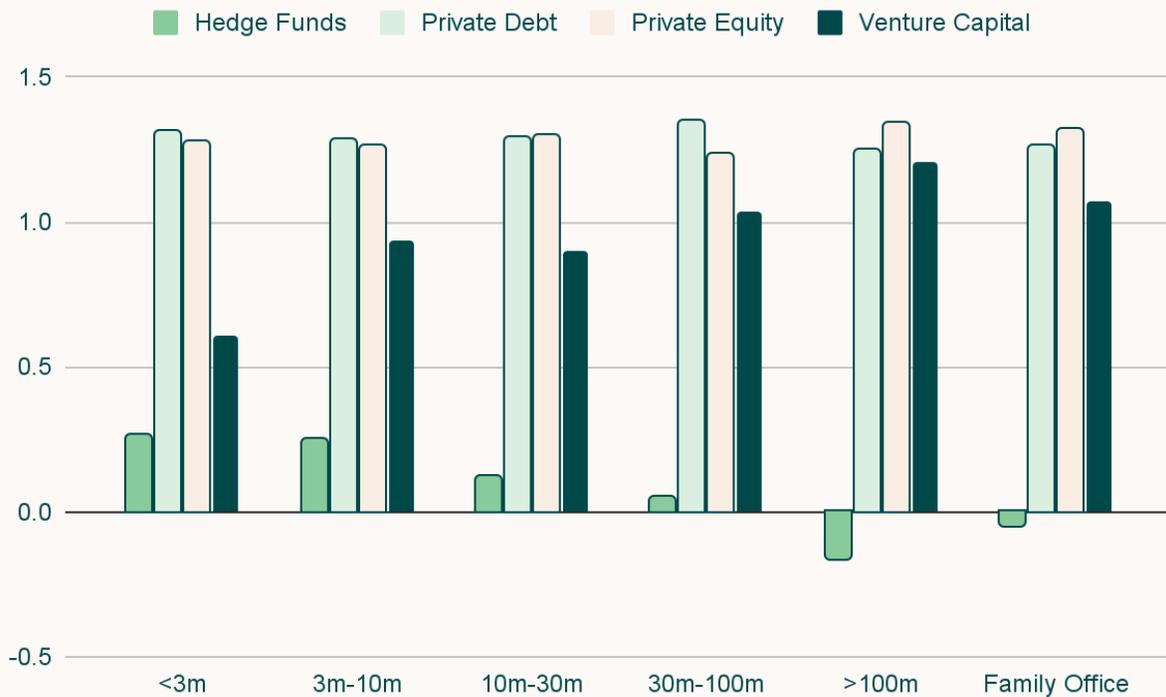


On a risk-adjusted basis, private debt was comparable to private equity and venture capital, while hedge fund performance was more or less flat.



**Exhibit 12**

Sharpe of Alts by Portfolio Type  
Percent, Q2 2021–Q1 2022



On a risk-adjusted basis, private debt was comparable to private equity and venture capital, while hedge fund performance was more or less flat.

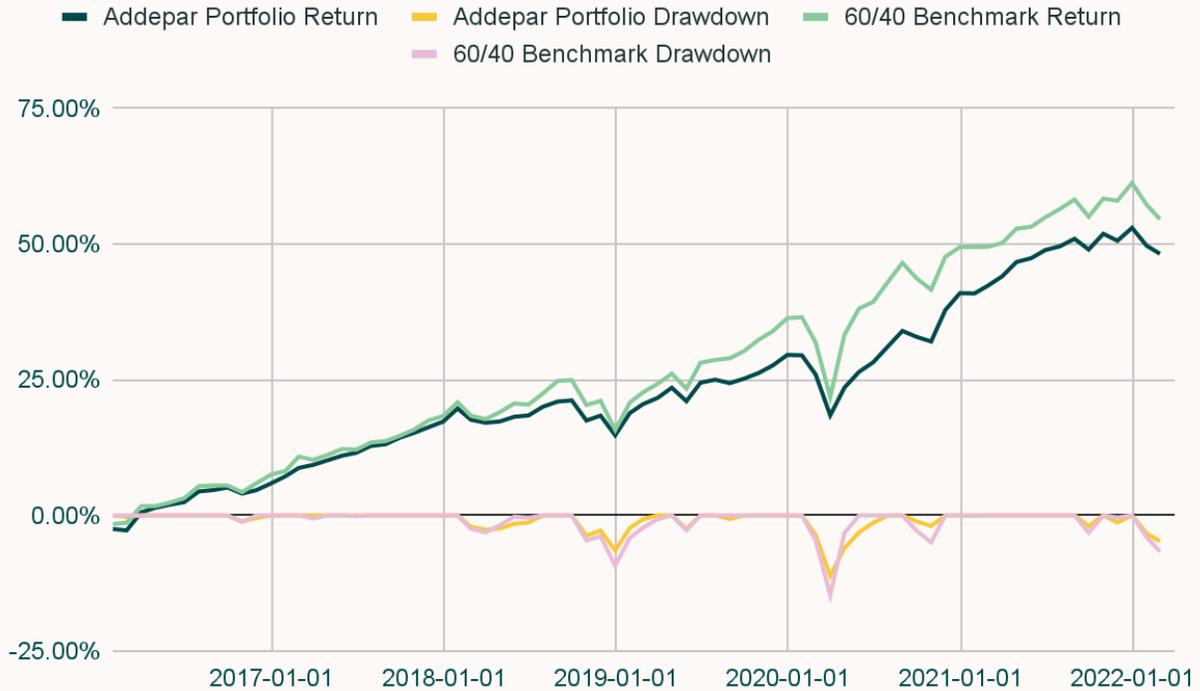
## Cumulative Performance

Performance was fairly strong across all asset classes from Q2 2021 to Q1 2022 (except fixed income), but this positive performance was concentrated in early to mid-2021. From late 2021 to the present, many investors have had mediocre performance and the average investor is in a 4% drawdown for the first quarter of 2022.



**Exhibit 13**

Cumulative Performance  
Percent, Q2 2021–Q1 2022



While the current level of inflation in the developed world is unprecedented in recent decades, we did experience a bout of quantitative tightening in 2017–2019. That period led to a drawdown for about a year, peaking at -6% for client portfolios and -9% for 60/40 benchmark portfolios.

## Conclusion

We’ve provided a range of views and transparency into the performance of portfolios on the Addepar platform. As we mentioned, we’ll be publishing updates to these views on a quarterly basis. And also as noted, you’re invited to also see our companion piece on Q1 2022 portfolio positioning.

Please email [research@addepar.com](mailto: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
<b>Cash</b>	Cash Cash equivalents
<b>Fixed income</b>	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
<b>Equities</b>	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
<b>Mixed allocation</b>	Asset allocation vehicles Held-away accounts
<b>Alternatives</b>	Hedge funds Concentrated alts positions Private equity & venture Real estate funds Other alts Unknown alts
<b>Private business</b>	Direct private companies
<b>Direct real estate</b>	Direct real estate
<b>Other</b>	Collectibles Direct loans Unknown Liability



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