

# Signs of Mild Derisking

## Takeaways

- Asset allocations have remained fairly consistent over the last 5 years, with an average 2% increase in allocations to low-risk assets including cash and fixed income. 2% inflows into cash and outflows from liquid risky assets (stocks and bonds) corroborates the shifts in asset allocation.
- In Q3, portfolios moderately shifted out of each equity sector, except for European utilities. Flows into the utility sector coincided with the European energy crisis.
- Commitments towards private capital continued to be strong in Q3, particularly in private equity and venture capital. However, private debt net commitments have become negligible. Simultaneous flows into fixed income securities may indicate reallocation from private to public market debt.

## 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 this 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.

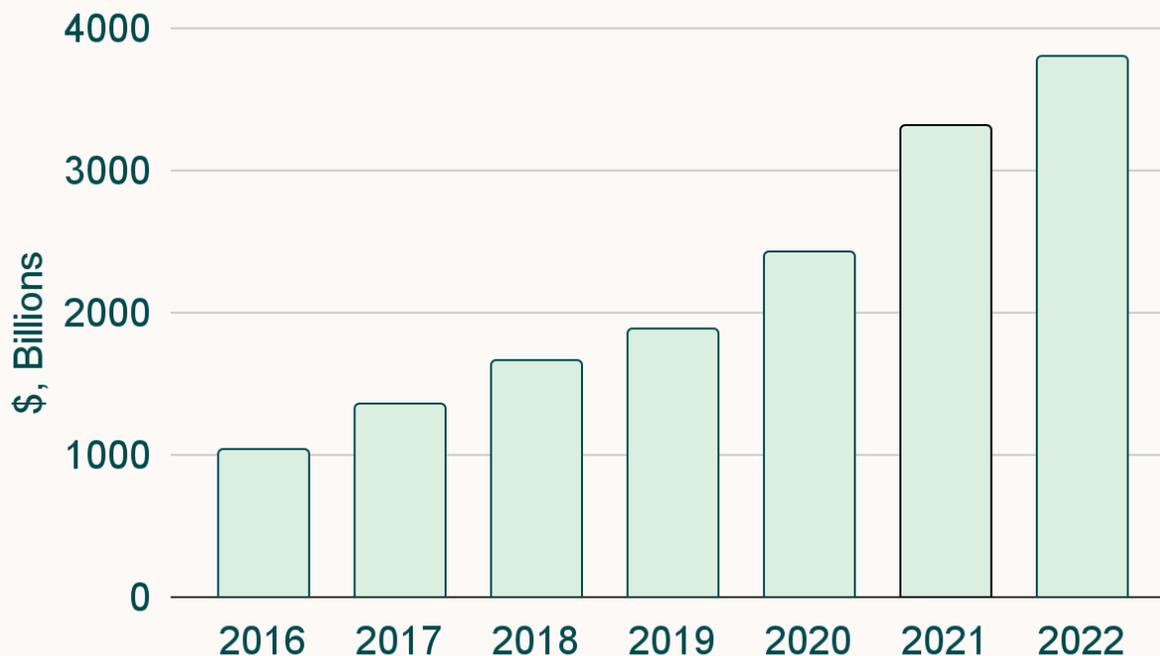
The platform natively supports all ownable asset categories, with a particular focus on alternative asset classes such as hedge funds and private equity. In this analysis, we focus on assets of independent registered investment advisors (RIAs) and single family offices (SFOs). This subset represents more than 275,000 portfolios with almost \$4 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.

## Asset Allocations Over Time

Per Exhibit 2, average asset allocation of portfolios across the platform have shifted very modestly both over the quarter and the previous year. **Year over year, allocations to cash and fixed income have each increased modestly by 2%, while equities decreased by 2%.**

<sup>1</sup> 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.



**Exhibit 2**

Aggregate Asset Allocation  
Percent, Q3 2022

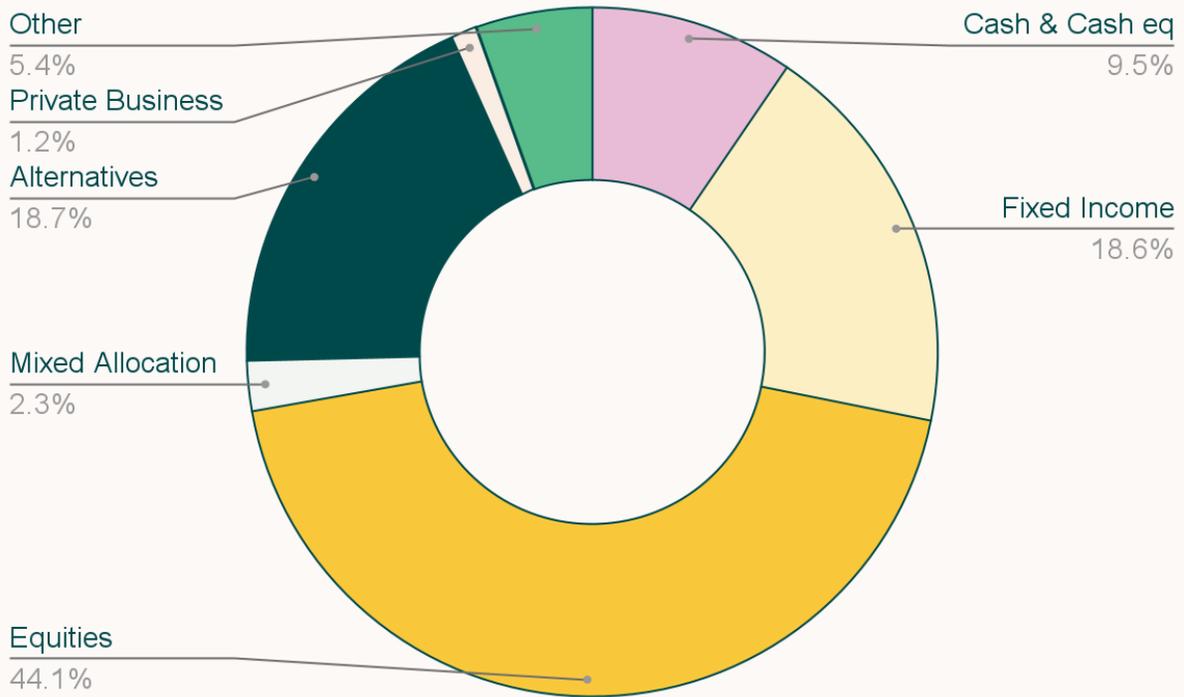


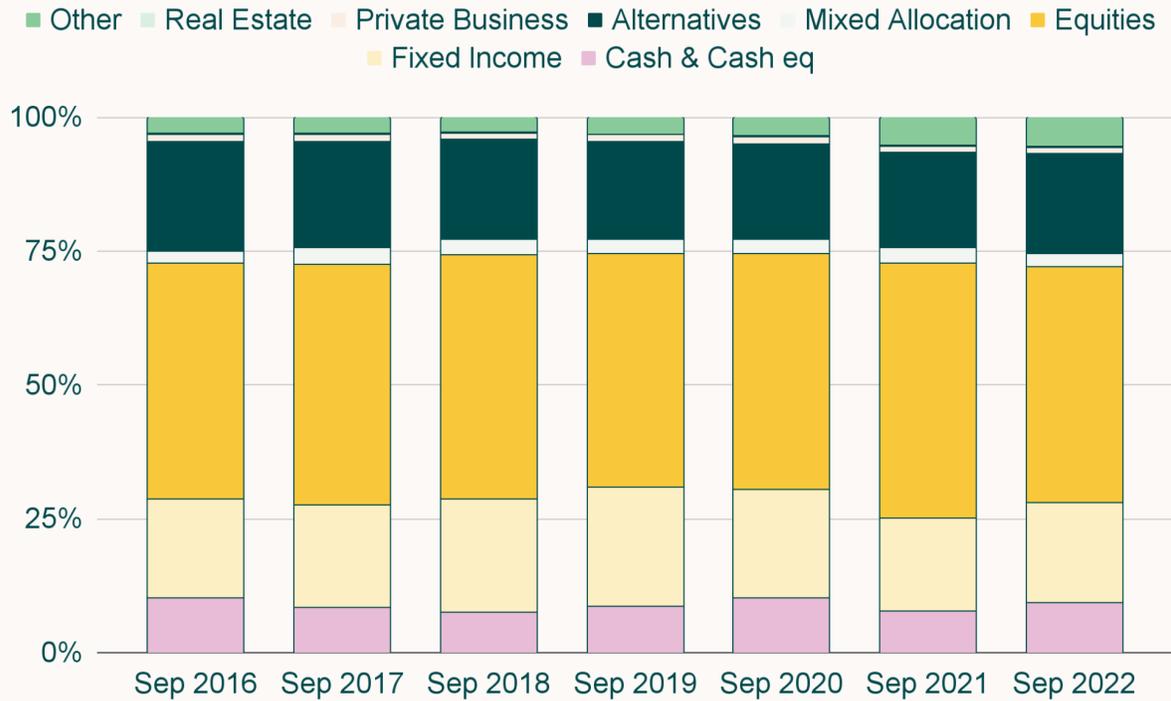
Exhibit 3 presents a snapshot of average asset allocations on the platform every Q3 since 2016. **Throughout history and despite recent market turbulence, asset allocations have remained centered on their long-term trends, never moving more than 3% above or below their long-term average.** As of Q3 2022, the public equities class is 0.8% below and fixed income is 1.0% below their respective long-run averages, while cash is 0.6% above its average over time.



**Exhibit 3**

Asset Allocations over Time

Percent, Q3 2022

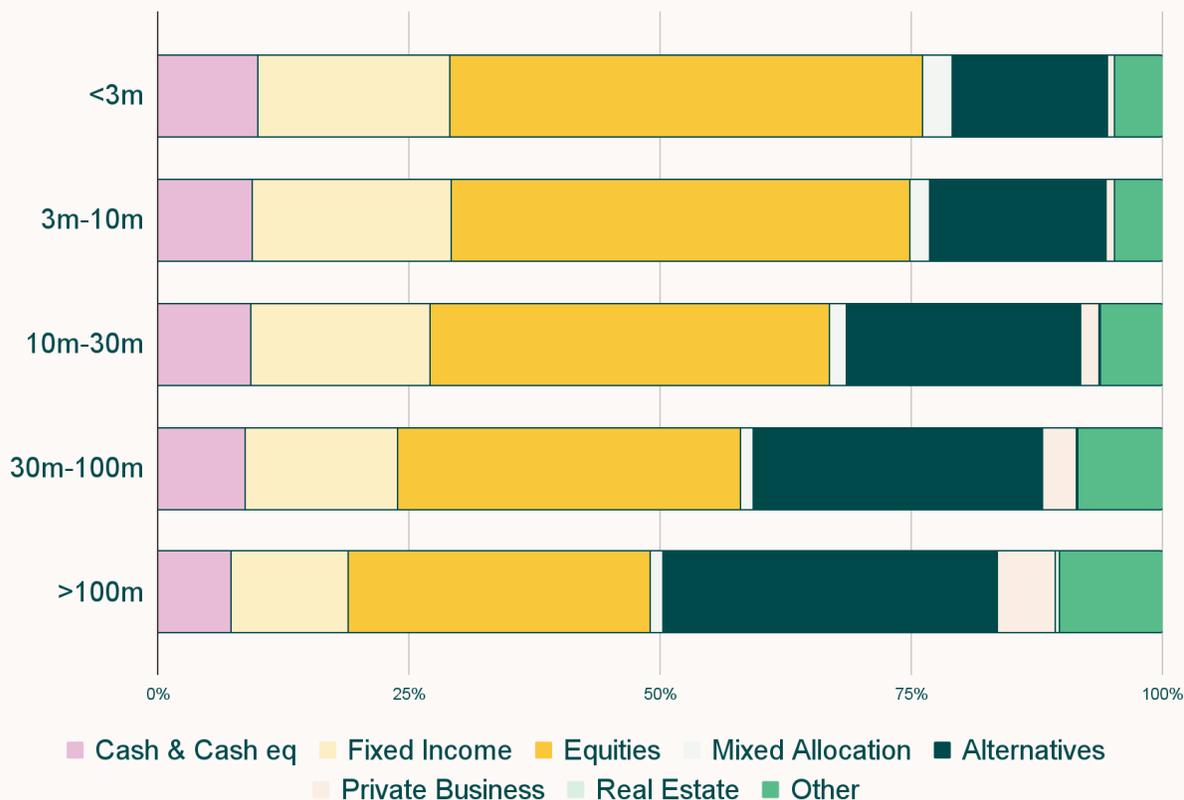


Addepar is used by a diverse set of investors. One dimension we examine is how asset allocations differ by the size of their portfolio (see Exhibit 4). We see that larger portfolios have proportionally smaller allocations to public equities and larger allocations to alternatives. This trend continued to be true this quarter.



**Exhibit 4**

Asset Allocation by Portfolio Size  
Percent, Q3 2022



## Recent Trends in Investment 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 because they provide insight into the investor decision-making process. Our methodology was influenced by work that Professor Ralph Koijen of the University Chicago Booth School of Business and Professor Xavier Gabaix of Harvard University have done with the Addepar dataset. Their work can be found [here](#) for interested readers. Please see Appendix B for methodology details on our flows analysis.

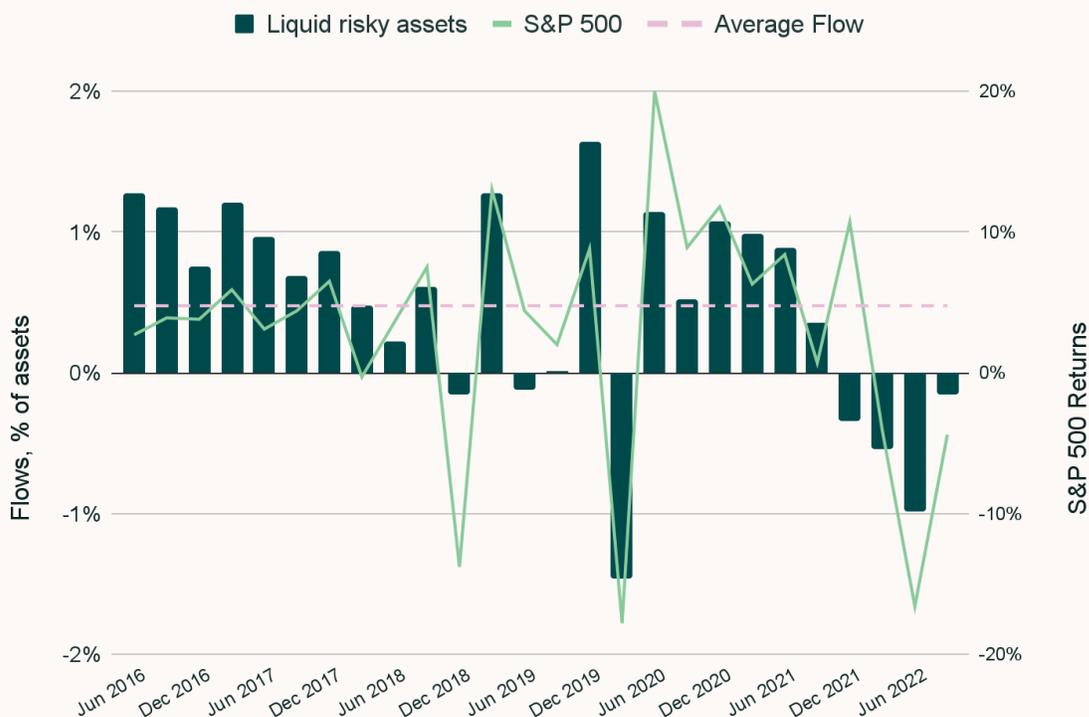


Exhibit 5 shows average quarterly flows to liquid risky assets<sup>2</sup> compared to returns on the S&P 500 from Q2 2016 through Q3 2022. **Risky assets saw aggregate 2% outflows relative to total assets since Q4 2021, bucking long-term trends.** Flows to liquid risk asset classes were mostly positive over this time (0.48% average flow per quarter), with notable exceptions occurring during the Covid crash of Q1 2020 as well as during the past four quarters.

Interestingly—and as we examine in our companion Investor Sentiment Index research note—flows to risky assets have relatively consistently tracked returns of the S&P 500 since Q2 2016 (correlation  $\rho = 0.76$ ). This implies that **in aggregate, portfolios sell liquid risk assets during market downturns and thus amplify price fluctuations of riskier assets.** One very notable exception is Q4 2021, when portfolios had outflows ahead of the start of the market drawdown. We'll continue to monitor for similar discrepancies from past behavior and report on them here.

**Exhibit 5**

Flows to Liquid Risky Assets vs. S&P 500 Performance  
Percent of Total Assets, Q2 2016–Q3 2022



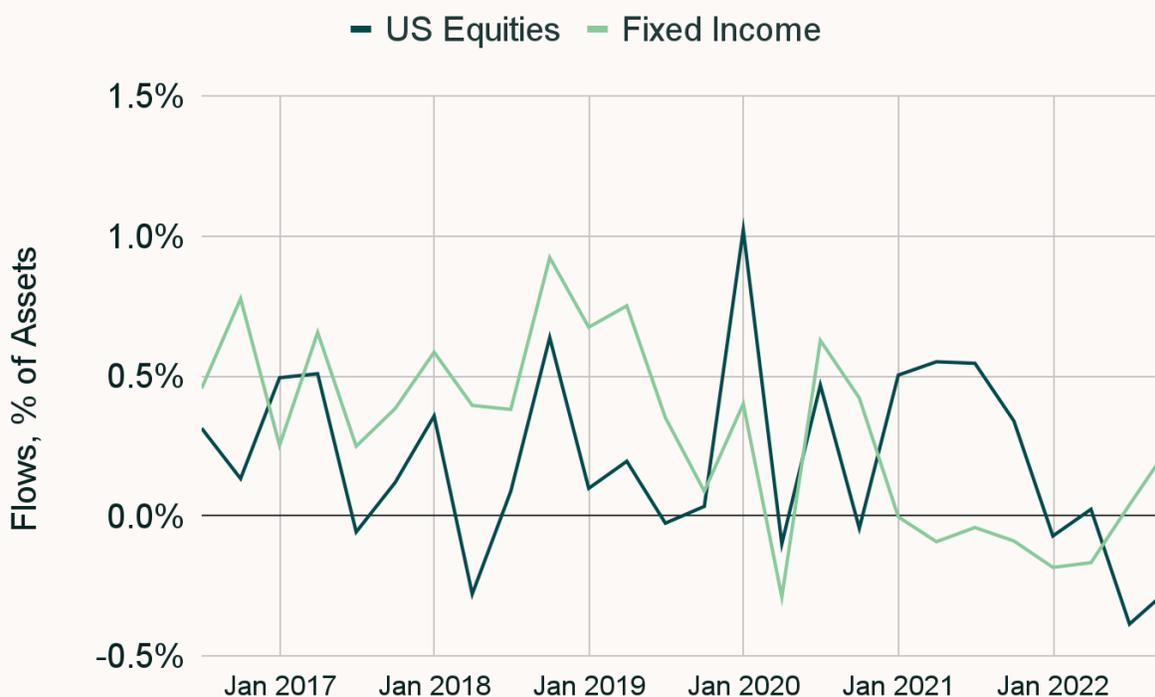
<sup>2</sup> We define liquid risky assets as public equities and highly liquid government and corporate bonds.



Exhibit 6 presents quarterly portfolio flows to fixed income and U.S. equities dating back to Q2 2016. **Over the past year, flows toward U.S. equities have been sharply negative during Q2 2022, experiencing the largest quarterly outflow in recent history.** After a prolonged period of outflows in fixed income, they turned positive in Q2 and in Q3 2022, reaching their highest level since Q3 2020.

**Exhibit 6**

Flow to U.S. Equities and Fixed Income  
Percent of Total Assets, Q2 2016–Q3 2022



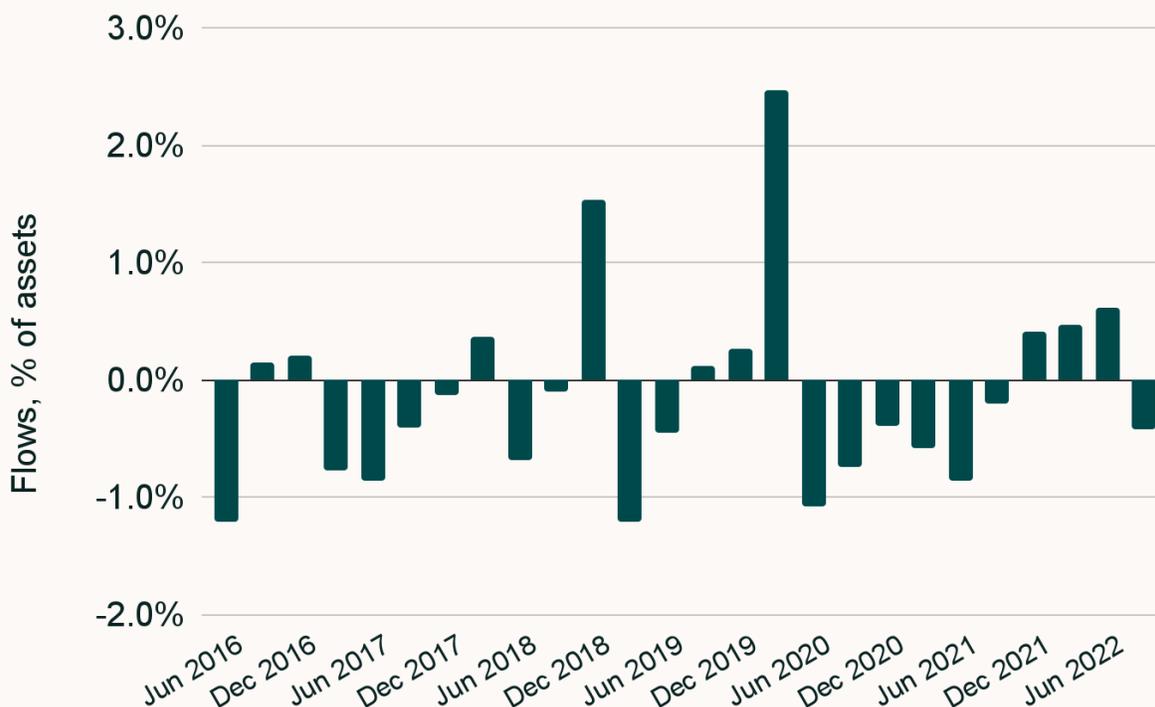
**While there have been outflows from risk assets in recent quarters, there have been inflows into cash. These inflows have amounted to 1% of total assets since Q4 2021.** As Exhibit 7 shows, we have seen material positive flows into cash only during significant market stress including Q4 2018, Q1 2020 and much of the 2022 drawdown.



Exhibit 7

Flows into Cash

Percent of Total Assets, Q2 2016–Q3 2022



## Sector Flows

In Exhibit 8, we present equity sector flows in Z-score terms<sup>3</sup> for Q3 2022. During the third quarter, **most equity sectors saw lower-than-average flows, with the exception of utilities.** In particular, growth-oriented sectors such as consumer cyclicals and technology experienced the largest outflows relative to their historical averages.

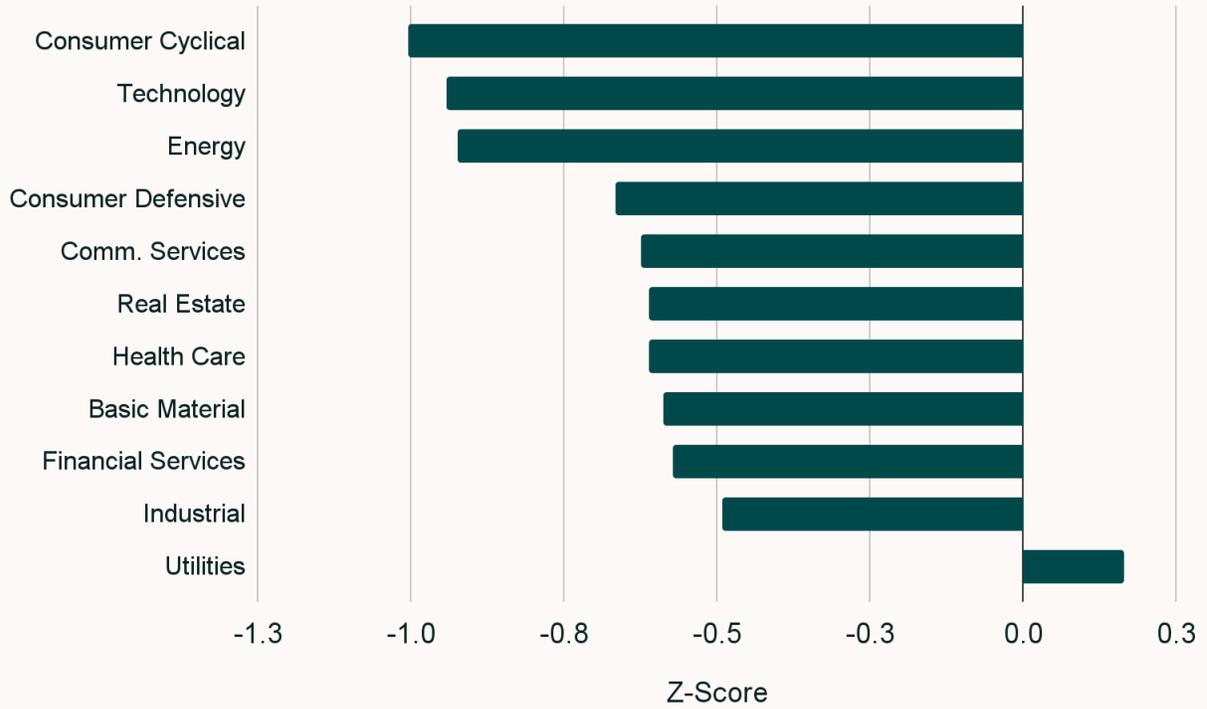
<sup>3</sup> “Z-scores” are a measure of how unusual a value is relative to its past history. These scores also make it easier to compare sectors that are different sizes. A complete technical definition of Z-score is available in the Appendix.



**Exhibit 8**

Equity Sector Z-Scores

Q3 2022

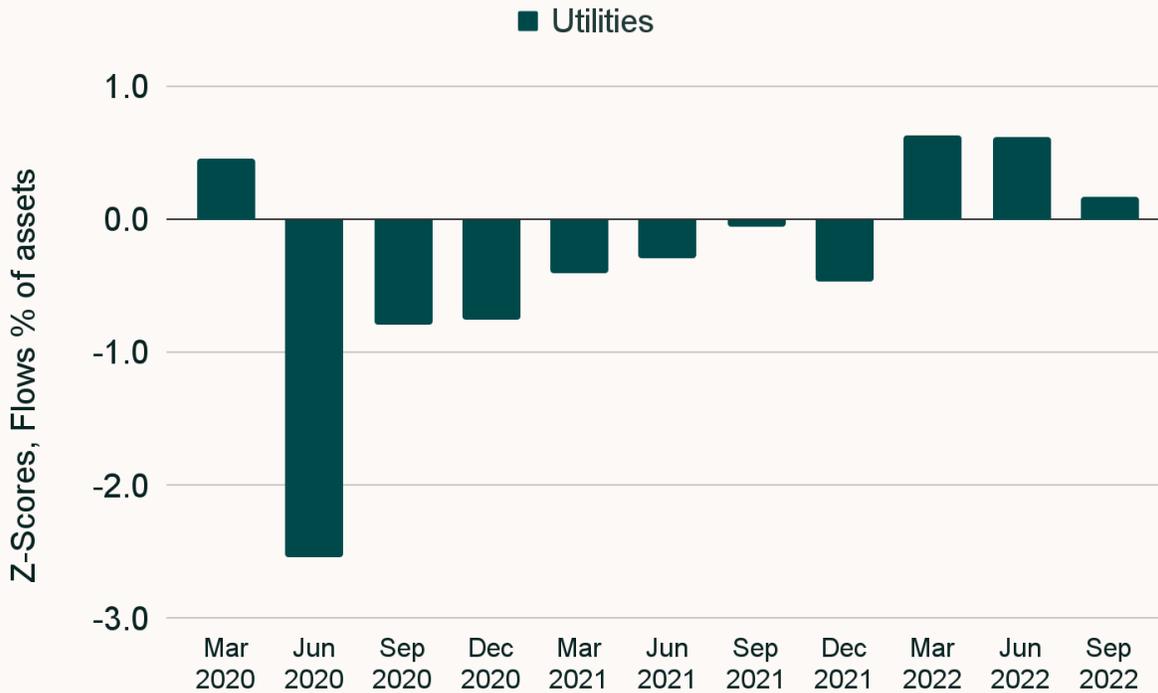


We show utility flows in terms of Z-scores from Q1 2022 through Q3 2022 in Exhibit 9. Following the onset of Covid, utility flows remained below their long-run average for seven quarters. This behavior changed during Q1 2022 coincident with the onset of the European energy crisis.



**Exhibit 9**

Z-Scores on Quarterly Flows into Utilities  
 Flows as Percent of Total Assets based on Q2 2016–Q3 2022



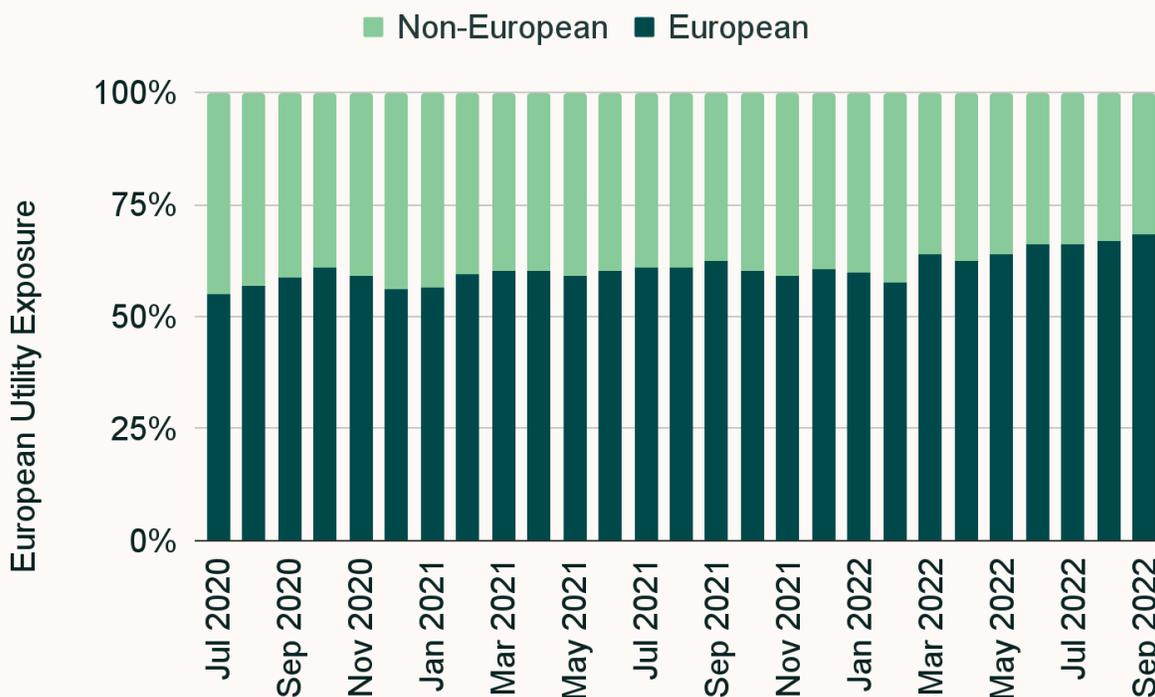
We explore utilities in further detail in Exhibit 10, in which we review total dollars as a percentage of portfolio size allocated towards European<sup>4</sup> utility companies compared to their non-European counterparts. **Since March 2022, investors have been increasing their European utilities allocations.**

<sup>4</sup> For our analysis on the European utility sector, we include the Big 6 utility providers in the UK along with the 15 largest utility providers listed on Euronext by market capitalization.



**Exhibit 10**

Exposure to European and Non-European Utilities  
 Median Dollar-Weight of Utility Investors, Q2 2020–Q3 2022



## Fund Flows

Exhibit 11 presents aggregate portfolio fund<sup>5</sup> flows in terms of Z-scores during Q3 2022. Most funds saw worse-than-average flows during the quarter, with the exception of miscellaneous equity and alternative funds. Taxable bond funds and equity funds, in general, experienced large outflows—while commodities and allocation funds saw more moderately negative flows compared to historic norms.

<sup>5</sup> In this context, fund refers to mutual funds and ETFs.



**Exhibit 11**

Fund Flows Z-Scores  
Q3 2022

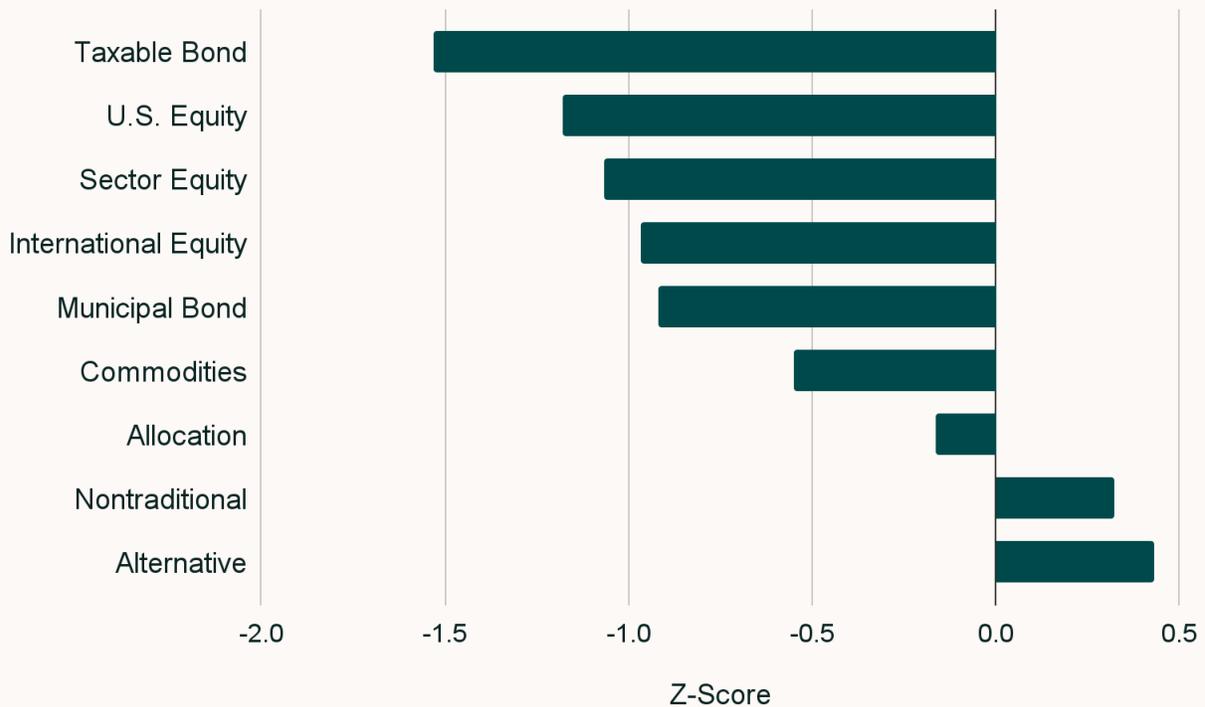


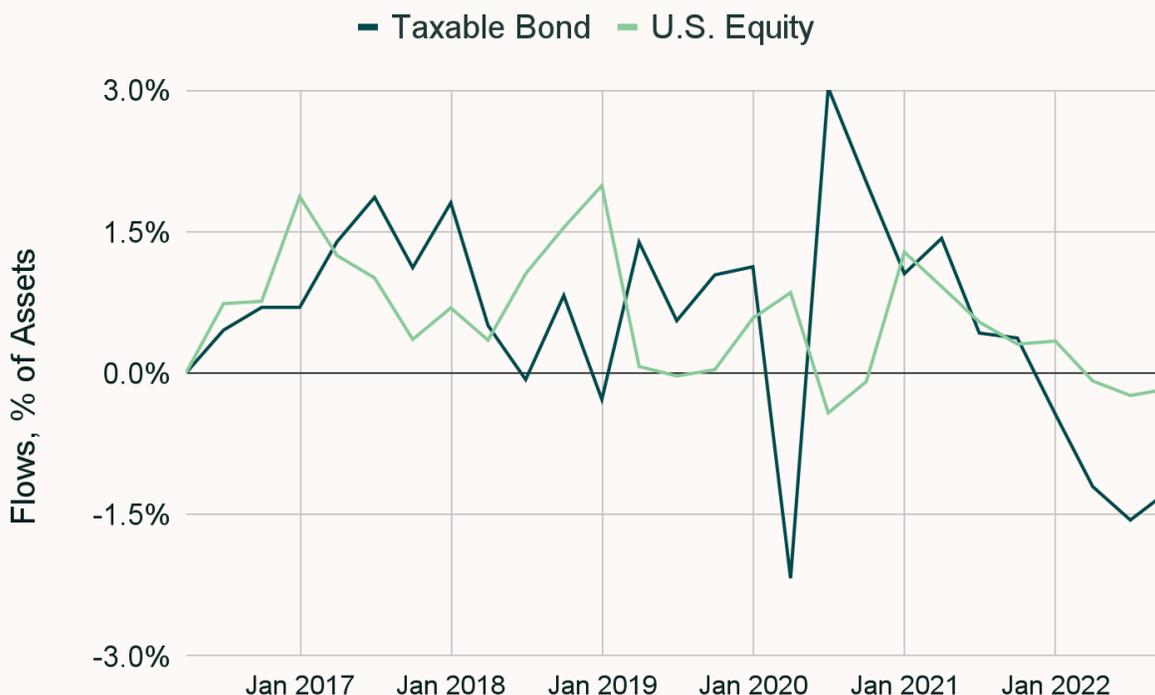
Exhibit 12 shows quarterly fund flows as a percentage of total assets in U.S. equity and taxable bond funds since Q2 2016. Similar to flows toward equities and liquid risky assets, portfolio flows to equity funds have been negative for each of the past three quarters. During the same time period, taxable bond fund flows have become deeply negative, nearly matching the depth of negative flows during the onset of Covid, while lasting for much longer. Interestingly, flows into physical bonds were positive.



**Exhibit 12**

Fund Flows

Percent of Total Assets, Q2 2016–Q3 2022



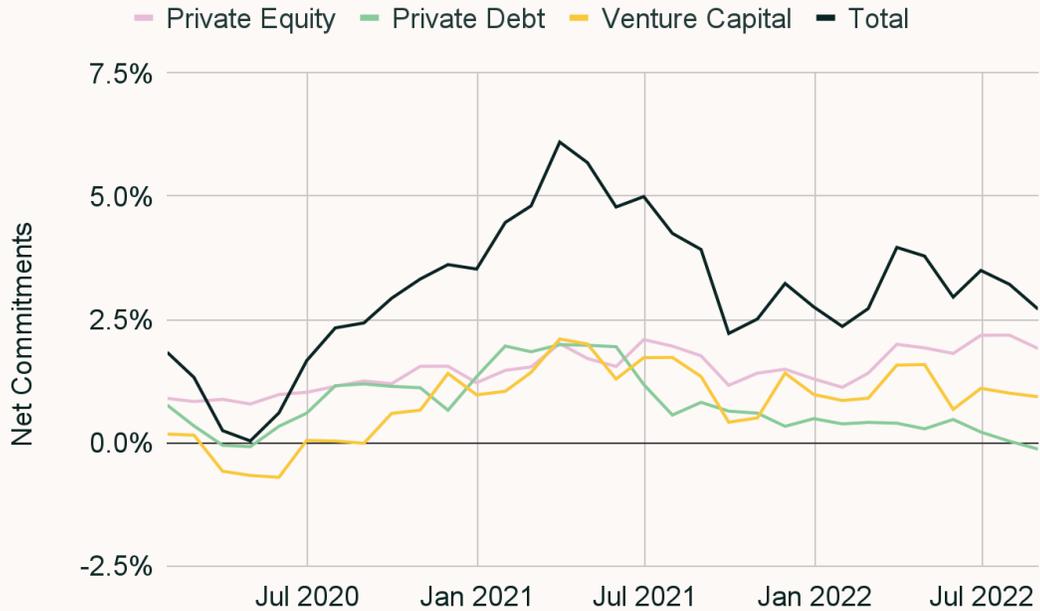
## Commitments Update

Net commitments measure the total dollars entering minus the total dollars leaving a private capital fund over time. A positive net commitment signifies that portfolios are adding to their allocations toward a fund. Exhibit 13 shows the six-month moving average of net commitments into private equity, private debt and venture capital from Q2 2019 through Q3 2022. Aggregate net commitments have remained positive throughout history, with private equity having the highest net commitments over time and private debt featuring the lowest net commitments. Private debt net commitments have turned negative recently, which may in part be due to portfolios having better opportunities in public fixed income markets as long-term rates have risen.



**Exhibit 13**

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



## Conclusion

We’ve provided a range of views and transparency into the allocations of portfolios represented on the Addepar platform. We continue to publish updates to these views on a quarterly basis, and also invite you to review our companion piece on Q3 2022 portfolio performance.

Please email [research@addepar.com](mailto:research@addepar.com) if you have any thoughts or suggestions on how this publication can be improved.



## Appendix A

### 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



## Appendix B: Methodology

### *Flows*

A flow can most easily be thought of as the aggregate amount of buying or selling in a type of investment. For some position  $i$ , we calculate the flow over period  $t$  to  $t+1$  as:

$$Flow_{i,t,t+1} = Value_{i,t+1} - Value_{i,t} - Total\ Return_{i,t,t+1}$$

We complete several filters on our dataset to ensure data quality. We ensure that the budget constraint above holds by filtering positions in which one of the four values above are not available, and filter those positions for which the budget constraint doesn't hold.

We ensure that we have an appropriate breadth of positions per portfolio by only including households which have more than \$100,000 in assets and more than 30 observations across liquid asset classes. We also remove all positions from the first quarter that a portfolio onboarded onto the platform since flows tend to be more volatile during that period.

### *Liquid Riskier Asset Class*

Our definition of the liquid riskier asset class includes:

- U.S. equities
- Global equities
- Developed markets
- Emerging & frontier markets
- Other equities
- U.S. Treasuries and agencies
- U.S. municipals/tax exempt
- U.S. investment grade credit
- Other fixed income
- Opportunistic

### *Z-Scores*

Sector-level and fund-level Z-scores are calculated using quarterly flows data from Q2 2016 through Q3 2022. For each fund or sector category  $i$  flow  $f$  at time  $t$  with  $n$  periods in the sample (here  $n = 27$ ), we calculate:



$$Z_{i,t} = \frac{f_{i,t} - s_i}{\sqrt{\frac{\sum_{t=0}^n (f_{i,t} - s_i)^2}{n}}}, \quad s_i = \frac{\sum_{t=0}^n f_{i,t}}{n}$$

## Bibliography

Gupta, A., Mittal, V., & Van Nieuwerburgh, S. (2022). Work from Home and the Office Real Estate Apocalypse. *NBER Working Paper Series*.



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