

# Spotlight On Cash

## Takeaways

- Asset allocations have changed modestly since the end of Q1, driven mostly by relative asset-class returns.
- Rising short-term interest rates provide an opportunity for investors to move their cash positions to higher-yielding products.
- Key highlights in investor flows include:
  - Flows into utilities spiked in Q1 and remain elevated on rising geopolitical risks
  - Flows out of financial services, primarily in investment-heavy firms
  - Continued outflows from municipal and taxable bonds
  - Inflows into active fund categories such as alternatives and nontraditional equities
- Positive net commitments in the private capital strategies with a preference for private equity over private 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 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 175,000 portfolios and with over \$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.

## Asset Allocations Today

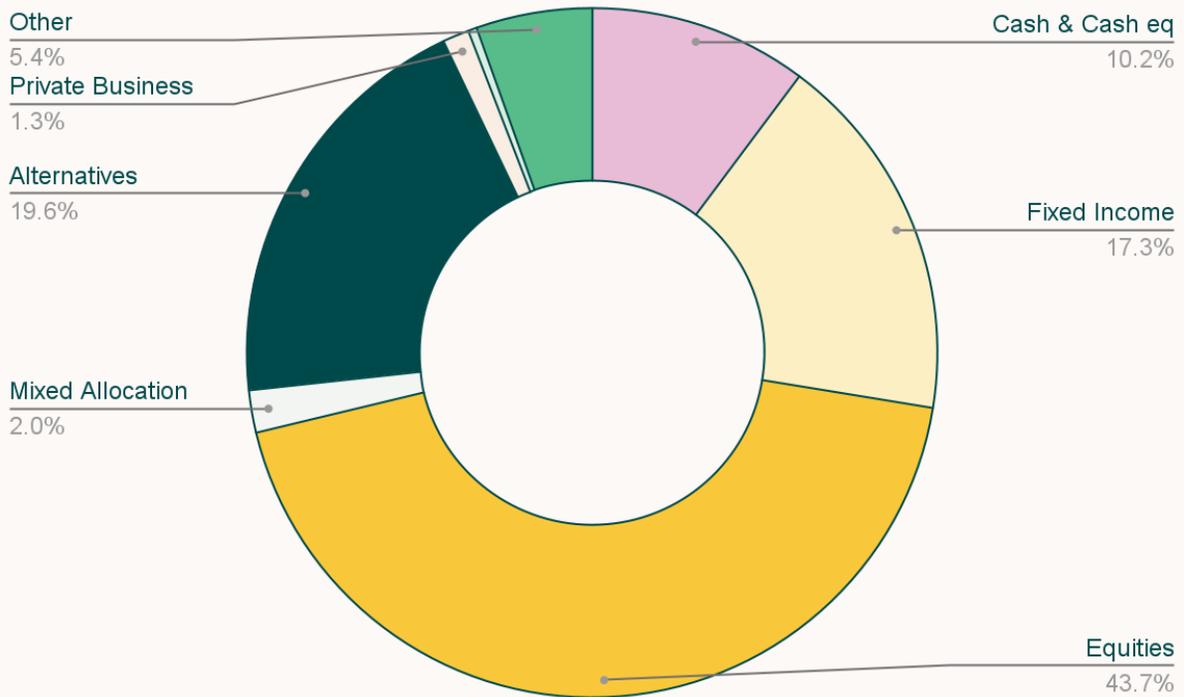
Relative to the first quarter, the average asset allocation of portfolios across the platform has shifted very modestly (Exhibit 2). The sizable differences in relative performance of asset classes in Q2 led to cash allocations increasing by .9% and allocations to equities decreasing by 2.6% on average quarter over quarter.

<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, Q2 2022**

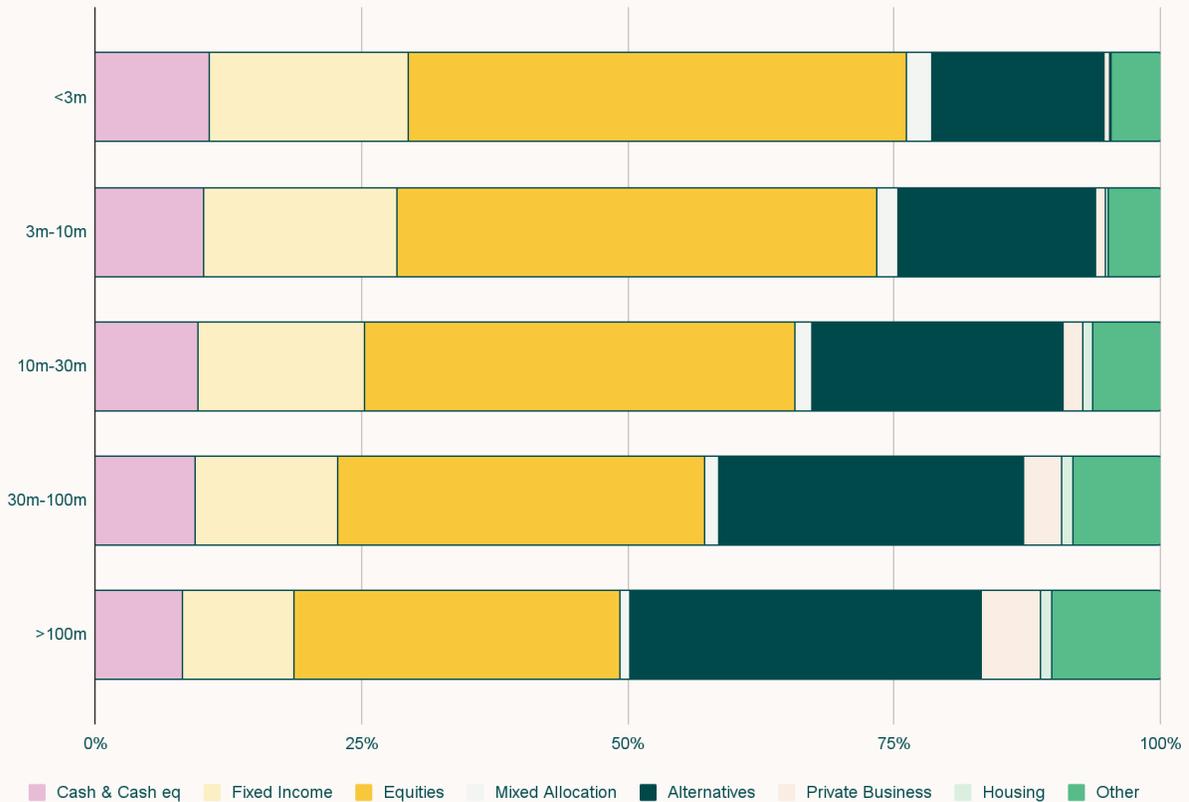


Addepar is used by a diverse set of investors. One dimension we examine is how asset allocations differ by the size of their portfolio (see Exhibit 3). We see that larger investors make proportionally smaller allocations to public equities and larger allocations to alternatives. Due to these differences in allocations and the relative price performance of asset classes, smaller portfolios show a larger shift from equities and into cash and fixed income.



**Exhibit 3**

Asset Allocation by Portfolio Size  
Percent, Q2 2022



For our second quarter, our spotlight is on cash. Please refer to our inaugural Asset Allocation research note from the first quarter for insight into other slower-changing asset allocation trends.

## Spotlight: Cash

Cash has offered negligible returns since the beginning of the pandemic due in large part to the Federal Reserve Board keeping rates near zero. Now, the Fed is raising rates (see Figure A in the appendix) and short-term cash instruments are offering increasingly attractive yields.

For private wealth investors, holding the right cash product has had a relatively inconsequential effect on the overall performance of their portfolios for the past few years. While that’s no longer



the case, Exhibit 4 shows that some portfolios may benefit from revisiting their cash product choices. On average, the majority of assets (80% of cash holdings) are held in Treasuries, money market funds and sweep vehicles—which generally earn a higher yield. Another 1.6% (20% of cash holdings) is USD held in demand deposit accounts and other low-yielding vehicles.

**Exhibit 4**

Average Cash Holdings  
 Percentage of portfolio, Q2 2022

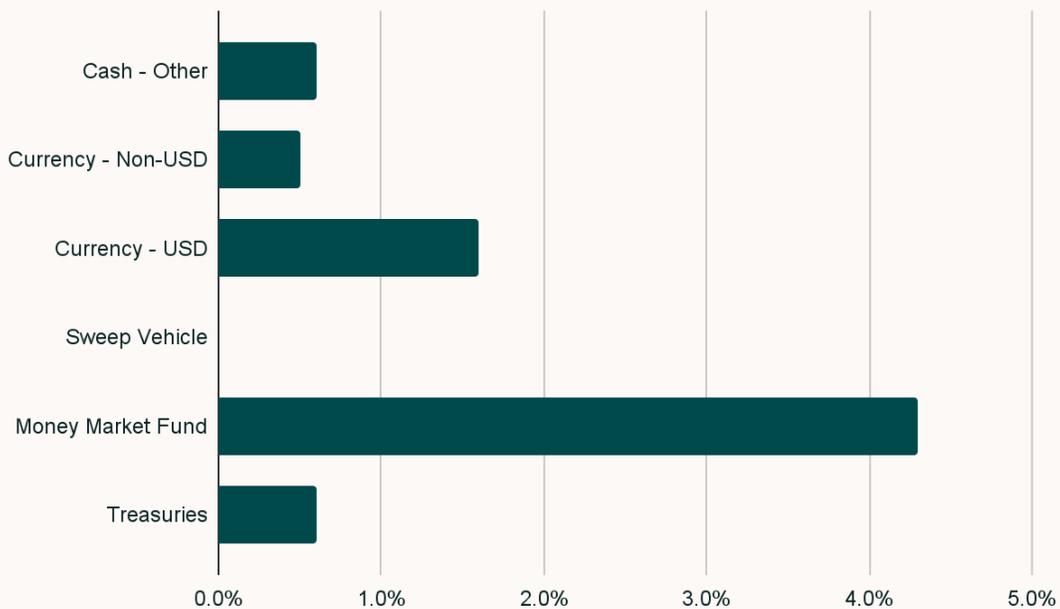


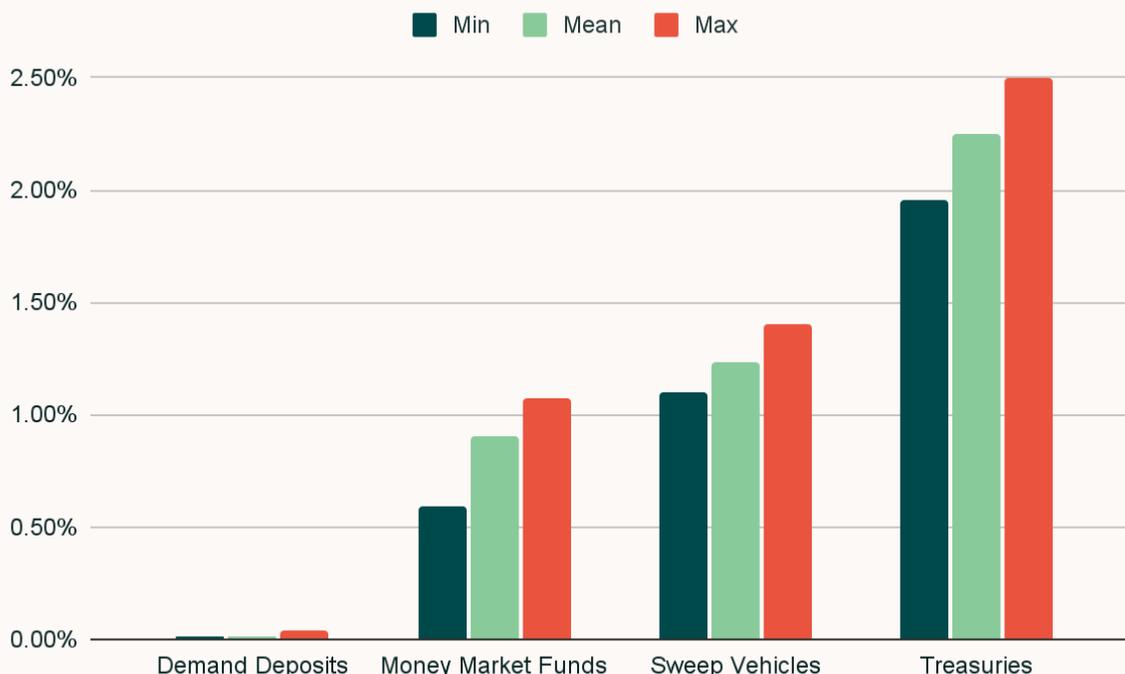
Exhibit 5 shows our analysis of yields of cash products held by portfolios. As of this writing, money market, sweep and Treasury SMAs are now providing a material yield over hard currency. While there are many considerations in choosing a cash product mix including liabilities/liquidity needs, appetite for duration and credit premiums amongst others, it appears that now may be an appropriate time to revisit this mix.



**Exhibit 5**

Cash Rates as of July 26th, 2022

**Range of Yields Available**



Source : Addepar Analysis

## 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. We review flows for equities and private capital, which are the largest asset classes.

The table below outlines net investor flows into and out of equities by sector<sup>2</sup>. 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

<sup>2</sup> Morningstar definition



how unusual a value is relative to past history (in this case, 2016–2022)<sup>3</sup>. Note that we have filtered out unusually large positions and portfolios to avoid skewing results.

Within equities in Q2, we saw mostly lower than average flows across all sectors besides utilities, energy and communication services—with significant outflows in financial services.

Investors broadly converged on utilities in February at the same time as the world witnessed rising geopolitical uncertainty. Utilities are also often viewed as a recessionary hedge, although inflation is a significant risk to the sector. Perhaps another way to interpret these flows is that investors have a predominant view that Fed tightening will lead to a recession to stamp out inflation.

Within the financial services sector, rising interest rates are generally good for traditional banking and a negative factor for investment firms (e.g. investment banking). These dynamics were reflected in the company-level flows where Apollo and Berkshire Hathaway showed the biggest outflows, while banks including JPMorgan Chase showed inflows.

## Exhibit 6

### Equity Sector Flows

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

	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
Basic Materials	1.1	0.2	1.7	3.8	0.4	0.1	-0.5	-0.7
Communication Services	-1.3	-2.5	-2.4	-0.9	-0.8	-1.1	1.0	0.6
Consumer Cyclical	-0.3	-0.6	0.6	0.2	0.6	-3.3	-0.3	-0.4
Consumer defensive	-1.0	0.1	0.2	-0.2	-1.6	1.0	1.6	-0.7
Energy	-1.2	-1.3	1.2	-0.8	0.9	0.7	0.0	0.8
Financial services	1.7	0.8	2.7	0.5	0.0	-0.2	0.8	-2.4
Healthcare	1.0	-0.5	0.4	0.4	0.3	-2.7	-0.8	-0.4
Industrials	0.0	-1.2	0.8	0.9	0.2	0.3	1.8	-0.2
Real estate	2.0	0.3	-2.0	-0.5	0.6	0.6	0.6	-0.8

<sup>3</sup> Z-scores (or “standard scores”) are defined as  $z = (x - \mu) / \sigma$ , where  $\mu$  is the mean of the population and  $\sigma$  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%. Further details, along with an example of how we calculate flows, are presented in the appendix.



Technology	-0.4	-0.5	-0.8	-1.6	-2.6	-2.5	0.7	-0.1
Utilities	-0.5	-0.6	0.6	1.3	0.7	-0.4	2.5	0.8

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 a flow is relative to the history of that particular fund category. Here, we see unusually large flows out of bond funds and sector equities, with flows into alternative, commodities and nontraditional equities funds. In addition to rebalancing, a high inflation environment may be ushering the sell-off in bonds. Meanwhile, funds that employ active strategies have continued their trend of higher-than-average flows over the past three quarters.

## Exhibit 7

### Mutual Fund and ETF Flows<sup>4</sup>

\$ Millions, Q2 2020–Q2 2022

	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
Allocation	0.1	1.4	1.4	0.6	1.5	2.4	-0.1	-2.0
Alternative	-0.1	0.7	1.3	0.7	1.9	1.6	1.8	0.1
Commodities	2.2	-0.6	1.1	1.0	-1.2	-1.2	1.8	-1.0
International Equity	0.2	1.2	2.1	1.7	0.8	2.0	-0.1	-1.2
Miscellaneous	2.3	-1.3	1.6	0.2	0.4	1.1	-1.1	0.8
Municipal Bond	0.9	0.9	1.2	-1.5	0.6	0.5	-2.6	-2.7
Nontraditional Equity	0.5	-0.1	0.6	0.4	0.3	1.3	2.1	1.5
Sector Equity	-0.1	2.0	2.3	1.7	1.1	1.6	-2.0	-0.3
Taxable Bond	1.5	0.9	1.4	0.1	1.3	-0.8	-1.2	-2.5
U.S. Equity	-1.0	0.9	1.1	1.1	0.6	3.2	1.7	-0.2

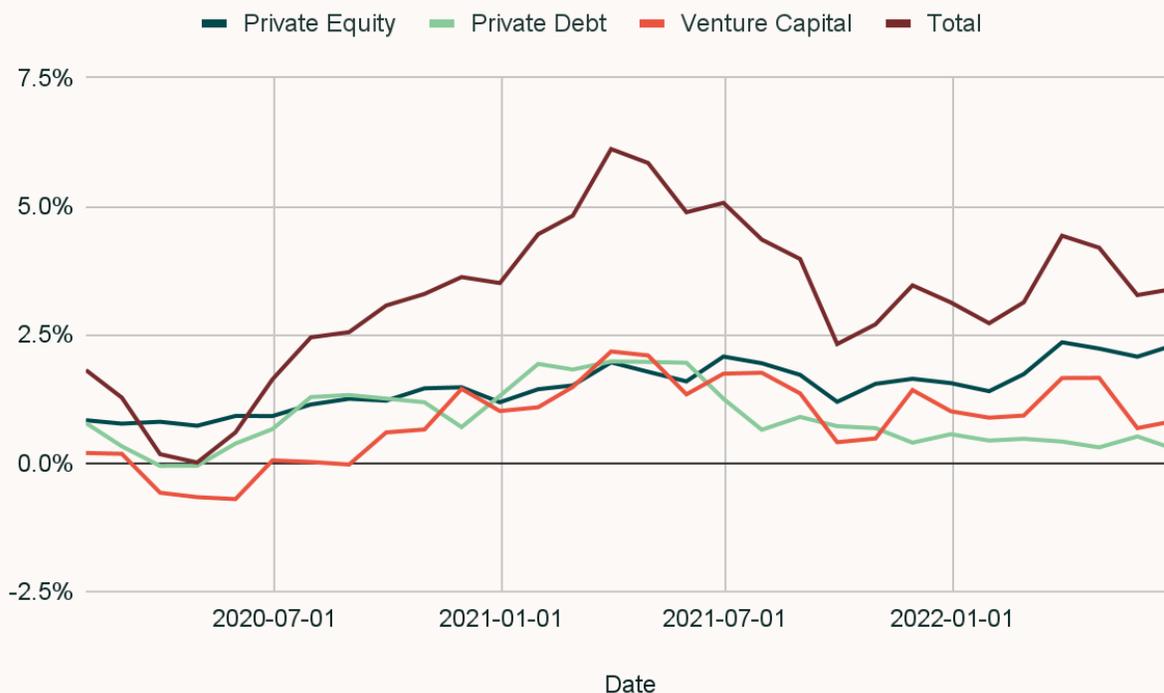
Exhibit 9 shows commitments net of cash flows as a percentage of the asset-class position. While private equity, private debt and venture capital are all showing positive net commitments, allocations are favoring private equity to private debt.

<sup>4</sup> We define fund categories according to Morningstar's fund categorization system, an overview of which can be found in the appendix.



**Exhibit 9**

Net Commitments (New Commitments, Minus Distributions and Redemptions)  
 Percentage of Sector Holdings on Platform, Q2 2022



## Conclusion

In this research note, we provided an updated view into asset allocations, a timely view into cash, and an analysis of recent investor flows.

We hope this transparency is helpful to investors utilizing our platform. As we mentioned, we'll be publishing updated versions of this note each quarter. These notes will provide timely data and also include deeper dives into selected topics of interest.

Additionally, look for the companion piece we're publishing on Q1 2022 investment performance based on the same \$3 trillion dataset.

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



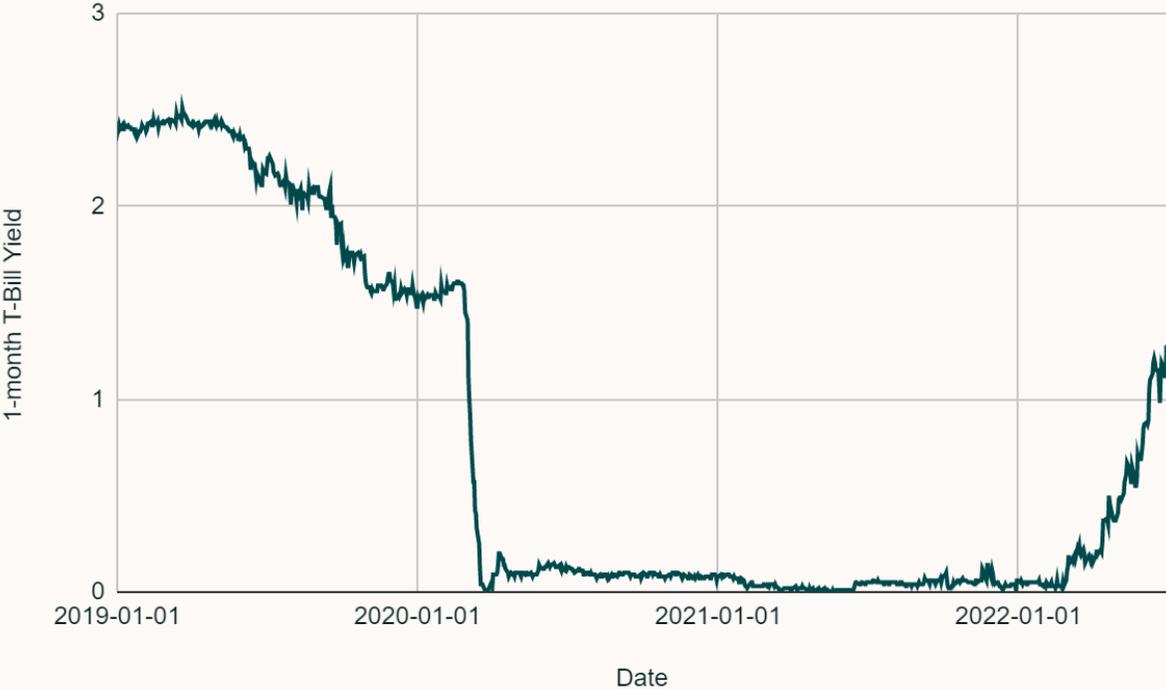
## Morningstar Classifications

<b>Morningstar Group</b>	<b>Morningstar Category</b>
<b>Allocation</b>	Allocation—proportion to equity Convertibles Global allocation Tactical allocation Target-date funds
<b>Alternative</b>	Specific strategies: macro trading, event-driven, relative value arbitrage, options trading, equity market neutral, systematic trend, Multistrategy Digital assets
<b>Commodities</b>	Commodities broad basket Commodities focused
<b>International equity</b>	Foreign small, medium and large cap value, blend and growth Diversified emerging markets, Asia Europe, Latin America, Pacific ex-Japan, China, Japan India Stock
<b>Miscellaneous</b>	Trading strategies: leveraged/inverse commodities, debt, equity Trading—miscellaneous
<b>Municipal bond</b>	Muni single-state Short/intermediate/long Muni national short/intermediate/long Muni target maturity
<b>Nontraditional equity</b>	Long-short equity Derivative income
<b>Sector equity</b>	Sector-specific equity funds
<b>Taxable bond</b>	Short/intermediate/long-term government bonds Short/intermediate/long-term corporate bonds Bank loan Preferred stock High-yield bond Global bond Single currency
<b>U.S. equity</b>	Small/mid/large-cap value, blend, growth Leveraged net long

Source: [Morningstar](#)



Exhibit A  
1-Month Treasury Bill Yield  
1/1/2019–6/30/2022



Source: Federal Reserve Board of St. Louis



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