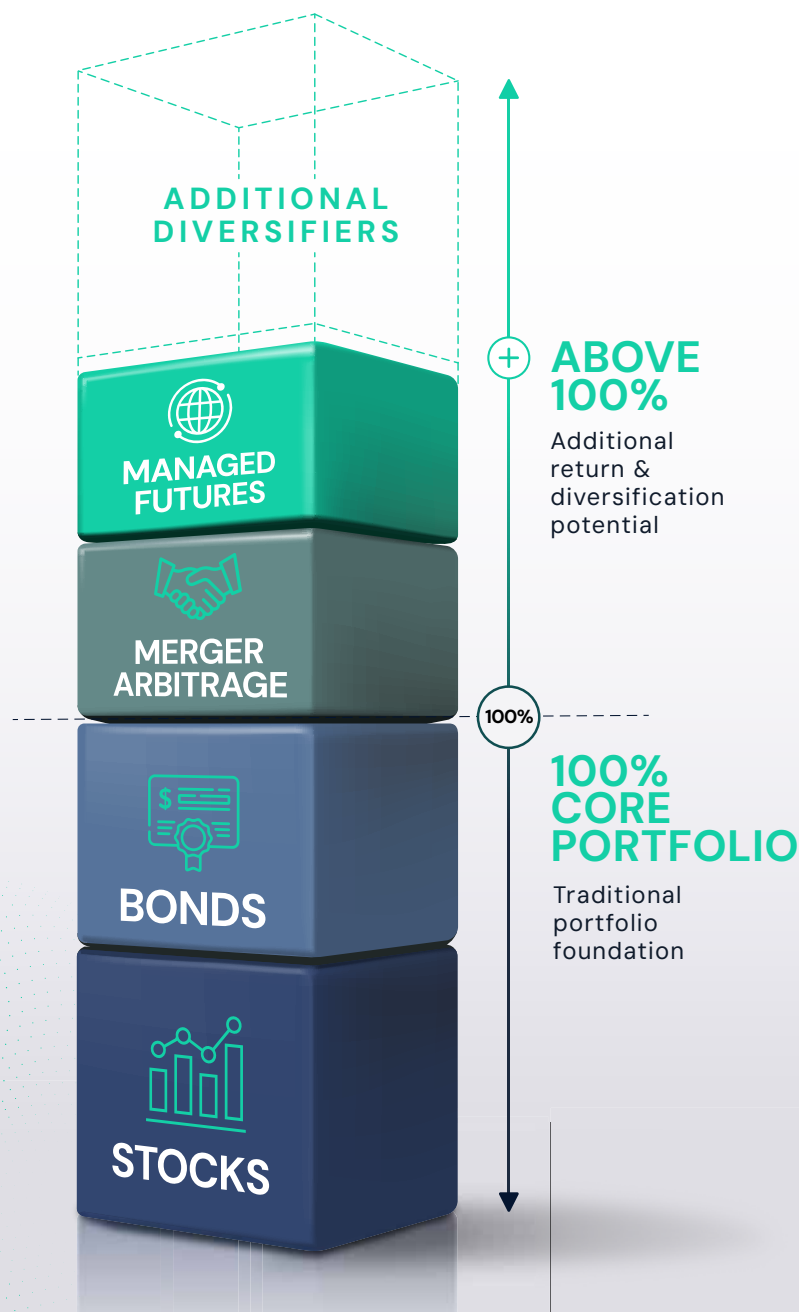


The Case for **NOT** Making Room for Alternatives

Return Stacking
& Portable Alpha

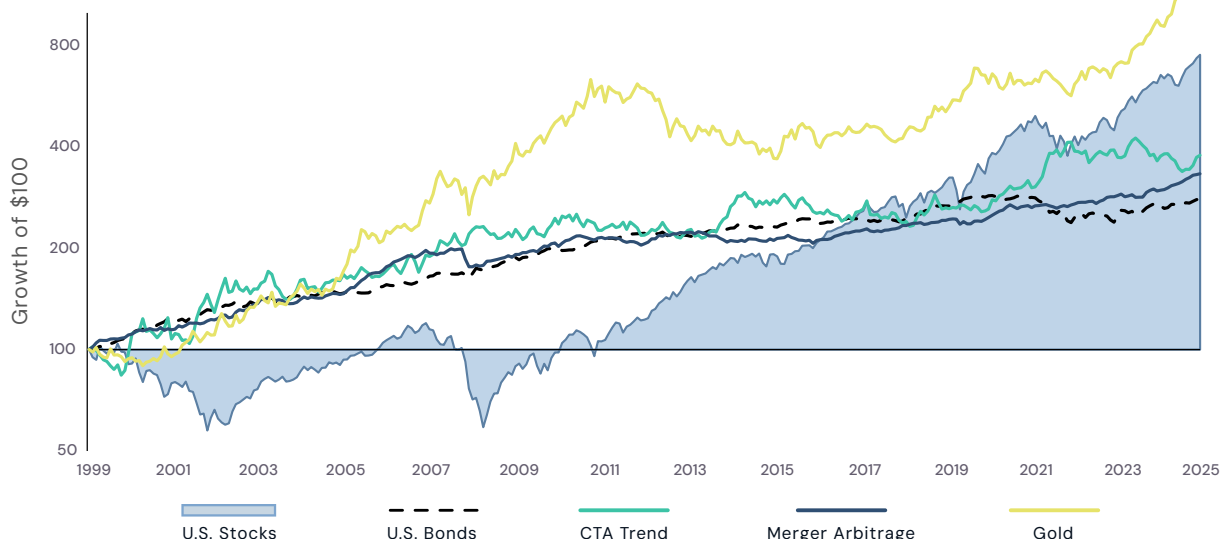


Rethinking How Diversification Gets Done

Most portfolios don't struggle with theory. They struggle with implementation. Advisors know diversification matters, but making room for alternatives often means selling core positions, introducing unfamiliar line items, and defending positions that lag at the wrong time.

Theory vs. Reality: Why Diversification Is Harder Than It Should Be

Most advisors understand the value of diversification. The academic case is clear: combining assets with different return drivers can improve risk-adjusted returns over time. But knowing what to own is only half the battle. The real challenge is making diversification work inside actual portfolios, real models, and real client conversations.



Source: Bloomberg; Credit Suisse; Société Générale. U.S. Stocks is the S&P 500 Total Return Index ("SPX"). U.S. Bonds is the Bloomberg US Aggregate Bond Index ("LBUSTRUU"). CTA Trend is the Société Générale Trend Index ("NEIXCTAT"). Merger Arbitrage is the PivotalPath Event Driven: Merger Arbitrage Index ("EVDMER"). Gold is spot gold quoted in US Dollars ("XAU Currency"). You cannot invest in an index. Returns are gross of fees and taxes. Past performance is not indicative of future results. Period is 12/31/1999 through 12/31/2025. Returns assume the reinvestment of all distributions. The starting date is chosen based upon the earliest date data is available for the underlying indexes.

The Real Trade-Off: An Uncomfortable Reality

To add diversifiers, most portfolios must reduce core stock and bond exposure, accept tracking error versus benchmarks, introduce new line items clients don't recognize, and defend positions that behave differently, especially at the wrong time.



"60/40" refers to a 60% allocation to stocks and a 40% allocation to bonds. "50/30/20" refers to a 50% allocation to stocks, a 30% allocation to bonds, and a 20% allocation to alternatives.

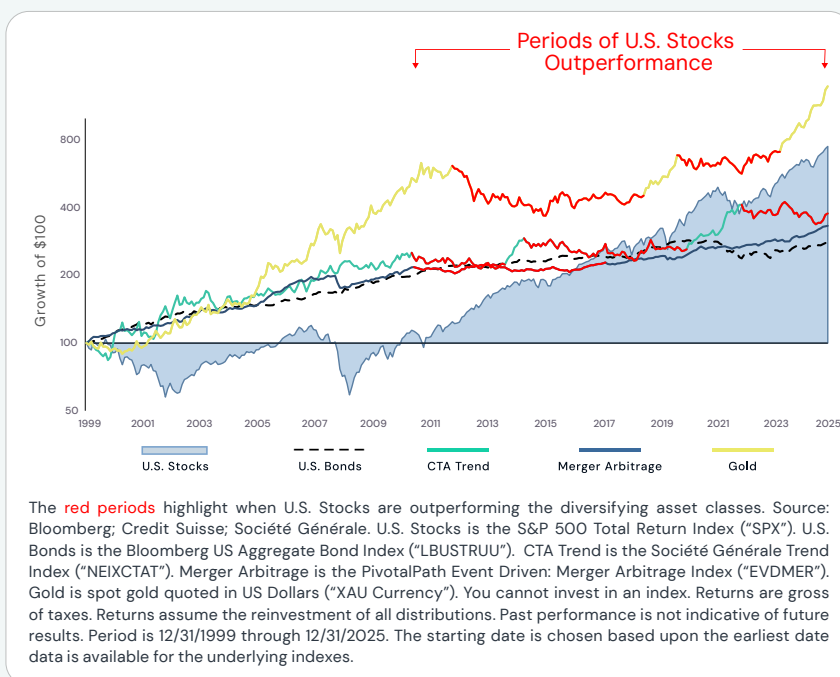


The problem isn't diversification.
it's how it's implemented.

Traditional approaches force advisors to make compromises that can impact outcomes and client relationships.

The Behavioral Challenge of Standalone Diversifiers

-  They can lag during strong equity markets, creating opportunity cost anxiety
-  They experience uncomfortable drawdowns when viewed in isolation
-  They become the focus of “why do we own this?” conversations
-  They get reduced or removed, often right before they’re needed most



The pattern is familiar: an advisor adds a well-reasoned diversifier to client portfolios. It works exactly as intended, zigging when stocks zag. But during the next bull market run, the diversifier lags. Clients question it. The advisor, under pressure, trims or removes it. Then the next downturn arrives, and the protection is gone. The diversifier didn’t fail. The implementation did.

The Real Constraint: What If the Problem Isn’t the Diversifier?

To add diversifiers, most portfolios must reduce core stock and bond exposure, accept tracking error versus benchmarks, introduce new line items clients don’t recognize, and defend positions that behave differently, especially at the wrong time.

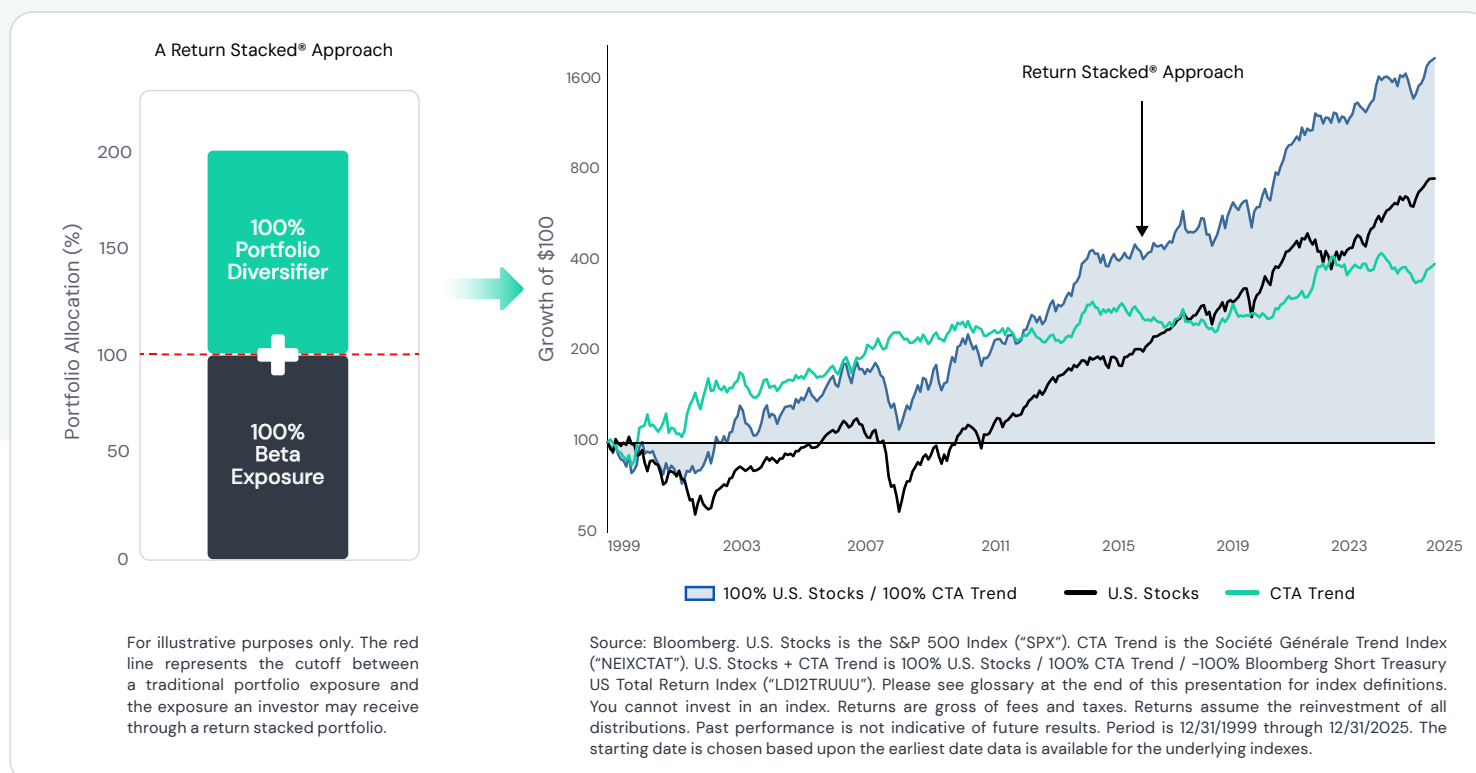
Diversifiers are typically **held as visible, standalone line items** that compete with core holdings for both capital and client attention.

INTRODUCING RETURN STACKING

Striving for Diversification Without Sacrifice

What if instead of being forced to sell your core to add diversifiers you were able to stack them on top? This is the promise of Return Stacking (previously known as portable alpha).

Return Stacking delivers \$1 of traditional asset exposure plus \$1 of diversifying exposure, for every \$1 invested.



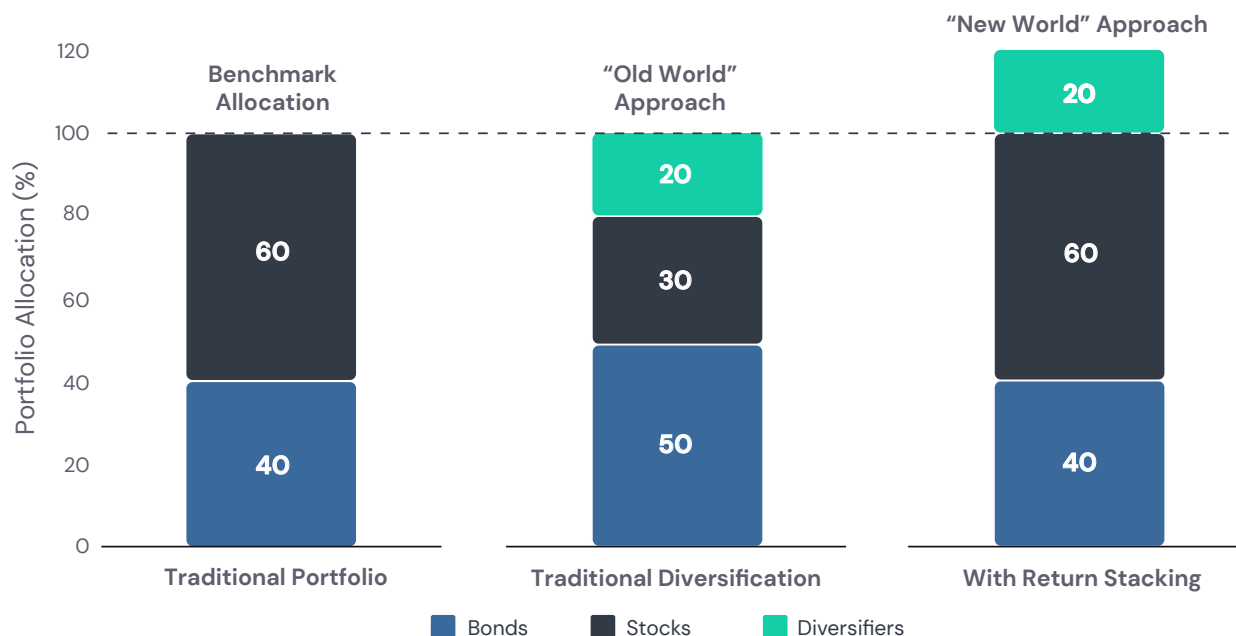
Structure changes the investor experience, not the portfolio objective.

Traditional Approach	Return Stacked® Approach
- Diversifiers get reduced or removed, often right before they're needed most - Allocation decisions become an either-or choice between beta and diversifiers - Creates pressure to defend positions when they lag	- Diversifiers are paired with core beta in a single line item (masking discomfort) - Allocation decisions become "yes, and": holding diversifiers without sacrificing beta - Reduces pressure to explain standalone performance

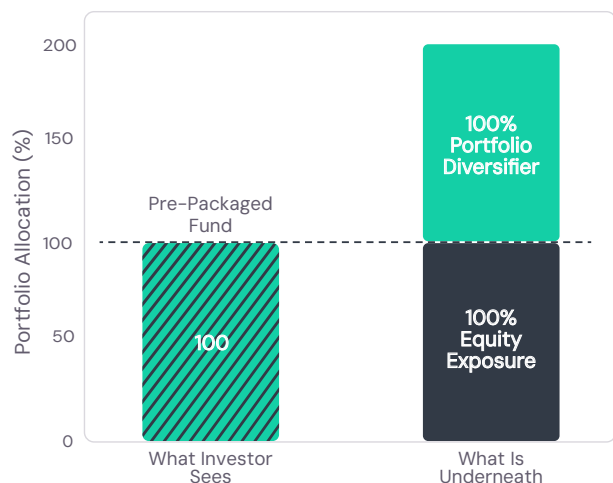
PORTFOLIO CONSTRUCTION

Solving the Funding Problem

The “New World” approach solves the funding problem by layering alternatives on top of the benchmark. Rather than moving from a 60/40 to a 50/30/20, investors can maintain their full stock and bond allocation and simply stack diversifying exposure on top, going from a 60/40 to a 60/40/20.



For illustrative purposes only. The dashed line represents the cutoff between a traditional portfolio exposure and the exposure an investor may receive through a Return Stacked® strategy.



For illustrative purposes only. The red line represents the cutoff between a traditional portfolio exposure and the exposure an investor may receive through a Return Stacked® strategy.

Solving the Behavioral Problem with Pre-Packaged Building Blocks

A whole family of funds that deliver \$1 of beta exposure plus \$1 of diversifying exposure are already widely available, serving as pre-packaged building blocks.

From the investor’s perspective, they see only the dollar invested, everything happens under the hood. This structure both masks the behavioral pain of holding something different and stacks diversifying return on top.

What Pre-Packaged Building Blocks Help Solve

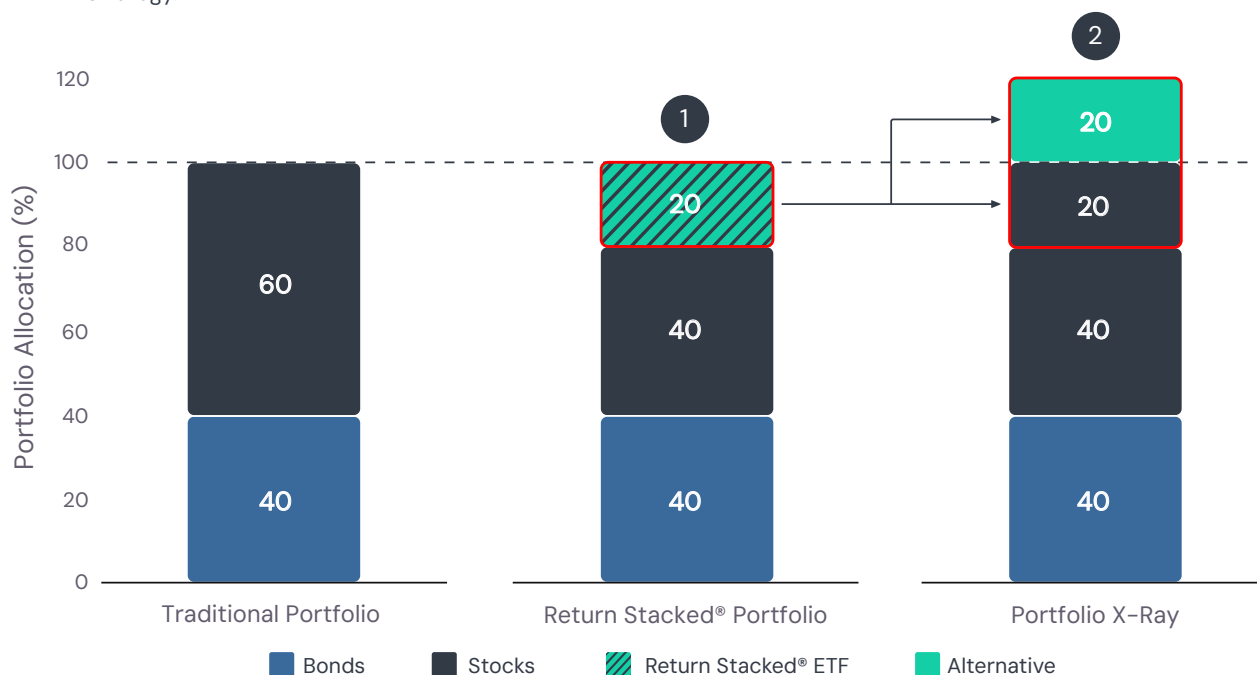
From a practical implementation perspective, these funds allow investors to swap less productive beta holdings with stacked alternatives, using the same dollar invested, in whatever proportions make sense for their portfolio. For example, selling just 20% of an equity allocation and reinvesting it into a 2-for-1 stacked fund effectively restores the full equity exposure, plus an additional layer of diversifying exposure on top.

1 Replace Equity

Sell 20% equity exposure and buy 20% of a 100% equity + 100% alternative ("100+100") strategy.

2 The Allocation X-Ray

A 20% allocation to the 100+100 strategy restores the sold 20% equity exposure, while adding a 20% overlay of the alternative.



For illustrative purposes only. The red line represents the cutoff between a traditional portfolio exposure and the exposure an investor may receive through a Return Stacked® strategy.

The ambition is to help investors **unlock the benefits of diversification** without the behavioral trade-offs that usually come with it.

The Paradox of Stacking for Risk Reduction

Counter-intuitively, stacking additional exposures on top of a traditional portfolio may seem like it would necessarily stack extra risk and deeper drawdowns. However, due to the benefits of diversification, the empirical results tell a different story. Using the visualizer tool described in page 8 to test a 30% equal weight stack between managed futures, merger arbitrage and gold on top of a balanced portfolio, we see that annualized volatility barely budes from the non-stacked portfolio while seeing a meaningful improvement in maximum drawdowns.

Beyond Defense: Return Stacking for Offense

Most investors think of diversifiers as defensive tools. Return stacking reframes the question: instead of trying to be better than the benchmark, can we simply add to it?

Security Selection	Tactical Allocation	Return Stacking
- Can we pick better securities than the benchmark? - Relies on stock-picking skill to identify undervalued positions or avoid overvalued ones.	- Can we time exposures better than the benchmark? - Relies on timing skill to shift between asset classes at the right moment.	- Can we add return streams on top of the benchmark? - Relies on structural efficiency to layer additional exposures without sacrificing core allocations.

How We Think About Implementation

If this structural approach resonates, we typically start the conversation by exploring three questions:

1

Where has diversification been hardest to hold?

Understanding past pain points reveals where structural solutions may help most.

2

Which trade-offs matter most in your models?

Not every portfolio has the same constraints. Identifying the binding ones helps focus the conversation.

3

Would a structural approach help, or not?

Return stacking isn't the answer to every portfolio question. Honest evaluation matters.

It's not about adding more. **It's about adding smarter.**

Visualizing Return Stacking with Different Stacks

To really experience the value of return stacking there is no substitute for working with different shapes and sizes of stacks. To that end we have developed a simple, interactive tool that shows you what happened historically when you stacked diversifying returns streams instead of choosing between them and your core.

This visualizer tool allows you to choose different types of stacks and adjust their size to see how diversified leverage affects performance, drawdowns, and calendar year returns.

[Launch the Visualizer](#)

Return Stacked® Portfolio Visualizer

JohnD • johndoe@website.com [Not you?](#)

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[PDF](#)

1 CHOOSE YOUR BASE (STOCK % / BOND %)

100/0 80/20 **60/40** 50/50 40/60 20/80 0/100

2 CHOOSE WHAT YOU WANT TO STACK ON TOP

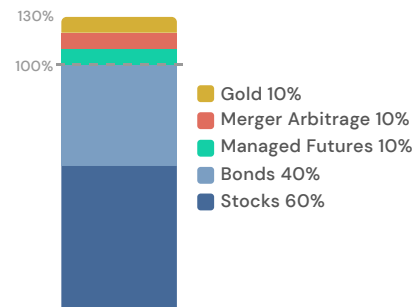
Size of Your Stack

30%

Allocation of Your Stack (100%)

Managed Futures (%)	Merger Arbitrage (%)	Gold (%)
33.34	33.33	33.33

3 YOUR RETURN STACKED® PORTFOLIO ALLOCATION



METRIC	STOCK/BOND	STACKED	DIFFERENCE
Annualized Return	6.75%	8.43%	+1.68%
Annualized Volatility	9.46%	9.91%	+0.45%
Maximum Drawdown	-32.54%	-30.60%	+1.94%
Sharpe Ratio	0.51	0.66	+0.15
Annualized Tracking Error	—	2.12%	—

For the Difference column, **green text** means improved outcomes and **red text** means worsened outcomes.

Source: Bloomberg; PivotalPath. Bonds is the Bloomberg US Aggregate Bond Index ("LBSTRUU"). Gold is spot gold quoted in US Dollars ("XAU Currency"). Managed Futures is the PivotalPath Managed Futures Index ("MFT"). Merger Arbitrage is the PivotalPath Event Driven: Merger Arbitrage Index ("EVDMER"). Stocks is the S&P 500 Total Return Index ("SPX"). T-Bills is the Bloomberg Short Treasury US Total Return Index ("LD12TRUUU"). The Stock/Bond portfolio is 60% Stocks / 40% Bonds. The Stacked portfolio is 60% Stocks / 40% Bonds / 30% Stack (33.34% Managed Futures, 33.33% Merger Arbitrage, 33.33% Gold) / -30% T-Bills. Assumed annual costs: Managed Futures: 0 bp fee (the PivotalPath Managed Futures Index is reported net of fees) / 50 bp financing; Merger Arbitrage: 0 bp fee (the PivotalPath Event Driven: Merger Arbitrage Index is reported net of fees) / 50 bp financing; Gold: 40 bp fee / 50 bp financing. See glossary below for index definitions. You cannot invest in an index. Portfolio returns are hypothetical. Returns are gross of all fees, including management costs, transaction costs, and taxes, except where explicitly stated otherwise. Returns assume the reinvestment of all distributions. Period is 12/31/1999 through 12/31/2025. The starting date is chosen based upon the earliest date data is available for the underlying indexes. Past performance is not indicative of future results.

Summary: The Core Benefits of Return Stacking

- | | |
|---|--|
| ▶ Pursuing Diversification without Sacrifice | Investors can introduce diversifying assets and strategies without sacrificing exposure to their existing asset allocation |
| ▶ Opportunity for Enhanced Returns | By introducing additional sources of return, Return Stacking creates the potential for outperformance, which may be particularly attractive in an environment where expected returns for traditional assets may be muted or negative |
| ▶ Potential to Improve Diversification | By thoughtfully introducing differentiated return streams, investors may gain a diversification advantage with the potential to reduce portfolio volatility and drawdowns |
| ▶ Managing Investor (Mis-)Behavior | With Return Stacking, you can maintain your core stock and bond portfolio, reducing the fear of missing out on benchmark returns while benefiting from the promise of diversification |

All of us here at Return Stacked® Portfolio Solutions have, in one way or another, been exactly where you are.

We understand the struggle of trying to make room in a portfolio for alternative diversifiers and alpha sources.

That's why, back in 2017, [we said that we thought the next frontier of ETFs](#) was tools that created capital efficiency, allowing investors to solve the "funding" problem of diversification (i.e. you have to sell your core stocks and bonds to make room for alternatives).

Today, we're not only working to [bring those tools to market](#), but also all the support an investor might want or need to help educate themselves on how to implement these ideas in practice.

How can return stacking impact your portfolio?
Talk with our Advisor Solutions team.

Discuss Your Stack With a Consultant 

A (Short) List of Institutions Using Return Stacking Concepts

- Ohio Police and Fire Pension Fund
- Pennsylvania Public School Employees' Retirement System
- Teacher Retirement System of Texas
- Iowa Public Employees' Retirement System
- Eli Lilly and Company
- The Rockefeller Foundation
- Missouri State Employees' Retirement System
- South Carolina Retirement System Investment Commission
- State of Wisconsin Investment Board
- Oregon Public Employees Retirement Fund
- RTX Corporation
- Delta Air Lines Pension Plan

Disclosure: The institutions listed above provide a sample of institutions that have acknowledged between 2022-2025 their use of portable alpha and return stacking investment concepts; e.g. investing in hedge funds while obtaining beta exposure via derivative overlays. It is not known if the institutions will continue to utilize similar investment concepts in the future or if they approve or disapprove of Return Stacked® ETFs.

Index Definitions

Bloomberg Short Treasury US Total Return Index tracks the market for treasury bills issued by the US government with time to maturity between 1 and 3 months.

Bloomberg US Aggregate Bond Index is an index that covers the broad U.S. investment grade, US dollar-denominated, fixed-rate taxable bond market.

Gold ("XAU") represents one troy ounce of gold, functioning as an ISO 4217 currency code for trading gold against the US dollar (XAU/USD) in forex markets.

S&P 500 Index is an abbreviation for the Standard & Poor's 500, a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

Société Générale Trend Index is designed to track the largest trend following commodity trading advisors ("CTAs") in the managed futures space net of underlying fees. The index does not represent the entire universe of all CTAs. Actual rates of return may be significantly different and more volatile than those of the index.

PivotalPath Event Driven: Merger Arbitrage Index is an equal weighted index which comprises funds that typically purchase shares in one company and short sell the assets in another. The strategy is generally used in the expectation of a pending announcement of a company takeover, where the fund will take a long position in the target firm and a short position in the acquiring firm. The Index tracks the monthly performance, net of fees in USD, of its constituents with a minimum fund track record of 18 months and a minimum fund AUM of \$50mm. The constituents are fixed at the end of each calendar year for the following calendar year.

PivotalPath Managed Futures Index is an equal weighted index of funds that typically forecast market trends and determine whether to invest long or short in futures contracts across metals, grains, equity indices and soft commodities, as well as foreign currency and U.S. government bond futures. The Index tracks the monthly performance, net of fees in USD, of its constituents and is representative of funds with a minimum fund track record of 18 months and a minimum fund AUM of \$50mm. The constituents are fixed at the end of each calendar year for the following calendar year.

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