Long-Term Return Estimates Tearsheet

LONG-TERM STEADY STATE RETURN ESTIMATES

GROWTH, INCOME AND VALUE FACTORS

INPUTS TO OPTIMISED SAA PORTFOLIOS

DIAGNOSE YOUR PORTFOLIO'S SAA PROSPECTS

OPPORTUNISTIC LONG TERM ALLOCATIONS

ClearMacro's Long-Term Return Framework is designed to systematically estimate the likely contribution of growth, income, and value factors to future returns using only available data i.e. no forecasting. Long-term return drivers and risk assumptions across asset classes, countries, sectors, and styles are evaluated, ranked, and "built up" into 5-year forward risk-adjusted annualised return projections (Sharpe Ratios) across a broad, global investment universe.

Returns can be estimated based on an investor's choice of base currency and analysed based on either hedged/unhedged and nominal/real return transformations.

Our back-test results suggest:

- **The framework is relevant for holding periods as short as 1 year.**
- **High ranked assets have lower draw-downs as well as higher returns.**
- **Portfolios generated systematically from framework return estimates outperform alternative portfolio construction options.**

To enable a fully systematic framework that can be back-tested, certain assumptions are mandatory:

- Trend growth and inflation: we use historical data - a blend of 25% of the 1 year average and 75% of the 10 year average.
- Default and rating transition rates: these represent the average historical experience for Investment Grade and HY Credit.
- Mean-reverting factors: we assume a full reversion to the rolling-15-year mean of each time varying factor over a 10 year horizon i.e. a 10% linear adjustment every year.

An upcoming release will introduce customisable inputs for users to build their own long-term return estimate scenarios.

» LONG-TERM RETURN ESTIMATES PRIMER

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