



THE CASE FOR ALTERNATIVES

DAVID PICTON'S CALL TO REINVENT CANADIAN INVESTING

When markets get chaotic, like in recent months, David Picton doesn't sleep much. "The bags under your eyes grow," says the Toronto-based founder of Picton Mahoney Asset Management, which has more than \$13 billion in assets. "It's part of the responsibility in trying to ensure our products are helping people reach their goals with greater certainty. It sometimes comes at a personal cost."

Thanks to how Picton and his team approach the market, though, they're prepared for times like these. He wants others to feel the same. That's why, over the past 20 years, his firm has worked tirelessly to help transform the way Canadians invest, bringing

more certainty in outcomes to investors. How? By aiming to build portfolio solutions that better withstand bear markets, yet still have the potential to excel in all markets.

This change in thinking is one that Picton feels is necessary today. For 40 years, investors have experienced great returns with reasonable levels of downside risk by investing in a portfolio of 60% stocks and 40% bonds. While the two asset classes performed well on their own, this approach also worked because of the significant diversification benefits they provided each other. However, in a world where stock and bond valuations are more elevated, and where these assets are moving more in unison with each other, a simple 60/40 portfolio becomes more vulnerable to sudden shocks, such as inflation spikes, slowing growth or misguided tariff policies.

The potential lack of differentiation between the movements in these two assets means 60/40 portfolios aren't as diversified as they used to be.

That leaves investors with more volatility and downside risk than they've become accustomed to. Consider 2022: the S&P 500 dropped by nearly 20%, while the Bloomberg U.S. Aggregate Bond Index also fell by 13%. That year was one of the worst for traditional 60/40 portfolios.

When Picton co-founded Picton Mahoney in 2004, he saw how the largest pension plans were repositioning themselves to bring new ideas into portfolios with good return potential and positive diversification benefits. Many of the best plans focused on mitigating risks by owning a collection of uncorrelated assets—strategies that would either increase in value when stocks or bonds fell or would at least decline much less. Better outcomes followed when the downside was mitigated through better portfolio construction.

To enhance diversification, these institutions added alternatives, including proven hedge fund strategies, such as equity market neutral, long-short credit or merger arbitrage. The goal? To generate returns regardless of market conditions. These shifts made sense to Picton, but retail and high-net-worth investors have generally had less access to these types of strategies. As a result, many Canadian portfolios have become less equipped to deal with greater volatility and uncertainty over time.

A BETTER WAY TO INVEST

As Picton sees it, one of the Canadian financial industry's major shortcomings is its over-reliance on the 60/40 portfolio. For the last two decades, Picton has encouraged investment advisors, individual investors and industry peers to evolve their investment processes by exploring ways to use alternatives to deliver better financial outcomes. "Alternatives offer greater diversification benefits than the traditional 60/40 asset mix that advisors and their clients have mainly defaulted to for decades," he says.

Yet, when it comes to their use, Picton notes Canadian investors are missing out on a rapidly expanding market. In 2010, alternative asset classes represented just 6% of the global investable market, but the Chartered Alternative Investment Analyst Association expects that figure will hit 24% this year. In Canada, the liquid alternative investment market stands at \$57.4 billion in assets under management (AUM), and while growing, its percentage within portfolios still lags behind many other developed markets.

Picton wants to bring adoption in Canada in line with the rest of the world. His firm is advocating for a new standard for portfolio construction that moves investors closer to a 40/30/30 portfolio, which is

40% equities, 30% bonds and 30% alternatives. "We believe investors need to shift assets into different return streams that either better diversify traditional portfolios or enhance their return potential," he says. "Our product suite of alternatives is designed to do just that."

HOPE FOR THE FUTURE

Since co-founding the firm more than 20 years ago, Picton has focused on creating portfolios that aim to lower risk without compromising returns. Now, though, he's setting his sights on the next 20 years, aiming to make alternatives a bigger part of Canadian investor portfolios. As part of this goal, his firm will undergo a rebrand in June, adopting a more streamlined and modern aesthetic. The company's updated modern look will help it stand out in a sea of sameness within the traditional fund management industry, appealing to existing advisors and their clients, along with the next generation of financial professionals and investors.

With a new message, "Build from the bear up," Picton is embracing the positive qualities of the bear—strength, adaptability and resilience—to help drive home the importance of alternative ways of investing. Picton is taking a contrarian view, transforming the traditional symbol of down markets and fear into a message of preparation and optimism. He's encouraging advisors and investors to learn from the bear to better prepare for risk, which should help them achieve their financial goals with more certainty.

To that end, Picton is confident in the future prospects for Canada and for Canadian investors. "From crisis comes an opportunity for tremendous improvement and growth," he says. "In spite of the recent turmoil, the seeds of positive change are starting to take hold and Canada is poised for a better future." As a Canadian-founded company, he's hopeful that his message of putting greater certainty at the centre of a portfolio will resonate with more advisors and investors. His firm won't rest until it does.

"We're proud of what we've done, but we are not at all complacent," he says. "We are investing heavily in all our processes to continue to improve them because investors have come to rely on us for better outcomes. We take that responsibility very seriously. I will have a lot of sleepless nights if we're ever not living up to that promise."

35.6%

Growth in alternative assets in Canada over the past 12 months*

\$57.4 billion

AUM in alternatives in Canada*

\$30 trillion

Expected AUM (USD) in alternatives globally by 2030†