

Why introduce investments that are in offshore investment vehicles?

October 2022

Given the market turmoil in 2022, the investment research team at Guardian Partners Inc. (“GPI”) recently updated their 10-year capital market return forecasts to take into account the decline in equities and bonds. While return expectations are modestly higher than they were at the end of 2021, they are considerably lower than the returns that investors have enjoyed in the past decade.¹ This conclusion is consistent with the preceding 100-plus years of history, where a great decade for stocks and bonds has typically been followed by a sub-par decade of returns.¹

To meet clients’ return and income objectives in this expected lower-return environment, investors can do one of two things:

- ▶ Continue to invest only in traditional equity and fixed income solutions but reduce the pool of potential investment opportunities even further, while taking on additional risk to offset the expected shortfall in return and yield relative to objectives; or
- ▶ Broaden their opportunity set to include investment solutions that have distinct return drivers and can be reasonably expected to provide attractive absolute rates of return even when market conditions, such as rising interest rates, are not generally favourable for traditional equity and fixed income markets. These additional opportunities include investments in niche equity strategies, real assets, private equity, private credit and absolute-return-driven strategies.

For the purpose of this note, Canadian investors can access these alternative solutions through investment vehicles that can be divided into two categories:

- ▶ Domestic vehicles, such as limited partnerships or trusts constituted in Canada, that will feature the best solutions from nearly all Canadian managers and several of the largest global asset managers.
- ▶ Offshore domiciled vehicles that will provide access to nearly all global asset managers and some Canadian managers.

Large pension plans that employ the brightest minds in the investment field are often viewed as leaders in portfolio construction. According to BlackRock, allocations to alternative investments by pension portfolios increased from 5% in 1996 to 26% in 2019.² In another study

¹ “S&P 500 Index Returns (January 1, 1950 to June 30, 2022).” Bloomberg. Accessed July 13, 2022.

² “Alternatives in Modern Portfolios – Institutional.” BlackRock. Accessed September 12, 2022.

<https://www.blackrock.com/institutions/en-us/insights/portfolio-design/alternatives-in-modern-portfolios>.

by UBS Asset Management, alternative investments appear to be a significant part of asset allocation for many investors,³ as demonstrated in the table on the next page.

Investor Type	Entity	Size (in billions USD)	Date	Alternatives as % of portfolio
Public Pension Plans	CalPERS	\$355.8	20-Mar	21%
Sovereign Wealth Fund	GIC (Singapore)	>\$100	20-Mar	20%
University Endowment	Yale University	\$30	19-Jun	77%
Global Family Office	121 Surveyed	\$1.6 (average)	20-May	35%

At GPI, we employ the same rigorous due diligence when seeking out offshore investments as we would any other, and we look for solutions that would be additive to a portfolio. However, there are a few key items we also take into consideration, in particular for taxable investors:

- ▶ **Differentiated Solutions:** If an offshore investment is similar in quality and risk-and-return profile to a comparable Canadian-domiciled strategy, we will recommend the Canadian solution and not proceed with the offshore investment.
- ▶ **Availability:** If an investment manager offers the same strategy as the offshore vehicle in a Canadian vehicle, we will recommend the Canadian vehicle.
- ▶ **Distributions:** If an offshore strategy offers both a distributing share class and a non-distributing share class, we will recommend the distributing share class.
- ▶ **Just Cause:** If the investor's objective for investing in the offshore strategy is for tax avoidance purposes, we will not recommend the strategy.

With our extensive experience in identifying investment strategies globally, we believe GPI is uniquely positioned to take advantage of opportunities that are differentiated from traditional asset managers. As always, we encourage investors to speak with their tax advisors before investing in an offshore solution.

Given the number and quality of unique offshore investment solutions, it is our view that investors who do not include them in their potential investments will have fewer arrows in their quiver (relative to investors that have them as permitted investments) as they navigate challenging investment periods.

³ "Alternative Investments." Asset Management. Accessed September 13, 2022.
<https://www.ubs.com/global/en/assetmanagement/insights/asset-class-perspectives/asset-allocation/articles/alternative-investments.html>.

This publication is for informational purposes only and does not constitute investment, financial, legal, accounting, tax advice or a recommendation to buy, sell or hold a security. It is not an advertisement and shall under no circumstances be considered an offer or solicitation to deal in any product or service mentioned herein. It is only intended for the audience to whom it has been distributed and may not be reproduced or redistributed without the consent of Guardian Partners Inc. This information is not intended for distribution into any jurisdiction where such distribution, publication, availability or use is restricted by law or regulation. Certain information contained in this document has been obtained from external sources which Guardian Partners Inc. believes to be reliable, however we cannot guarantee its accuracy.

Guardian Partners Inc. is a wholly owned subsidiary of Guardian Capital Group Limited, a publicly traded firm listed on the Toronto Stock Exchange. For further information on Guardian Partners Inc., please visit the company website: www.guardiancapital.com/gpi.

Trademarks and logos belong to their respective owners. © Guardian Partners Inc. 2022. All rights reserved.

Published October 19, 2022