



KKR's Henry McVey Publishes "Rethinking Asset Allocation"

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New Report Addresses Common Questions from CIOs and Offers 'Rules of the Road' for Investors Who Oversee Multi-Asset Class Portfolios with Exposure to both Liquid and Illiquid Investments

NEW YORK--(BUSINESS WIRE)--Oct. 23, 2018-- KKR today announced the release of [Rethinking Asset Allocation](#), the firm's latest *Insights* report by Henry McVey, Head of Global Macro and Asset Allocation (GMAA). The report specifically addresses several commonly asked macro-related questions from global chief investment officers (CIOs), including in regards to ongoing growth in the Alternatives arena. The report also offers several 'Rules of the Road' linked to portfolio construction, particularly as there is an increasing blurring between liquid and illiquid investments within the various investment mandates that the Firm now serves.

"Low bond yields, a surge in geopolitical tensions, and a shift towards fiscal stimulus have all fueled a rethinking of how to best generate strong risk-adjusted returns," McVey says. *"Against this backdrop, we have tried to articulate actionable solutions to many of the most complex investment questions that we are increasingly fielding from clients who – like us – use a rigorous, top-down approach to asset allocation."*

He continues, *"An important message, we believe, is that – amidst lower expected returns – the traditional relationship between stocks and bonds is now mean-reverting after a 20-year hiatus. As such, we think that the lion's share of multi-asset class portfolios likely need to be properly restructured for the new environment that we envision."*

McVey and his team offer detailed analysis, backed by nearly 75 data exhibits, around the following multi-asset investment trends:

1. Beyond traditional diversification techniques, KKR believes that there are at least four long duration, macro-oriented investment themes that may help portfolio managers generate significant out performance during the next 5- to 10- years. While each theme is different, there is common thread amongst all of them: Buy Complexity and Sell Simplicity.
2. Both the definition of Private as well its drivers of value have changed meaningfully in recent years. At this point in the cycle, Private Equity will likely outperform Public Equity, though manager selection remains a key performance variable.
3. Given the significant decline in interest rates in recent years, the value of the illiquidity premium in Private Credit has increased materially. However, competition is intensifying in this market, and we now favor Private Credit more closely linked to nominal GDP.
4. As quantitative easing is transitioning towards quantitative tightening, many governments are shifting their focus towards fiscal stimulus in an effort to boost nominal GDP. In the U.S., interest rates have tended to run moderately below the level of nominal GDP growth as long as the Fed was not actively trying to suppress run-away inflation. We maintain this view, but we are keenly mindful of rising deficits, particularly in the United States and Europe.
5. In terms of portfolio construction, KKR's 'Rules of the Road' articulate the toolkit that can be implemented to create better risk-adjusted outcomes, particularly as more and more CIOs seek new and innovative ways to deliver returns by way of differentiated opportunities across both private and public markets. While there are many aspects of portfolio construction to consider, the 'Rules' focus on four key portfolio construction metrics: pacing, correlations, proper comparisons for private market assets, and liquidity.

Links to access this report as well as an archive of Henry McVey's previous publications follow:

- To read the latest Insights: click [here](#).
- To download a PDF version: click [here](#).
- To download the KKR Insights app for iOS click [here](#), and for Android click [here](#).
- For an archive of previous publications please visit www.KKRinsights.com.

About Henry McVey

Henry H. McVey joined KKR in 2011 and is Head of the Global Macro and Asset Allocation team. Mr. McVey also serves as Chief Investment Officer for the Firm's Balance Sheet and oversees Firmwide Market Risk at KKR. As part of these roles, he sits on the Firm's Investment Management & Distribution Committee and the Risk & Operations Committee. Prior to joining KKR, Mr. McVey was a managing director, lead portfolio manager and head of global macro and asset allocation at Morgan Stanley Investment Management (MSIM). Earlier in his career he was a portfolio manager at Fortress Investment Group and chief U.S. investment strategist for Morgan Stanley. While at Morgan Stanley, Mr. McVey was also a member of the asset allocation committee and was the top-ranked asset management and brokerage analyst by Institutional Investor for four consecutive years before becoming the firm's strategist in January 2004. He earned his B.A. from the University of Virginia and an M.B.A. from the Wharton School of the University of Pennsylvania. Mr. McVey is a member of the TEAK Fellowship Board of Trustees after previously serving as co-chair of the board for five years. Henry is also a member of the Pritzker Foundation Investment Committee, a board member of the University of Virginia Investment Management Company (UVIMCO), a member of the national advisory board for the Jefferson Scholarship at the University of Virginia, and a member of the Council on Foreign Relations Corporate Leader Program.

About KKR

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KKR
Kristi Huller or Samantha Norquist
212-750-8300
media@kkr.com