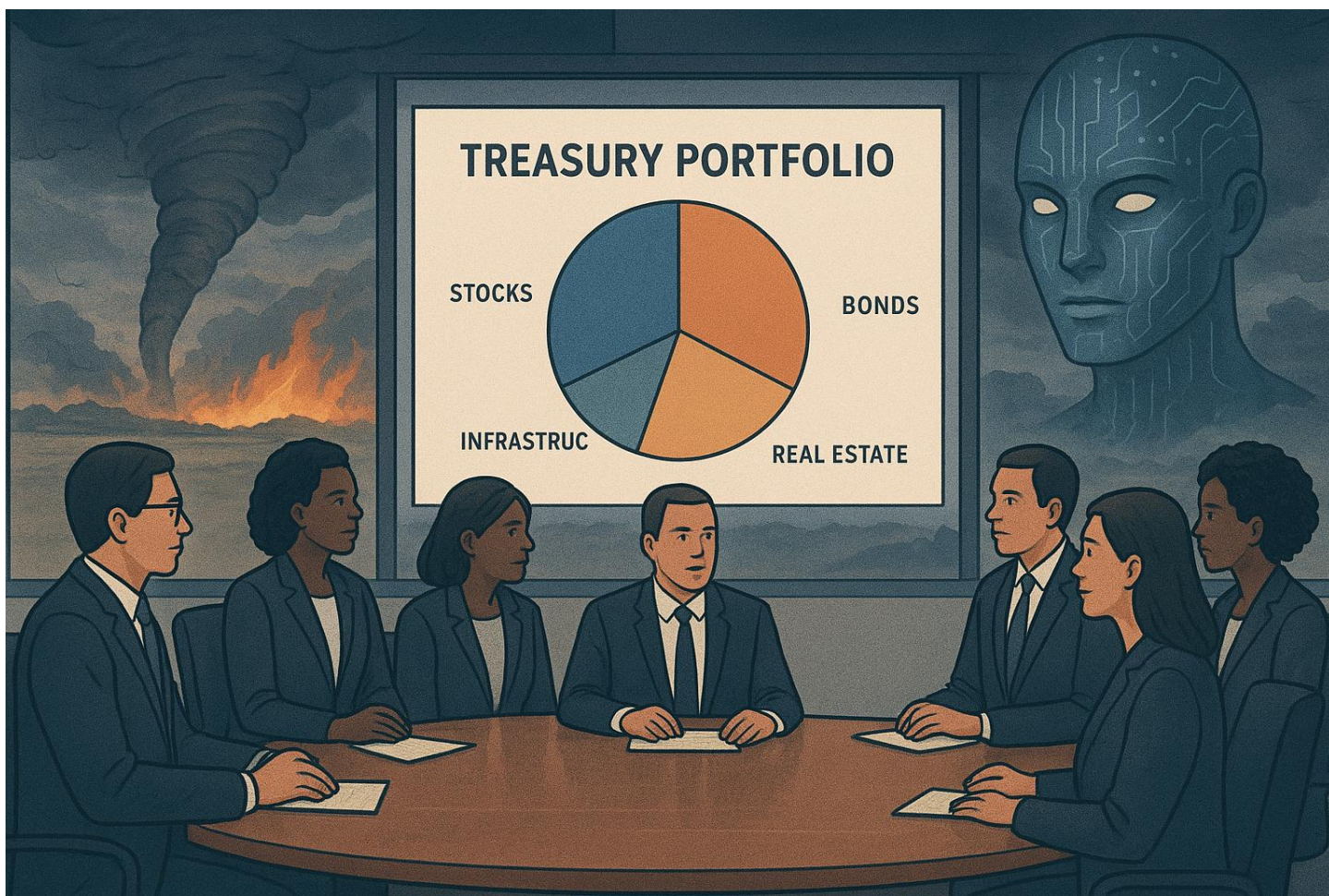




Navigating Perma-Volatility: A Liquid Alternatives Playbook for Corporate Boards

Executive Summary

In today's "perma-volatility" environment, corporate treasury and defined-benefit pension plans face unprecedented uncertainty across geopolitical, macroeconomic, demographic, environmental, technological, and financial market dimensions. Traditional buy-and-hold asset allocations struggle to deliver the resilience and liquidity required. This white paper outlines a liquid-first investment framework that empowers boards to harness a diversified toolkit of liquid alternatives, dynamically manage risk exposures, and pursue robust, uncorrelated returns. By defining risk appetite, embedding liquid assets strategically, and implementing disciplined tactical overlays, boards can mitigate drawdowns, capture mispriced opportunities, and ensure liquidity for liabilities.

Introduction

Corporate Treasuries and retirement plan sponsors have long relied on static strategic asset allocations (SAAs) - typically a blend of equities, core fixed income, and real assets - to meet funding objectives and liquidity needs. Yet, a confluence of heightened volatility drivers has exposed the limits of these traditional portfolios. Geopolitical tensions, shifting monetary regimes, demographic headwinds, and climate risks now intertwine

with rapid technological disruption and evolving capital markets. Effectively navigating uncertainty requires a clear definition of uncertainties and volatility, incorporation of a suite of liquid alternatives, and development of appropriate risk appetite policies. Creating clarity, diverse tools and clear risk metrics provides a framework to embrace volatility as opportunity – to leverage established risk limits, liquidity pools and momentum as partners in meeting long-term objectives.

Unpacking the Drivers of Perma-Volatility

Corporate boards are recognizing the multifaceted nature of today's uncertainty. A range of core vectors are reshaping the global paradigm, impacting corporate strategic planning and the management of Treasury and retirement plans' assets:

- **Geopolitical Flux**

- The post–Cold War bipolar world has fragmented into a multipolar landscape, complicating alliance structures and trade relationships.
- Tariff volatility and shifting trade blocs elevate the risk of supply-chain dislocations and abrupt policy pivots.
- Chronic “hot spots,” from Eastern Europe to the Middle East, inject episodic market shocks.

- **Macroeconomic Recalibration**

- The prolonged era of near-zero rates has given way to rising and unpredictable inflation, challenging both growth forecasts and valuation models.
- Elevated sovereign debt burdens constrain fiscal flexibility and amplify contagion risks across developed and emerging markets.
- Erosion of U.S. dollar hegemony, coupled with competing currencies and digital payment networks, unsettles FX regimes.

- **Demographic Headwinds**

- Aging populations and declining birth rates raise dependency ratios, pressuring public pensions and corporate benefit costs.
- Net immigration slowing in key economies tightens labor markets while increasing volatility in social policy.
- Longevity gains intensify defined-benefit obligations, requiring more precise liquidity management.

- **Environmental Stressors**

- Increasing frequency of severe weather events exposes real-asset portfolios to acute physical risk and insurers to spike claims.

- Climate migration and resource constraints (notably rare earth minerals) drive idiosyncratic asset repricing.
- **Technological Disruption**
 - Artificial intelligence and cybersecurity threats reshape industry trajectories and catalyze rapid capital reallocation.
 - Digital transformations underpin remote work and global “digital mobility,” altering real-estate and corporate-credit exposure.
- **Financial Market Evolution**
 - The number of listed companies in the U.S. has halved over two decades, reducing equity-market breadth and liquidity.
 - Private capital’s extended hold periods delay public price discovery, exerting pressure on the equity risk premium.
 - Core fixed income yields have retraced from all-time lows back into double-digit territory in nominal terms, creating volatility in rate-sensitive assets.

By mapping these vectors, boards can stress-test portfolios against plausible volatility regimes and tailor liquid strategies to address each risk axis.

Defining and Measuring Volatility

Accurate volatility measurement underpins dynamic allocation and hedging strategies. Corporate boards should consider, and set a Risk Appetite Policy which sets maximum / minimum and targets for each metric:

- **Accounting Asset/Liability Mismatches**, monitoring the divergence between asset-class performance and corporate or actuarial liability drivers.
- **Correlation Regime Shifts**, tracking rolling correlations between asset classes to identify decoupling or contagion episodes.
- **Funding Required Returns**, which sets the minimum return on assets to fund obligations.
- **Liquidity Risk**, which establishes minimum liquidity available over 1-day to multi-year periods.
- **Standard Deviation** of absolute and relative returns as a baseline risk gauge.
- **Tail Risk Metrics**, including value-at-risk (VaR), conditional VaR, and stress-testing under extreme but plausible scenarios.

Metrics should be established based on ex-post variable historical periods, and on ex-ante forecasts which incorporate both market conditions and the company’s own strategic plans. A forward-looking volatility framework empowers boards to calibrate liquid allocations proactively rather than reactively.

The Liquid Asset Toolkit

Liquid alternatives span a broad array of instruments and strategies, as noted in the below taxonomy. Boards' corporate Treasury and retirement plans policies incorporate many of the strategies, set at approved targets, ranges and risk metrics:

Public Liquid Instruments

- **Currencies & FX Forwards:** Defensive hedges and speculative plays in currency regimes.
- **Exchange-Traded Funds (ETFs):** Broad market, thematic, volatility, and sector exposures, daily liquidity.
- **Exchange-Traded Futures & Options:** Efficient means to express directional and relative-value views on commodities, rates, and equities.
- **Treasury Bills & Enhanced Cash Funds:** Cash-plus returns with capital preservation.
- **Publicly traded Real Estate stocks and bonds:** A wide range of real estate companies, many structured as Real Estate Investment Trusts (REITs) or Real Estate Operating Companies (REOCs), have listed equity and tradable debt. Sectors include residential, retail, industrial, lodging/resort, healthcare, office, self-storage, data centers, mortgage REITs, and specialty (e.g. timberland and telecommunication towers).
- **Publicly traded Infrastructure stocks and bonds:** A wide range of infrastructure companies have listed equity and tradable debt. Sectors include: electric-gas-water utilities, transportation (airlines, railroads, trucking firms), energy (oil, gas and midstream), telecommunications (carriers, cell towers, fiber companies), and commercial and industrial services (construction, capital goods, engineering).

Private & Semi-Liquid Vehicles

- **Open-Ended Private Infrastructure and Real Estate Funds:** Diversified, yield-oriented exposures with monthly/quarterly redemptions.
- **Secondary Funds of Private Assets:** Discounted entry into illiquid private equity and debt portfolios with defined liquidity windows.
- **Perpetual and Tactical Asset Allocation Funds:** Strategically flexible vehicles that adapt weights based on market signals.

Alternative Strategies

- **Commodity Futures:** Real-asset offerings that often diversify equity and credit risk
- **Catastrophe Bonds:** Event-driven offerings that often diversify equity and credit risk.
- **Digital Assets & Blockchain-Based Funds:** High-beta, emerging assets, non-correlated return potential.
- **Hedge Funds / Enhanced Cash Strategies:** Market-neutral, CTA trend-following, and multi-strategy approaches with transparent gate structures.

By blending these instruments, boards can design multi-dimensional portfolios that offer daily to monthly liquidity, robust diversification, and customizable risk/return profiles.

Embedding Liquid Assets into Policy:

Codifying the following elements into Board investment policies empowers management to act decisively to utilize volatility when it occurs in portions of a portfolio, multiple asset classes or the general macroeconomic and financial market environment.

- **Establish Risk Appetite Framework:** Define for each asset pool:
 - Required rate of return (net of fees).
 - Maximum absolute drawdown tolerance.
 - Tracking-error limits relative to accounting and actuarial liabilities, strategic policy benchmarks, and individual asset-class indices.
- **Align Strategic Asset Allocation (SAA)**
 - Set long-term liquid-inclusive allocations that satisfy the risk-appetite metrics.
 - Incorporate a mix of low-beta (e.g., enhanced cash, catastrophe bonds) and high-conviction (e.g., thematic ETFs, digital assets) exposures.
- **Tactical Overlays & Dynamic Implementation**
 - **Leverage Market Niche Opportunities:** Within tracking-error budgets, overweight liquid segments exhibiting mispricing or fundamental dislocations.
 - **Momentum & Reversion Signals:** Apply a disciplined trend-following engine, selling at 20% below peak and buying at 20% above trough, to lock in gains and reenter downturns.
 - **Liquidity Buckets:** Segment assets into “core” (daily liquidity), “semi-core” (monthly/quarterly), and “satellite” (annual or lockup) buckets to ensure cash flow needs are met.
- **Ensure Enterprise Risk Framework Implemented by Asset / Operations Teams**
 - **Due Diligence and Manager Selection:** Conduct rigorous qualitative and quantitative assessments of liquid-alternatives managers, focusing on process transparency, capacity limits, and historical liquidity management.
 - **Reporting and Transparency:** Mandate standardized risk and performance reporting—aligned to risk-appetite metrics and liquidity buckets—to facilitate board-level oversight.
 - **Stress-Testing and Scenario Analysis:** Integrate extreme but plausible events (e.g., sudden rate shocks, geopolitical escalations, pandemic recurrences) into regular plan stress tests. Simulate liquidity-drain scenarios, ensuring at least 100% coverage of one-year cash needs within core and semi-core buckets.
 - **Cost and Operational Efficiency:** Negotiate fee structures that align manager incentives with reported net performance. Leverage pooled trust or commingled structures to lower operational overhead without sacrificing control.

Conclusion and Next Steps

As perma-volatility reshapes the landscape for corporate treasuries and retirement plans, liquid alternatives emerge as indispensable building blocks for resilience. By systematically defining risk appetites, embedding a spectrum of liquid strategies into SAA frameworks, and deploying disciplined tactical overlays, boards can:

- Mitigate drawdowns and liability mismatches.
- Capture dislocated opportunities across asset classes.
- Ensure robust liquidity through stress events.
- Enhance risk-adjusted returns in uncertain markets.

Next steps for boards include commissioning a gap analysis of existing liquidity policy, identifying high-conviction liquid allocations, and piloting momentum-based overlays in a defined “alpha lab.” Through iterative refinement and rigorous governance, liquid alternatives can transition from niche allocations to core defensive pillars, ensuring corporate assets not only survive but thrive in the era of perpetual volatility.