

## Stop Benchmarking Alternatives to the S&P

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**The most common mistake in alternatives evaluation is also the most intuitive one: comparing returns to the S&P 500.** Every quarter, allocators and advisors benchmark their alternatives sleeve against public equity indices. It feels rigorous. It looks analytical. And it systematically leads to the wrong conclusions about whether an allocation is working.

### Why the S&P is the Wrong Yardstick

- **Different return drivers:** Alternatives derive returns from illiquidity premia, operational alpha, contractual cash flows, and real asset appreciation. The S&P is driven by earnings multiples and momentum. Quarterly return comparisons ignore why alternatives exist in a portfolio.
- **Different risk profiles:** A farmland allocation returning 5-7% with near-zero drawdowns looks “boring” next to a +25% equity year. It looks brilliant after a -30% drawdown. The S&P benchmark frames alternatives as a return competition rather than a risk management tool.
- **Different time horizons:** Public equities reprice continuously. Private equity and real assets operate on multi-year deployment and realization cycles. Quarterly comparisons introduce timing noise that obscures underlying value creation.
- **Smoothed vs. marked-to-market:** Alternatives exhibit lower reported volatility partly because they are appraised, not traded. This is a feature for portfolio construction but a flaw for return benchmarking.

## What to Use Instead

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The right benchmark depends on the role the allocation plays in the portfolio. Here are three frameworks that actually work:

### **Benchmark to the Objective, Not the Asset Class**

- If the allocation exists for inflation protection, benchmark it against CPI + a spread. Farmland returning CPI + 3% is doing exactly what it should, regardless of whether the S&P returned 20%.
- If the allocation exists for income, benchmark against a yield target. Private credit generating 8-10% current income is succeeding even when equities are outperforming on total return.

### **Measure the Portfolio, Not the Sleeve**

- The correct question is not “did my alternatives beat the S&P?” but “did my total portfolio perform better with alternatives than without them?”
- Evaluate Sharpe or Sortino ratios at the portfolio level. A 15% alternatives allocation that reduces portfolio volatility by 200bps while maintaining returns has created enormous value, even if the sleeve itself trailed the S&P.

### **Use Appropriate Peer Benchmarks**

- Compare farmland to NCREIF Farmland Index, not the S&P. Compare private equity to Cambridge Associates PE benchmarks, vintage-year adjusted. Compare private credit to direct lending indices.
- Even within these peer benchmarks, account for strategy differences. A value-add real estate fund and a core farmland fund have fundamentally different risk-return profiles.

### **The Bottom Line**

The S&P 500 is an excellent benchmark for public equity strategies. It is a terrible benchmark for alternatives. Using it as the default yardstick leads advisors and allocators to abandon diversifying strategies at cycle lows and chase concentrated equity exposure at cycle highs. The benchmark is doing your thinking for you — and it is thinking about the wrong things.



Unlocking Returns in the Undervalued and the Novel

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