Institutional investors commonly target 5% real annual returns, or 7% to 8% nominal returns. At the time this paper was written, however, the authors estimated the prospective real yield on a 60/40 portfolio — 60% equities and 40% fixed income — was less than half that: 2.4%, the lowest in 112 years. Thus, they asserted, traditional allocations were unlikely to achieve 5% real returns in the following 5 to 10 years.

The standard universe of “alternative asset classes” was not likely to fill the gap, they said, because it tends to repeat the problem of concentration in equity risk, just at a higher fee. Despite all of this, the authors said they believe that some investors can still achieve the 5% goal, or at least come closer to it, if they embrace a modest amount of innovation and thoroughly prepare themselves to see it through. Broadly, they recommend:

• Harvesting a broad set of return sources, far broader than the typical set that relies heavily on the equity risk premium.
• Implementing a series of portfolio management methods we label “alpha in portfolio construction.”
• Putting in place the risk control necessary to see this approach, or any other, through tough times.

"No single idea will do the trick," they wrote, "but each of these can help investors get closer to the 5% real-return target."