



White Paper

Diversifiers Forever

How foundations, endowments and other ultra-long-term investors can harness diversifiers for higher expected returns

July 31, 2025

In a portfolio whose investment horizon is forever, do diversifying investments add any value? While a smoother ride may be useful for nest-egg savers or retirees, for investors who can serenely allow market volatility to pass them by, what's the point?

In this short paper, we illustrate the surprising power of diversification for ultra-long-term investors. A modest re-allocation from equity-correlated investments to a strongly diversifying alternative has the potential to increase compound returns and generate more constant payouts to beneficiaries – even if the new investment looks unspectacular on its own.

The most innovative investors can go one better. By adding the diversifying source of return as a capital-efficient overlay (for example, by using a portable alpha structure), such investors can substantially increase expected compound returns and payouts over the long term, at the same level of portfolio risk.

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