ALTERNATIVE INVESTMENTS
WHAT TO LOOK FOR
23 SEPTEMBER 2013
Agenda

- Why allocate to alternatives
- Common myths about alternatives
- Managing the risks
- Practical & governance issues
Why allocate to alternatives
Common myths about alternatives
Managing the risks
Practical & governance issues
Why allocate to alternatives?

- **Return-focused**
  - Directional hedge funds
  - Core Real Estate
  - Core Infrastructure
  - High Lease to Value Real Estate
  - Commodities
  - Energy Resources
  - Energy PE
  - Mining & Minerals
  - Private Debt
  - Private Equity
  - Private Equity

- **Diversifiers**
  - Tail risk hedging strategies
  - Short-biased hedge funds
  - Insurance-linked securities
  - Non-directional hedge funds
  - Directional hedge funds

- **Inflation-sensitive**
  - Value-add Real Estate
  - Agriculture
  - Growth Infrastructure
  - Opportunistic Real Estate
  - Private Debt
  - Private Equity
  - Shipping
Why allocate to alternatives?

**Return-focused**
- Core Real Estate
- Core Infrastructure
- Directional hedge funds
- Private Debt
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- Energy PE
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**Diversifiers**
- Tail risk hedging strategies
- Short-biased hedge funds
- Insurance-linked securities
- Non-directional hedge funds
- Directional hedge funds

**Inflation-sensitive**
- Inflation-sensitive Diversifiers
- Core Real Estate
- Core Infrastructure
- Timber
- Agriculture
- Value-add Real Estate
- Growth Infrastructure
- Opportunistic Real Estate
- High Lease to Value Real Estate
- Commodities
- Energy Resources
- Private Equity
- Private Debt
- Energy PE
- Mining & Minerals
Why allocate to alternatives

Common myths about alternatives

Managing the risks

Practical & governance issues
Some common myths

“Hedge fund performance has been disappointing”

“Hedge funds are more risky than equities”

“Hedge funds are highly correlated with equities”
Some common myths
Hedge fund performance has been disappointing?

![Performance Chart](image)

Source: Hedge Fund Research, Inc

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Some common myths
Hedge funds are more risky than equities?

Source: Hedge Fund Research, Inc, Bloomberg
Some common myths
Hedge funds are highly correlated with equities?

Source: Hedge Fund Research, Inc
Why allocate to alternatives

Common myths about alternatives

Managing the risks

Practical & governance issues
Managing the risks
Some hedge funds are risky investments

Hedge-fund closures

"Quitting while they’re behind"
Some hedge funds are throwing in the towel"
Feb 18th 2012 | LONDON AND NEW YORK | THE ECONOMIST

“California Hedge Fund Is Latest Europe Crisis Casualty”
By Saijel Kishan - Jun 14, 2012, Bloomberg

Markets
“Hedge Fund Files for Bankruptcy”
By Steve Eder and Josh Barbanel, July 4, 2012, 7:26 p.m. ET., The Wall Street Journal
Managing the risks
In hedge fund investing, diversification is essential

Hypothetical return per unit of risk (relative to average for individual managers)

Number of Managers
Assumed correlation between managers

- 0.50
- 0.40
- 0.30
- 0.20
- 0.10
- 0.05
Managing the risks

**Single strategy funds** (30% to 80%) – expected to generate strong returns over a full cycle

**Hedging strategies** (0% to 20%) – useful diversifiers

**Multi-strategy funds** (20% to 60%) – provide diversification with scope to shift allocations as opportunity set changes and to gain exposure to niche/emerging strategies
Why allocate to alternatives

Common myths about alternatives

Managing the risks

Practical & governance issues
Practical / Governance issues of investing in alternatives

Compelling case for investing in alternatives, but…it’s complex...

• Number of managers
• Manager selection
• Implementation
• Ongoing monitoring and maintenance

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