Ninepoint Partners LP

Evolution of Portfolio Management

What are investors looking for in an asset?

From institutions to retail, investors are looking for allocations to contribute similar characteristics

✓ Adequate risk adjusted return

✓ Low correlation to the current portfolio

✓ Portfolio liquidity match to future liabilities

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The Message…

Educate the investing public on the role of alternatives & private investments in a well diversified portfolio

Debunk the myth of viewing perceived risk on the basis of an individual asset & view risk in the context of the portfolio

The Evolution of Portfolio Management

Optimal Portfolio Allocation – The Efficient Frontier

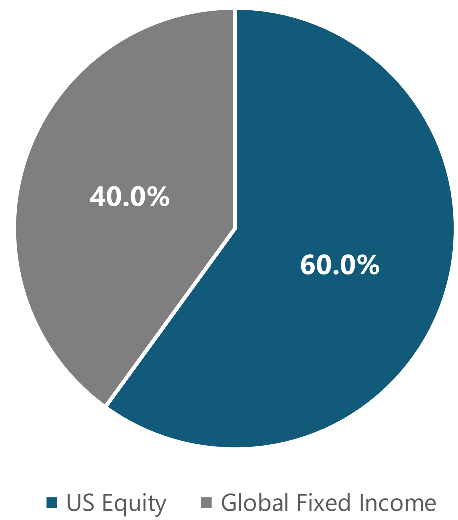
Modern Portfolio Theory's application of the best use of diversification in a portfolio

- Nobel Laureate Harry Markowitz introduced the Efficient Frontier concept in 1952
- The optimal portfolio does not simply include securities with the highest potential returns or low-risk securities. In essence an investment perceived should not be judged on its own merit but in the context of a portfolio. i.e.: Real Risk vs. Perceived Risk
- Optimal portfolios balance greatest returns with the lowest acceptable risk
- The points on the plot of risk versus expected return is known as the efficient frontier

Traditional Allocation: 60% Equity and 40% Fixed Income

Modern Portfolio Theory states that a risk-averse investor can construct portfolios to optimize expected return, given a level of market risk

- The 60-40 Portfolio was designed to be a balance of capital growth and income for the average investor
- Modern Portfolio Theory developed a series of optimized portfolios given a universe of assets
- The 60-40 Portfolio, is a simplified approximation of a balanced efficient portfolio



The Traditional Allocation Barbell

Investors must balance Passive Income versus Capital Growth from Publicly traded assets

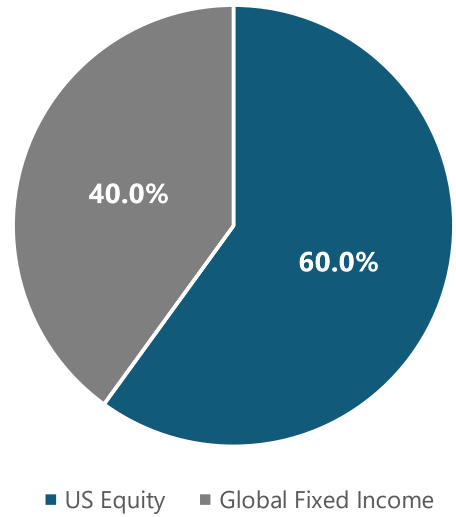
Fixed Income

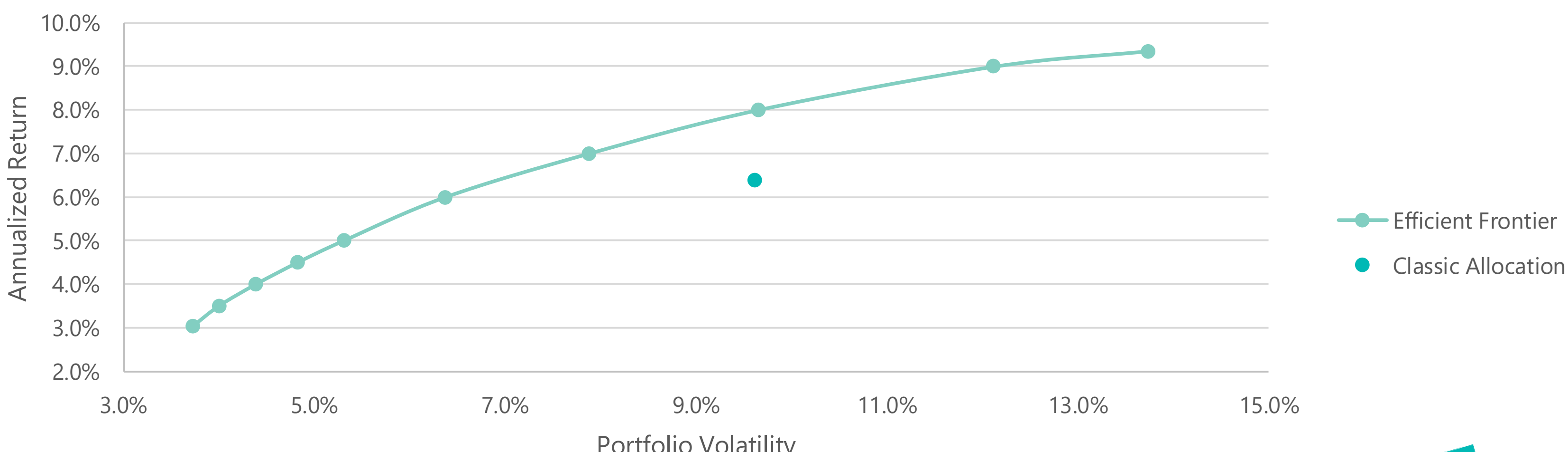
Equity

The Problems with the Traditional 60-40 Portfolio

As the investment universe broadens, the 60-40 portfolio falls away from the Efficient Frontier

- Allocating broadly to the equity and fixed income markets can reduce portfolio effectiveness
- The method of allocating only between broad indexes does not allow for the portfolio to take advantage of relative and perceived riskiness
- In order to identify the new efficient portfolio, each asset class in the universe must be identified and the covariances must be understood to optimize risk adjusted returns





Modern Portfolio Theory | Portfolio Factoring | Efficient Market Impact | Endowment Model

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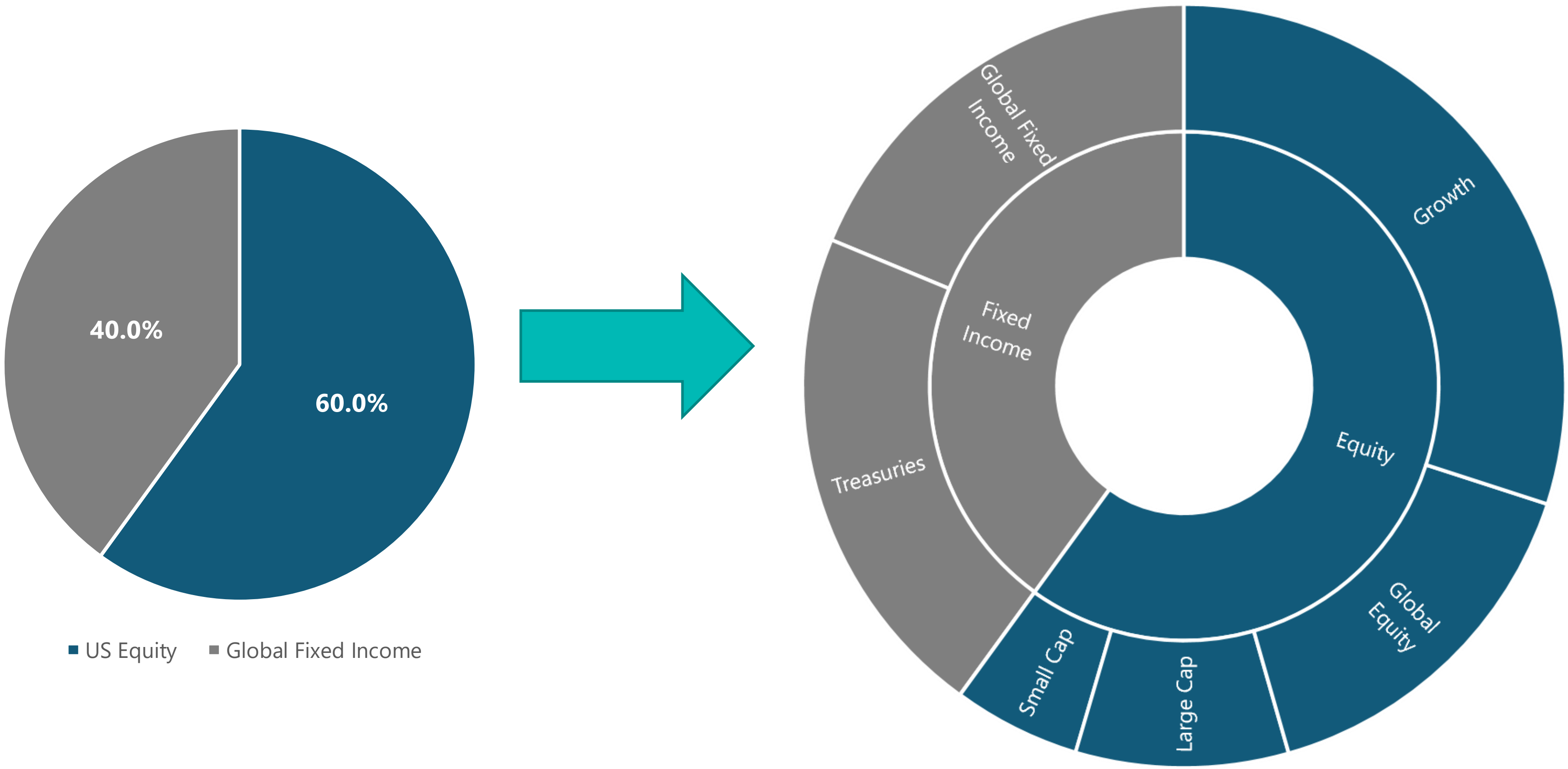
Portfolio Factoring – Fama-French Model

Introduces the idea of factoring the allocation beyond the 60-40 split, in order to optimize the investors return, based on their risk aversion

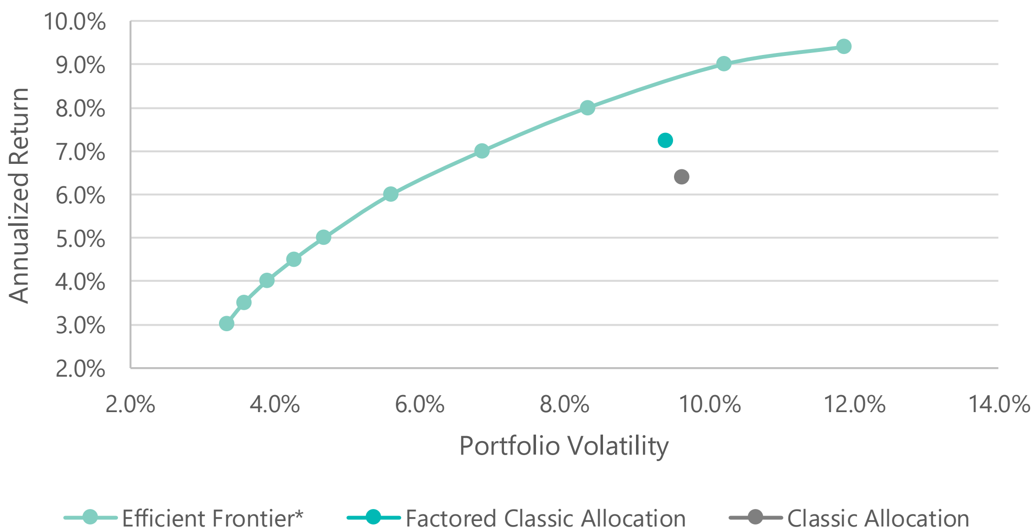


Modern Portfolio Theory | **Portfolio Factoring** | Efficient Market Impact | Endowment Model

Portfolio Factoring – Fama-French Model

Introduces the idea of factoring the allocation beyond the 60-40 split, in order to optimize the investors return, based on their risk aversion

- Portfolio factoring allows the separation of asset classes within the broad market classifications
- A factored portfolio is more likely to be compensated for systematic risk
- The factored portfolio has more opportunity to actively manage assets



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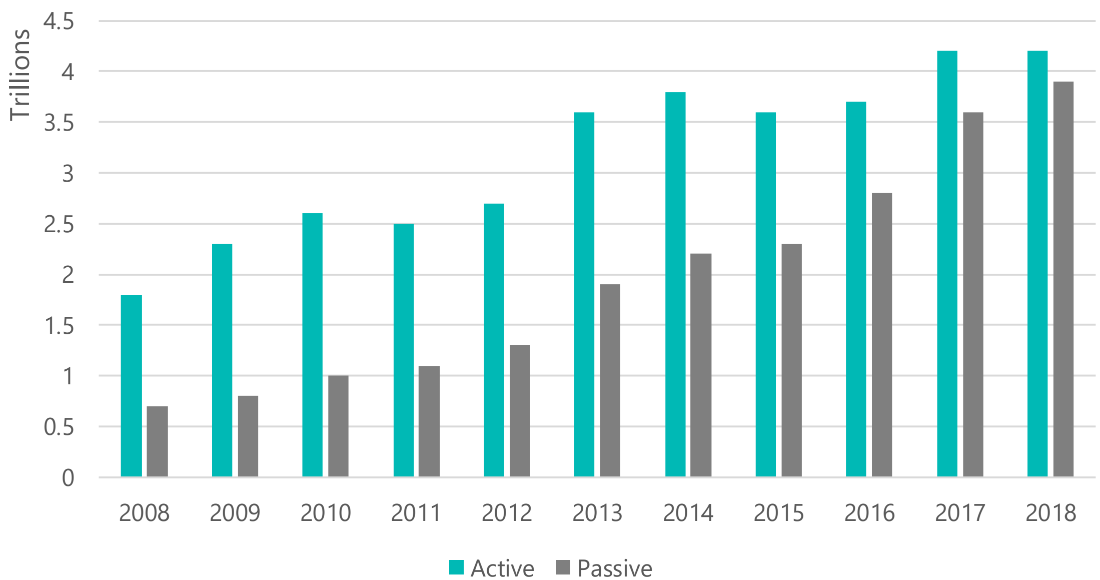
Efficient Market Hypothesis

Economic theory that asset prices in an efficient market fully reflect all available information

- As public markets become more efficient, the benefits of traditional active management are mitigated
- If prices reflect all available information, all assets are worth exactly what is paid and no alpha can be generated
- Factoring and allocation changes in traditional assets along the efficient frontier will not generate additional risk adjusted return

Efficient public markets have reduced the Alpha generated from active investing, leading to a rise in passive indexing strategies

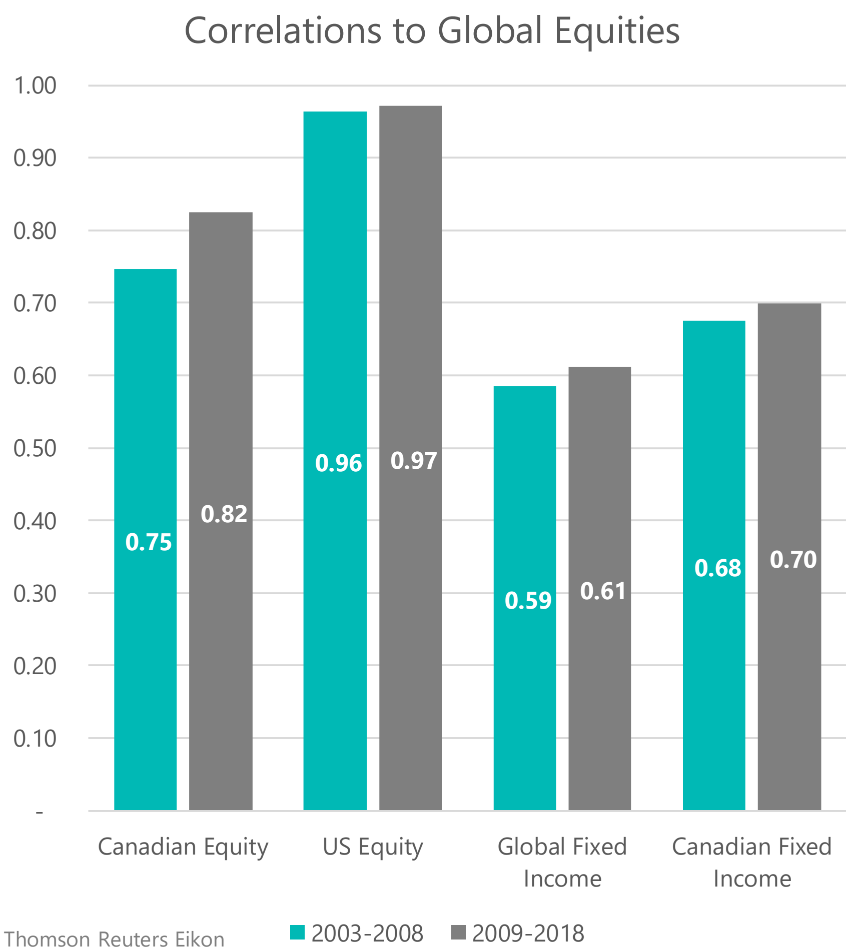


Modern Portfolio Theory | Portfolio Factoring | **Efficient Market Impact** | Endowment Model

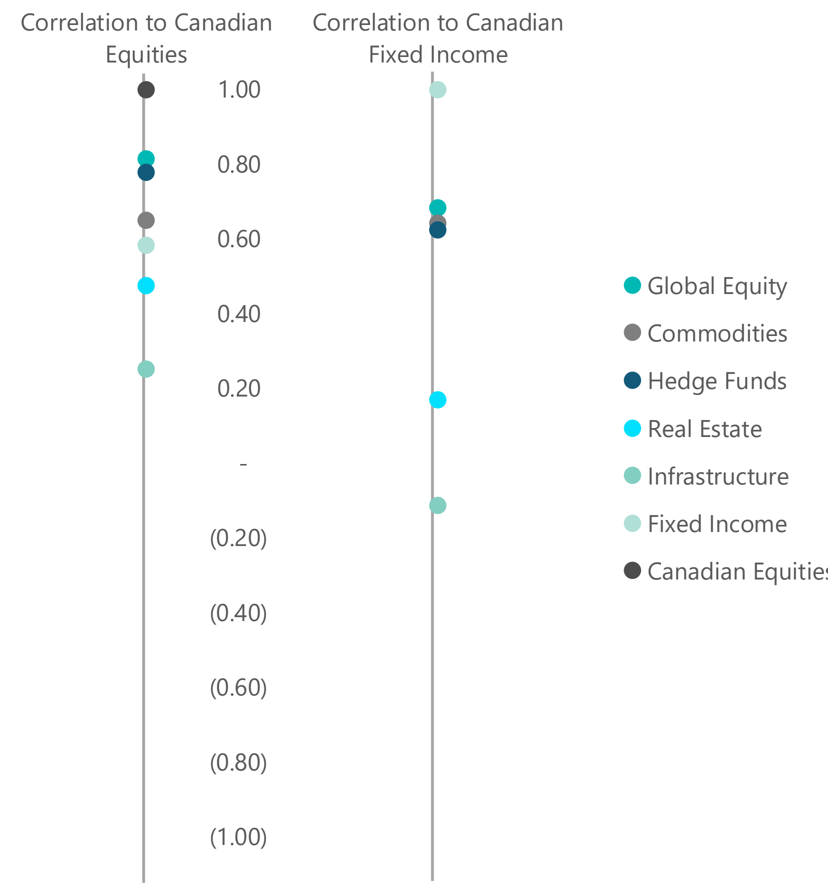
Source: Morningstar Inc. As of November 2018

Correlation of Traditional Asset Classes

Historical effects of traditional diversification are reduced as assets become more correlated



Source: Thomson Reuters Eikon



Modern Portfolio Theory | Portfolio Factoring | **Efficient Market Impact** | Endowment Model

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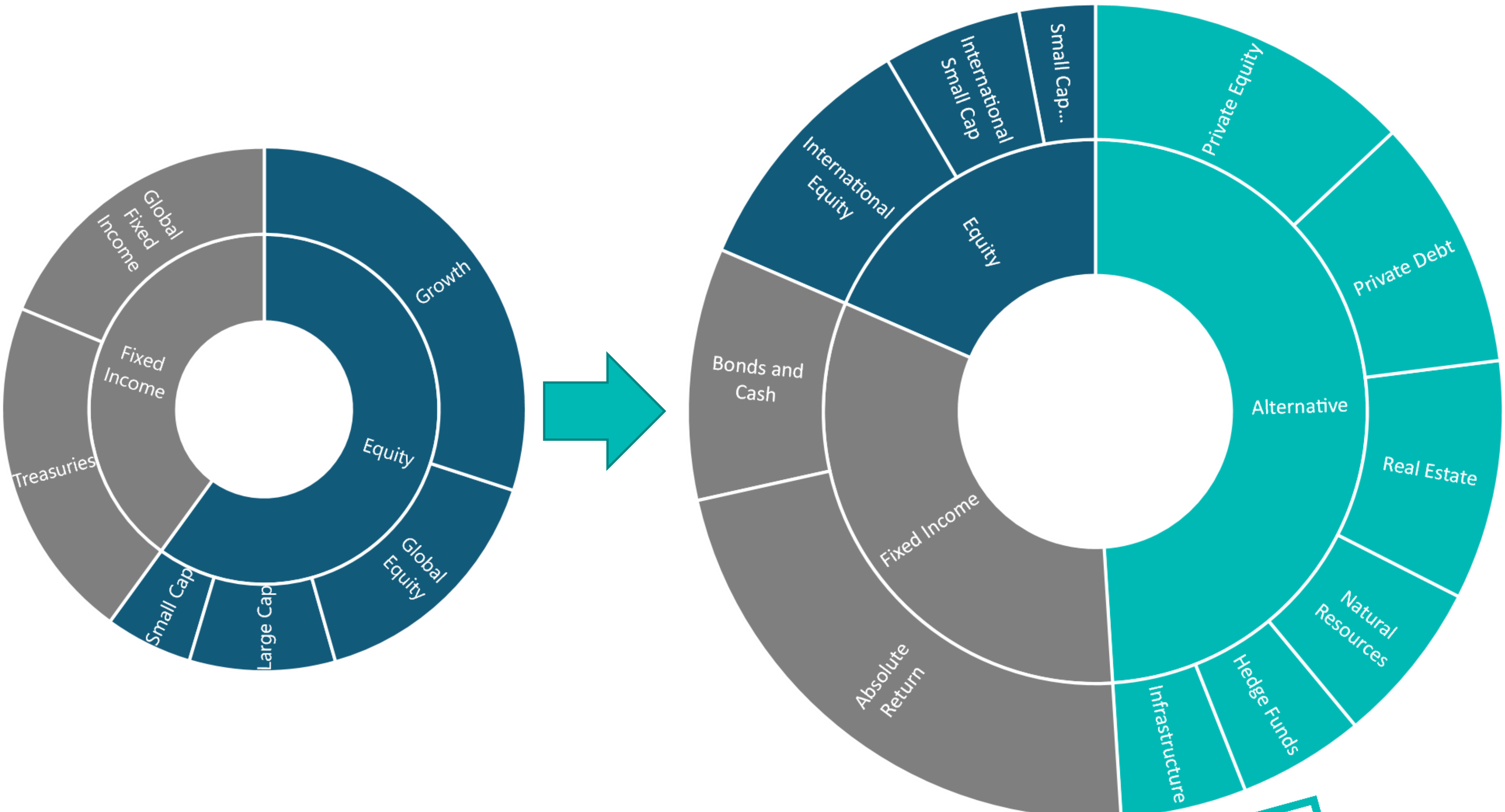
Alternative Market Opportunities – Endowment Model

Institutional investors use Alternative Asset Allocations to enhance yield and diversify their portfolio



Modern Portfolio Theory → Portfolio Factoring → Efficient Market Impact → **Endowment Model**

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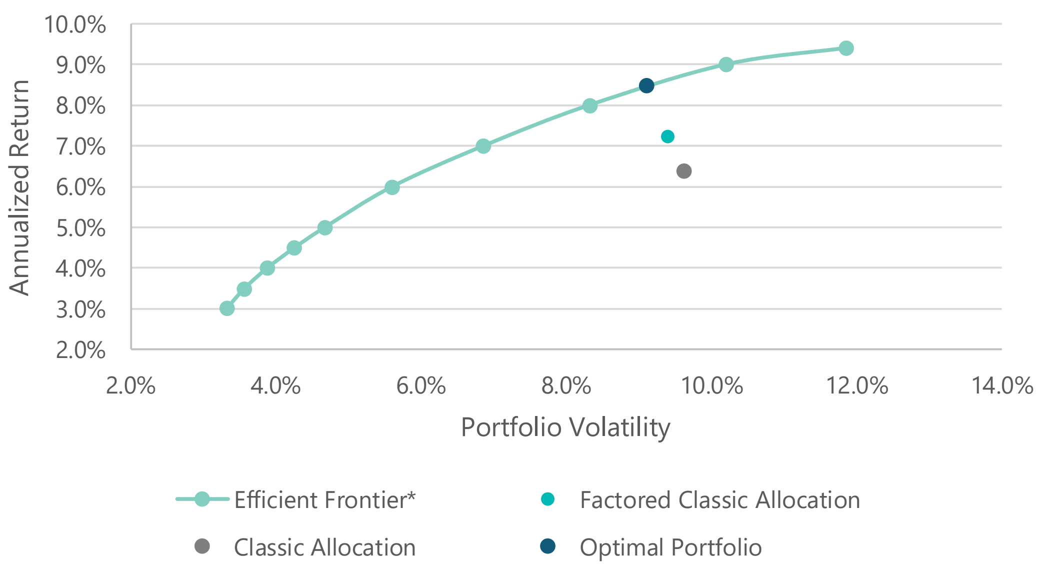
Private Market Opportunities – Yale Endowment Model

Alternative Assets provide vehicles for exposure to private markets where active management thrives

- The Endowment Model allocates a significant portion of assets to non-traditional asset classes

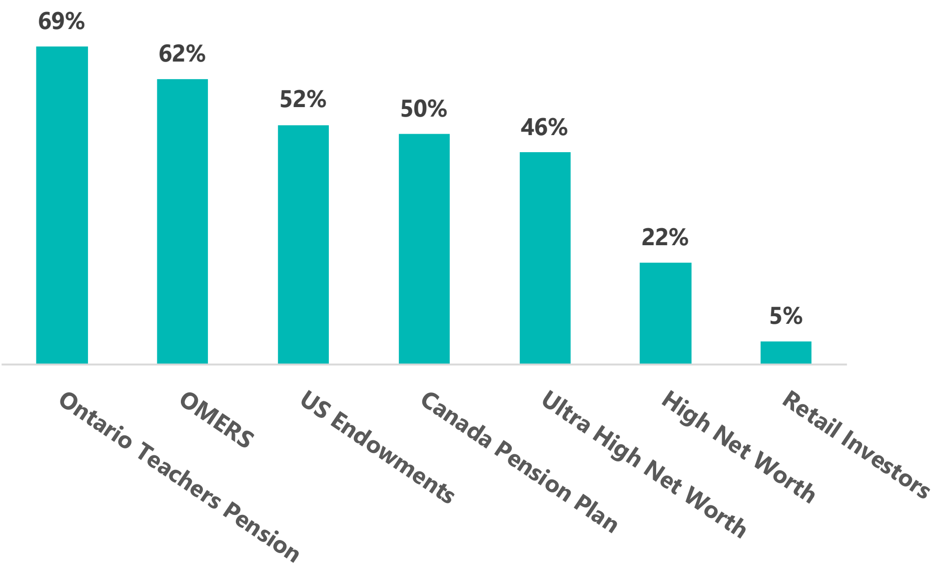
- Alternative assets are believed to provide a good source of excess return when liquidity is not a priority



Alternative Asset Allocations for Individuals

Institutional investors have been quick to adopt alternative asset investments, while retail investors have lagged

Average Allocation to Alternatives: Institutions vs. Individuals[1]



Alternatives operate under different market conditions:

- Managers less constrained
- Less efficient markets
- Low correlation to public markets

Most individual investors have not optimized their portfolio in the full investment universe

The New Investor Barbell

Balancing liquidity from public markets with private investments that generate addition yield and diversification

Traditional Investments

Alternative Investments

Modern Portfolio Theory → Portfolio Factoring → Efficient Market Impact → **Endowment Model**

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(1) Source: Blackstone, Global Pension Study 2018, Willis Towers Watson, OTTP, CPP, OMERS

The Evolution of Portfolio Management

	Modern Portfolio Theory	Portfolio Factoring	Endowment Model
	Est. 1952 – Adopted in 70’s	Est. 1960 – Adopted in 80’s	Today
Investment Thesis	Risk-averse investors can construct portfolios to optimize return based on a given level of market risk. i.e.: 60/40	Differentiating assets within broad classes, based on their characteristics, can highlight opportunities to increase risk adjusted return	Allocating to Alternative Assets can increase portfolio efficiency because of their unique risk-return profiles
Current Investor Base	• Retirement Savings	• Mass Affluent • High Net Worth	• Ultra High Net Worth • Family Office • Institutional Investors
Current Management Providers	• MFDA • Low cost ETF Managers • Robo Advisors	• Traditional Asset Managers • Banks	• Alternative Asset Managers

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