

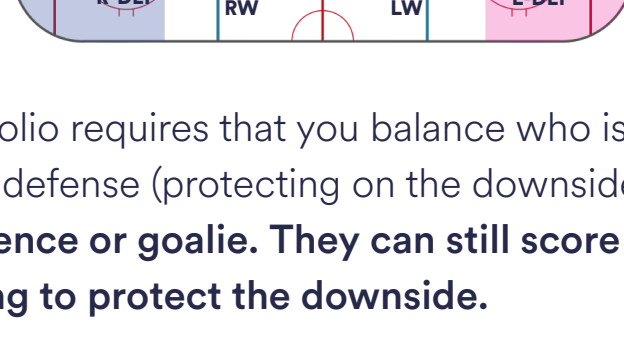
Putting Alternatives to Work in Your Portfolio



Think of your balanced portfolio like a HOCKEY TEAM

3-4 lines of talent

- ✓ 2 wingers
- ✓ 1 balanced/all-around centre
- ✓ 2 defence
- ✓ 1 goalie



Similar to a team, an investment portfolio requires that you balance who is playing offence (getting returns) versus defense (protecting on the downside).

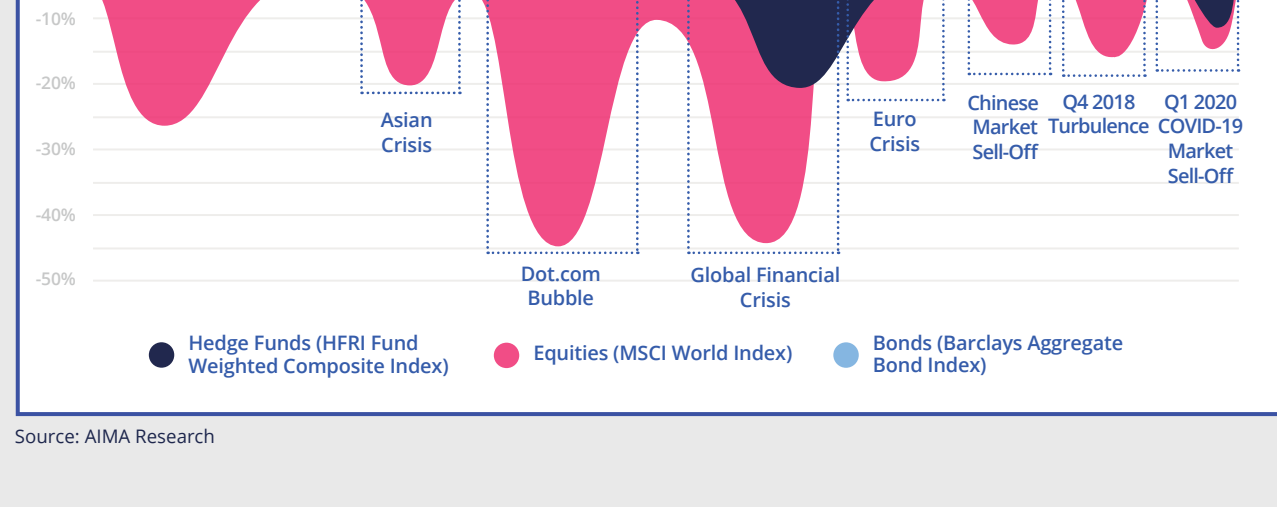
Most hedge funds act like your defence or goalie. They can still score goals, but are mostly working to protect the downside.

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Did you know? Investors value the broader toolkit available to alternative investment managers for the diversification, volatility reduction, downside protection and non-correlated return benefits they can provide.

Market volatility happens. Then what?

Hedge funds and alternative investments provided better protection than equities and bonds in periods of extreme market volatility.



Source: AIMA Research

Hedge funds and alternative investments helped protect on the downside.

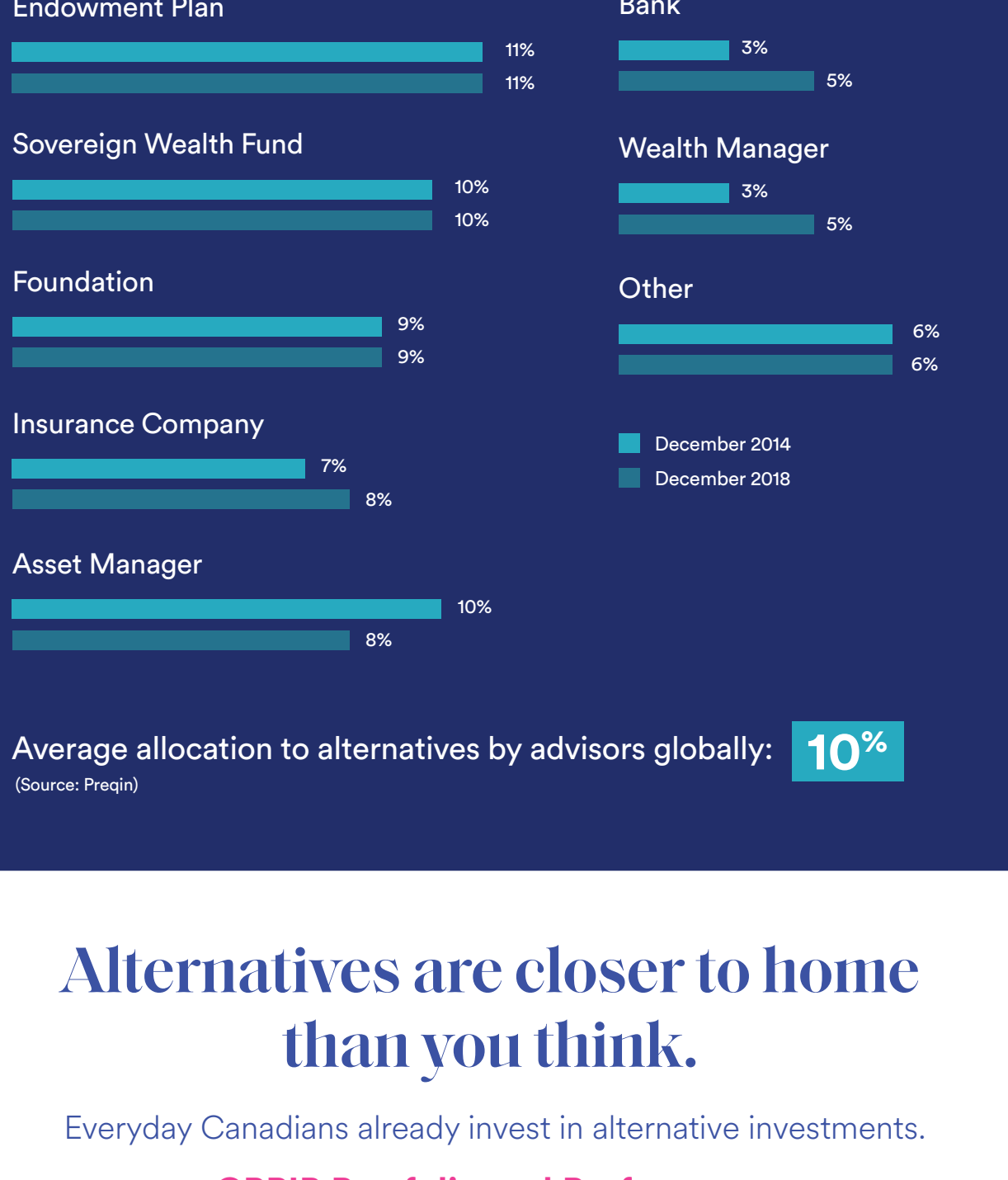
Think of it as buying insurance for your home: Alternatives can act as insurance to minimize losses during market corrections.



You're in good company.

Who invests in alternative investments globally?

Hedge funds play a vital role globally for the institutions that look after everyone's pension and savings.



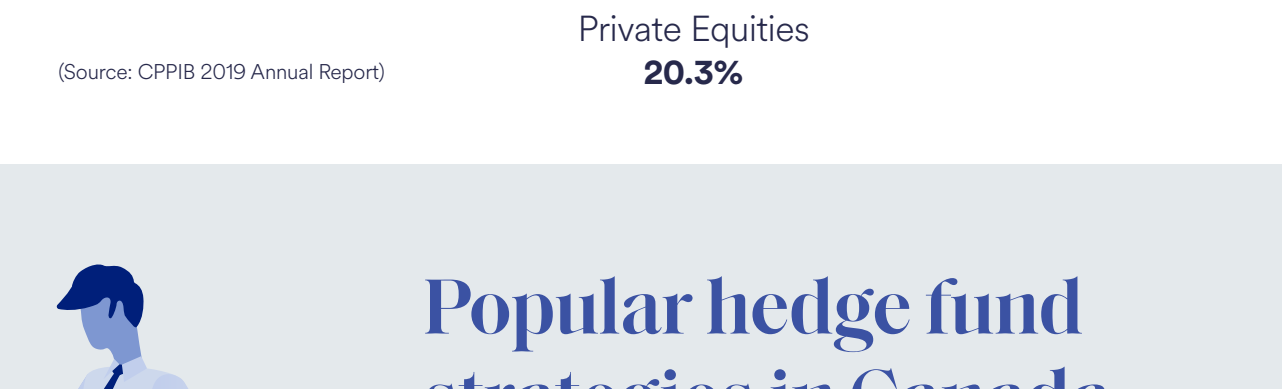
Average allocation to alternatives by advisors globally: **10%**

(Source: Preqin)

Alternatives are closer to home than you think.

Everyday Canadians already invest in alternative investments.

CPPIB Portfolio and Performance



(Source: CPPIB 2019 Annual Report)

Popular hedge fund strategies in Canada.

Alternative CIFSC Category	Offering Memorandum	Prospectus
Equity Focused	85	21
Credit Focused	23	8
Multi-Strategy	27	17
Market Neutral	16	4
Other	49	12

*Reporting to Fundata, as at August 8, 2019

Before you allocate, what should you look for in a hedge fund manager?

Investment Manager

- What is the background and experience of the investment manager & the investment team?
- What is the governance surrounding the investment manager & investment team?
- How do they manage risk? (independent reporting lines, operational risk management, conflicts of interest, etc.)?
- What is their compliance culture?
- Are members of the senior investment management team personally invested in the fund?



Investment Strategy

- ✓ What is the fund's investment objective and principal investment strategies?
- ✓ From where are the underlying positional data, market data and any underlying models sourced for this strategy?
- ✓ Are there position limits and how are they monitored?
- ✓ How much financial leverage does the fund use on average? Limits? Sources?
- ✓ Are there any capacity constraints?
- ✓ Performance history? In what type of markets would this strategy be expected to outperform or underperform?
- ✓ How long would it take in normal market conditions and stressed market conditions to liquidate the fund without incurring unusual costs?
- ✓ Have the objectives of the investment strategy changed in the past 5 years? Has there been any style drift?
- ✓ Who makes the portfolio management decisions and how are they made?
- ✓ What method(s) does the investment manager use to measure the total risk of a portfolio using this strategy?
- ✓ Offering documents, subscription agreements, and processes for purchases and redemptions? Fees? Performance fees and calculation methodology?
- ✓ What is the fund's valuation policy and the frequency of valuation?
- ✓ What portfolio data does the investment manager provide to investors, and with what frequency and time lag?
- ✓ Who are the outsourced service providers of the fund (i.e., prime broker, auditor, custodian, administrator, legal)?

Not all alternatives are alike.

To learn more about alternative investments:

Visit aima.org for more information and resources

