

NICHE STRATEGIES: VIEWS FROM A CAPITAL ALLOCATOR

HIMANSHU CHATURVEDI, CAMBRIDGE ASSOCIATES

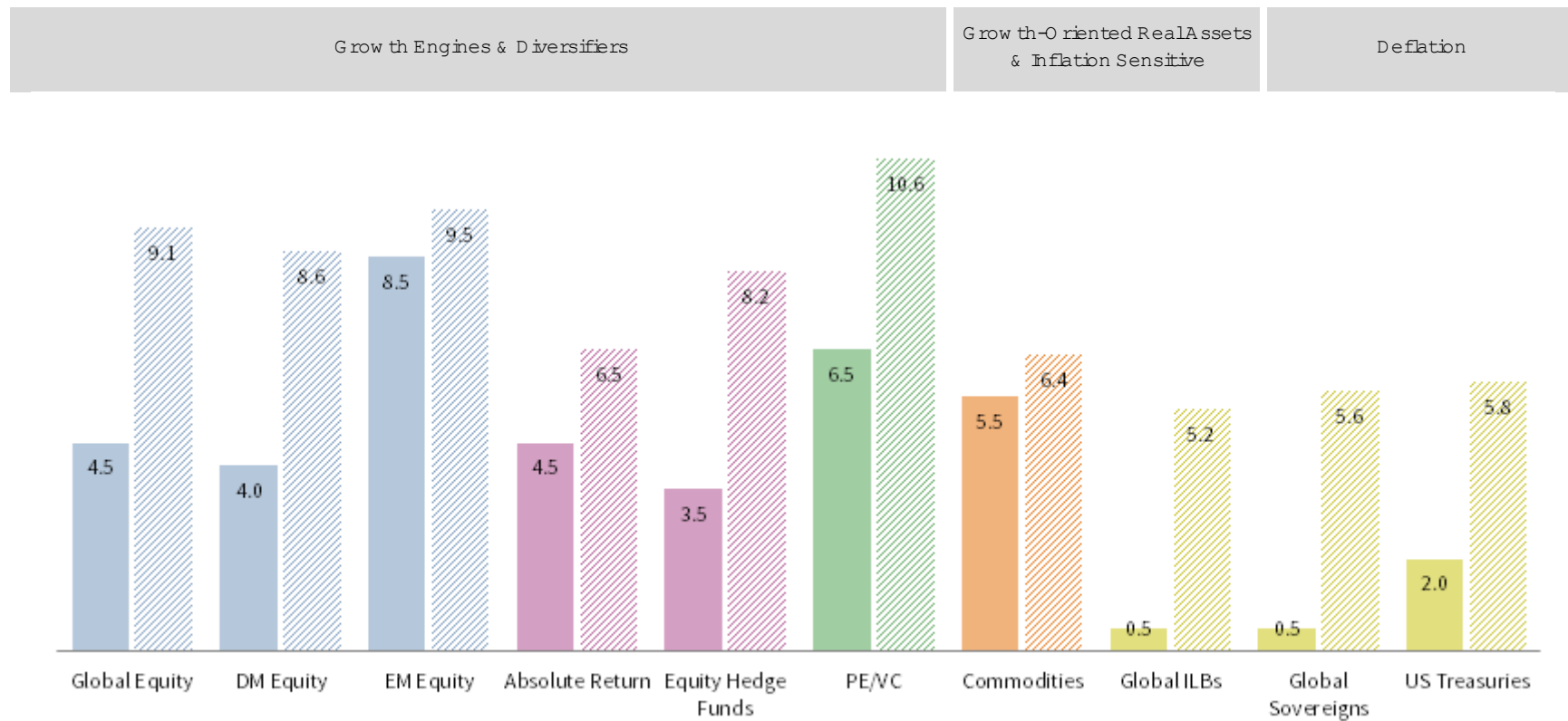


Why are we talking about niche strategies?

■ Most assets are expensive relative to history

10-Year and 25-Year Return Scenarios

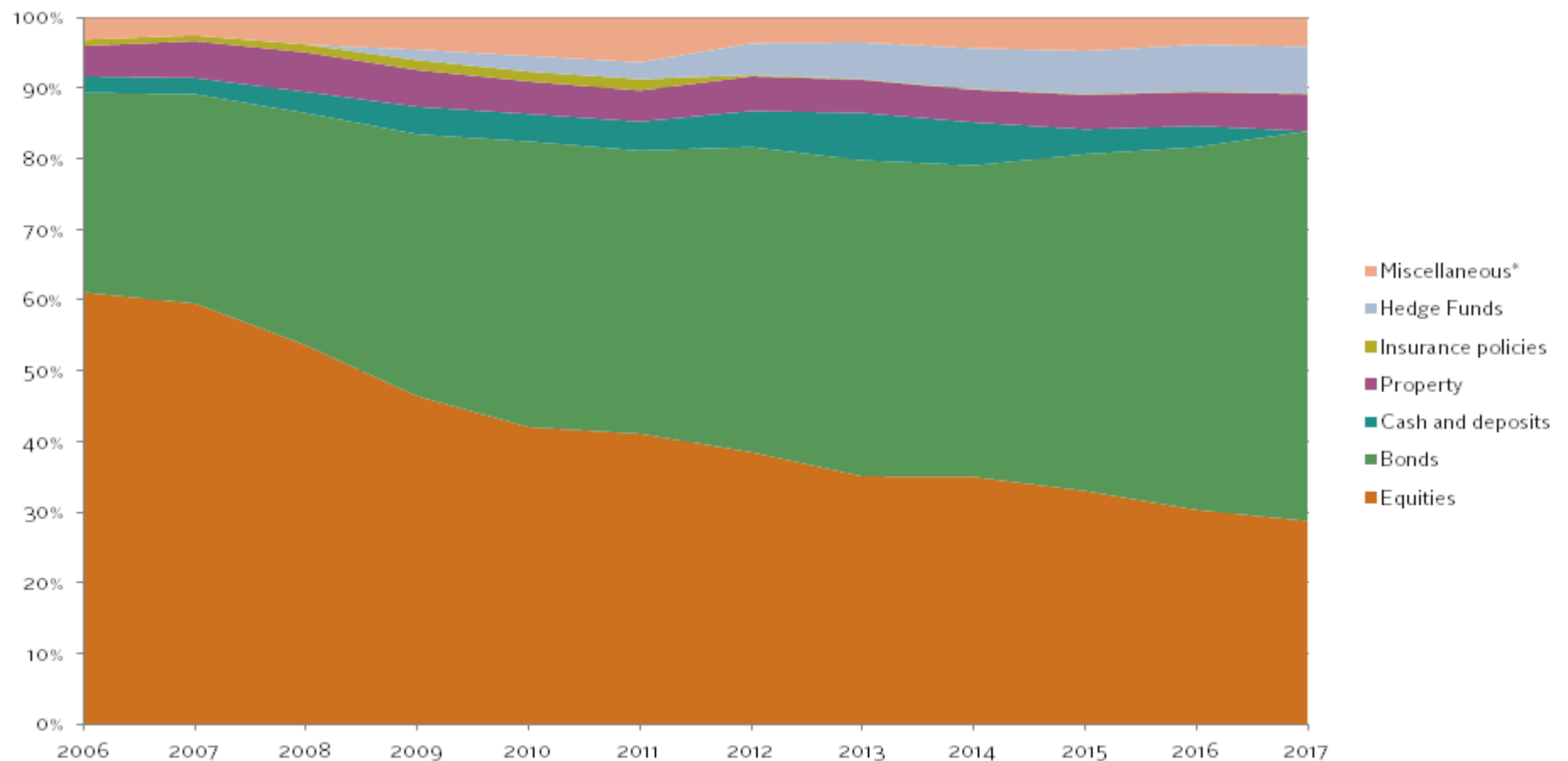
As of April 30, 2019 – Nominal AACR (%)



Why are we talking about niche strategies?

- Asset owners like pension schemes have proportionally lower growth assets today – need to work them harder

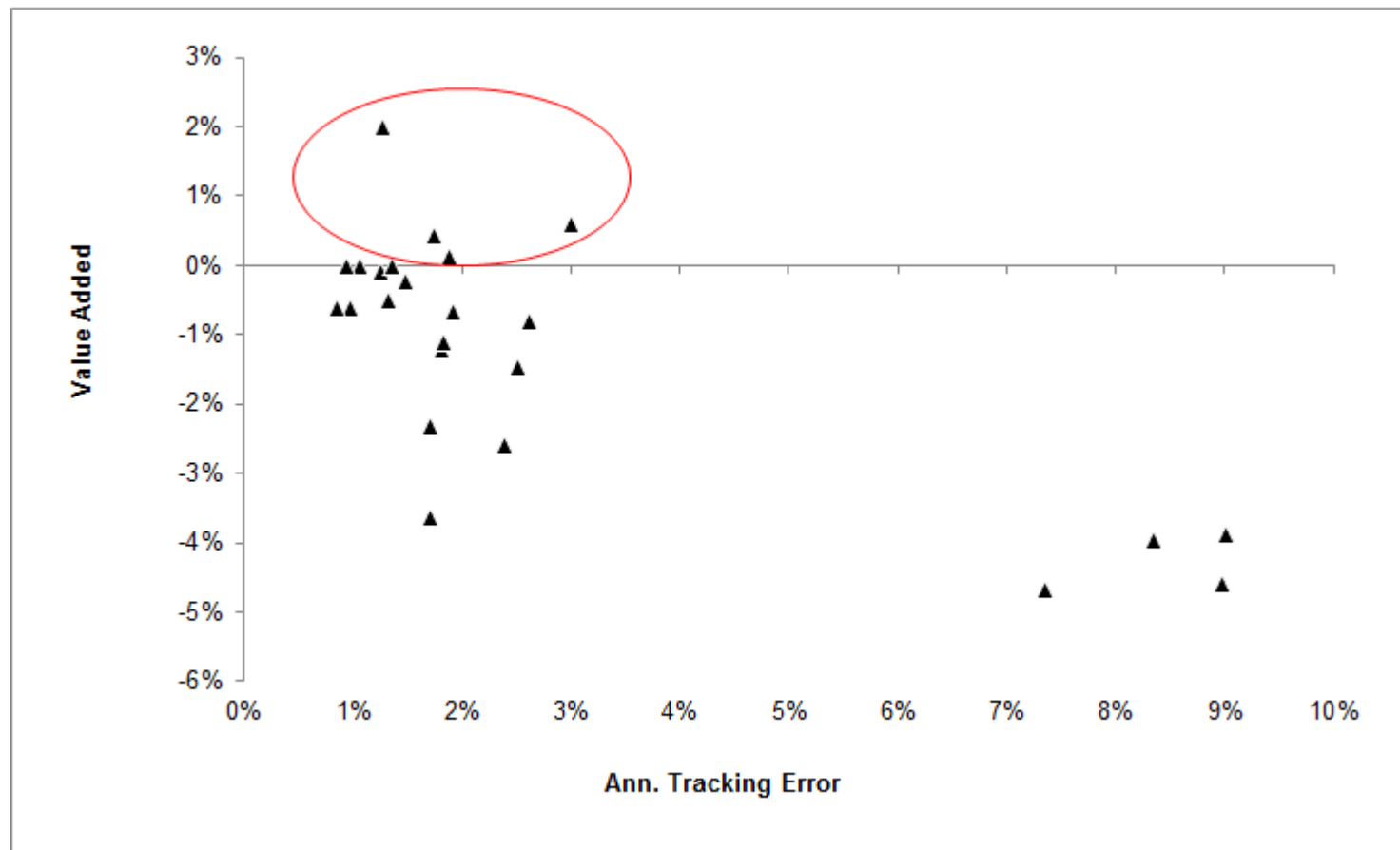
Weighted average asset allocation



Why are we talking about niche strategies?

- “Alpha” is harder to generate in liquid markets

- *Example: Even beyond the well known paucity of outperforming active equity managers, barely any HY managers have outperformed over the last three years.*

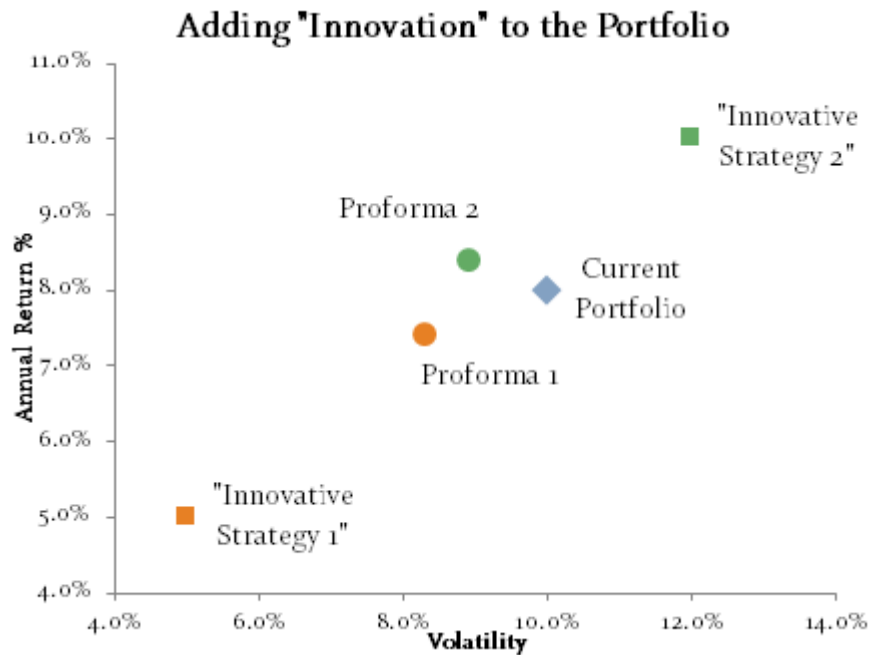


- Often do not fit into traditional “risk models”
 - Quantitative inputs are largely guesswork
 - At best, only reflects “desired profile” and not what is actually available
- Highly sensitive to quality of sourcing and execution
 - Need resources and networks to generate wide pool of ideas and do proper due diligence
 - Standard documents/incentive structures often don’t work
 - Managers may be inexperienced with institutional capital
- Challenging governance
 - Trustees and investment officers often lack knowledge/time to select and monitor
 - Behavioural risks associated with uncommon investments

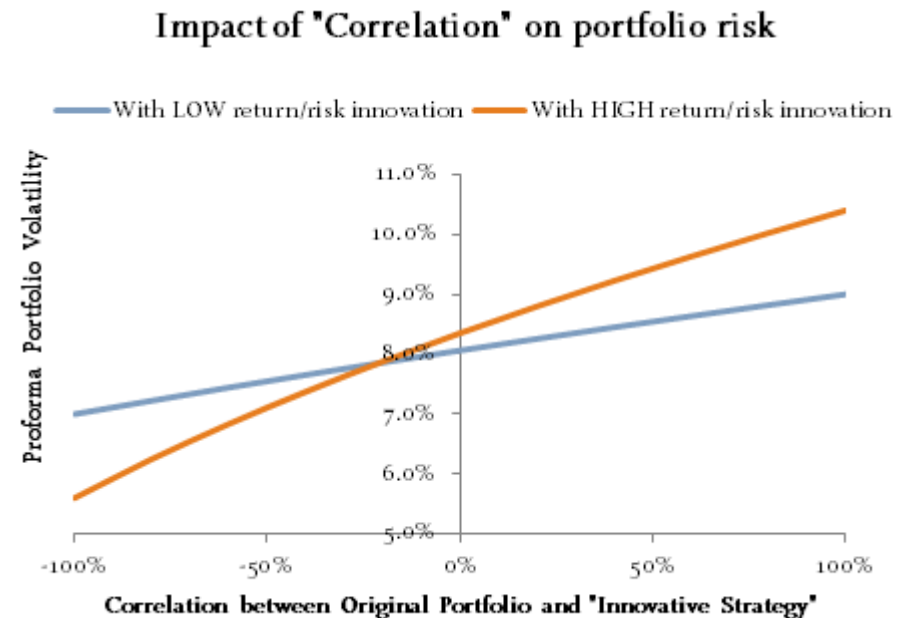
Making it worth it – Return Targets

- Does the niche investment meet your opportunity cost of capital?

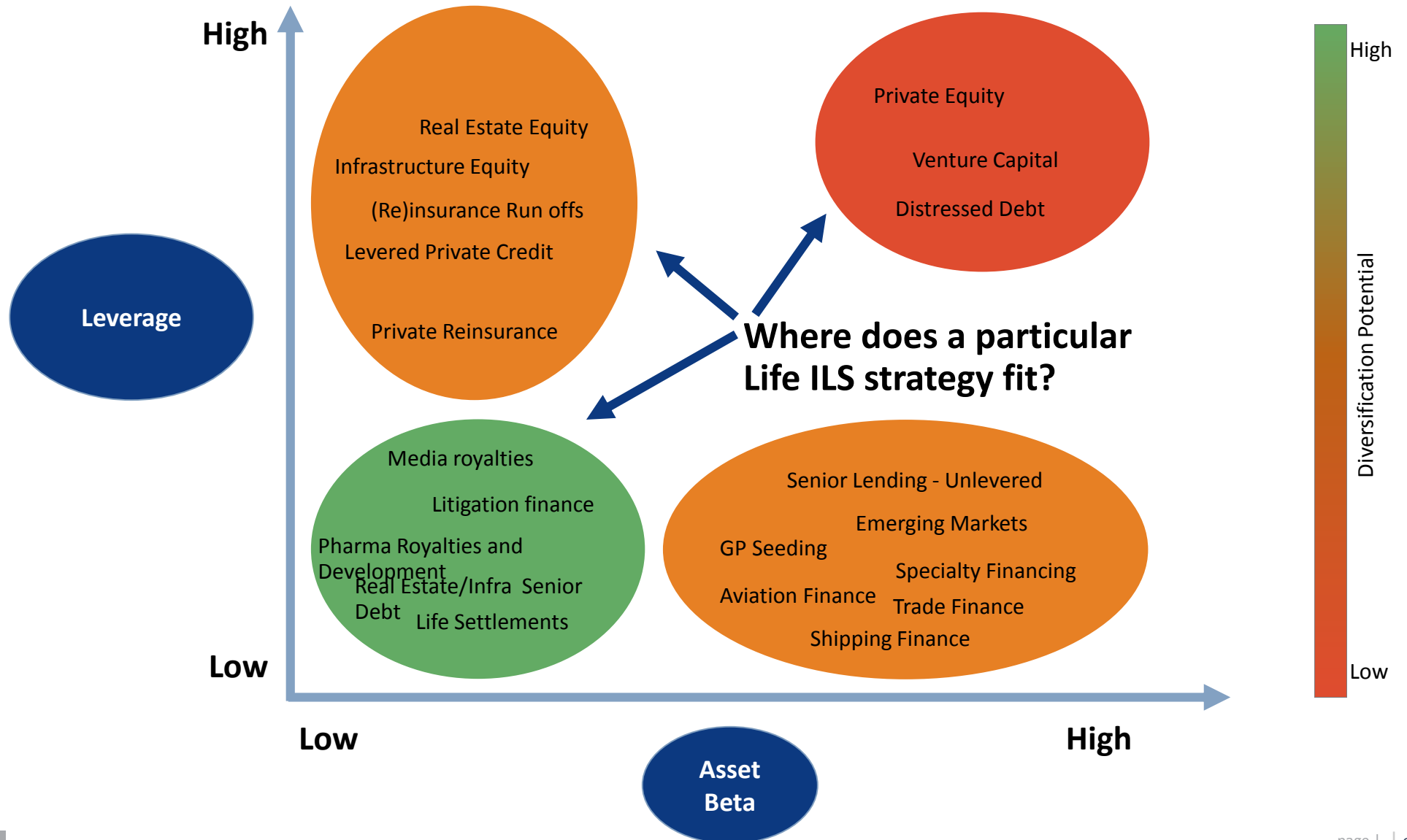
Low return/low risk opportunities hurt absolute returns



Low "Correlation" becomes less relevant if risk/return profile is too low



Making it worth it - Diversification



Summary

- Niche strategies like Life ILS are increasingly attractive to capital allocators in a low return world
- Strategies that offer
 - Attractively high return
 - **True** diversification
 - Transparency to reduce underwriting costs and information asymmetry.....are likely to attract significant capital quickly



Copyright © 2018 by Cambridge Associates LLC. All rights reserved.

This report may not be displayed, reproduced, distributed, transmitted, or used to create derivative works in any form, in whole or in portion, by any means, without written permission from Cambridge Associates LLC (“CA”). Copying of this publication is a violation of US and global copyright laws (e.g., 17 U.S.C. 101 et seq.). Violators of this copyright may be subject to liability for substantial monetary damages. The information and material published in this report is nontransferable. Therefore, recipients may not disclose any information or material derived from this report to third parties, or use information or material from this report, without prior written authorization. This report is provided for informational purposes only. The information presented is not intended to be investment advice. Any references to specific investments are for illustrative purposes only. The information herein does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. Some of the data contained herein or on which the research is based is current public information that CA considers reliable, but CA does not represent it as accurate or complete, and it should not be relied on as such. Nothing contained in this report should be construed as the provision of tax or legal advice. Past performance is not indicative of future performance. Broad-based securities indexes are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Any information or opinions provided in this report are as of the date of the report, and CA is under no obligation to update the information or communicate that any updates have been made. Information contained herein may have been provided by third parties, including investment firms providing information on returns and assets under management, and may not have been independently verified.

Cambridge Associates, LLC is a Massachusetts limited liability company with offices in Arlington, VA; Boston, MA; Dallas, TX; Menlo Park, CA; and San Francisco, CA. Cambridge Associates Fiduciary Trust, LLC is a New Hampshire limited liability company chartered to serve as a non-depository trust company, and is a wholly-owned subsidiary of Cambridge Associates, LLC. Cambridge Associates Limited is registered as a limited company in England and Wales No. 06135829 and is authorized and regulated by the Financial Conduct Authority in the conduct of Investment Business. Cambridge Associates Limited, LLC is a Massachusetts limited liability company with a branch office in Sydney, Australia (ARBN 109 366 654). Cambridge Associates Asia Pte Ltd is a Singapore corporation (Registration No. 200101063G). Cambridge Associates Investment Consultancy (Beijing) Ltd is a wholly owned subsidiary of Cambridge Associates, LLC and is registered with the Beijing Administration for Industry and Commerce (Registration No. 110000450174972).