# NICHE STRATEGIES: VIEWS FROM A CAPITAL ALLOCATOR

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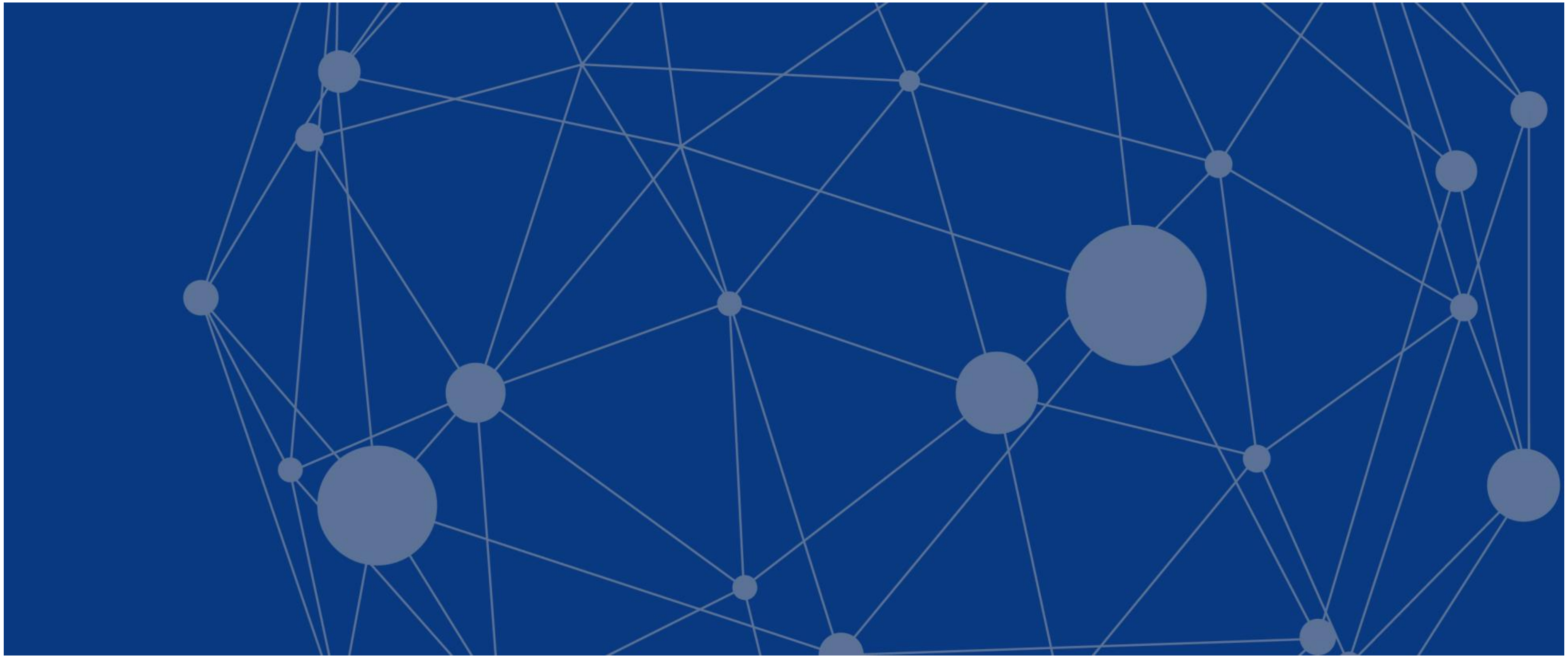

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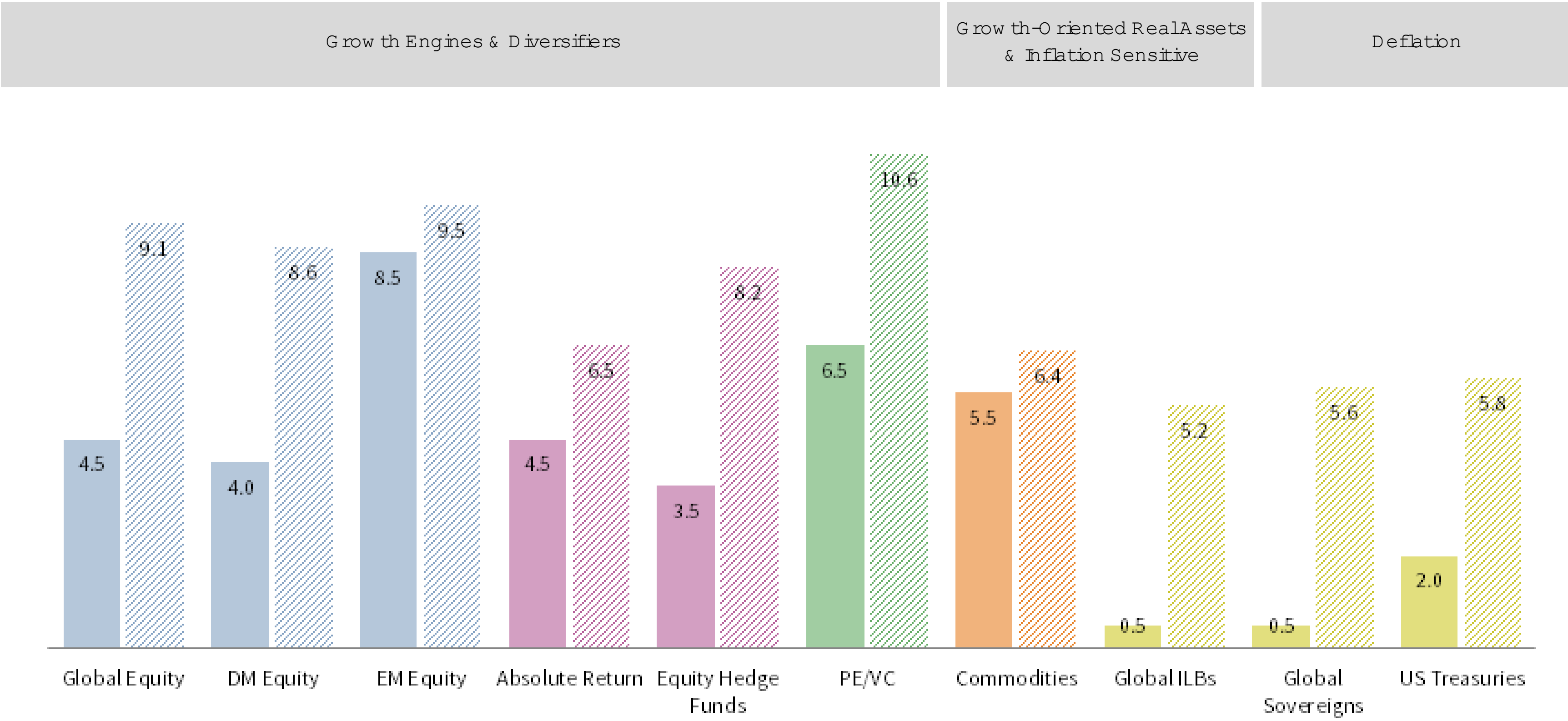
MAY 2019

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 (%)



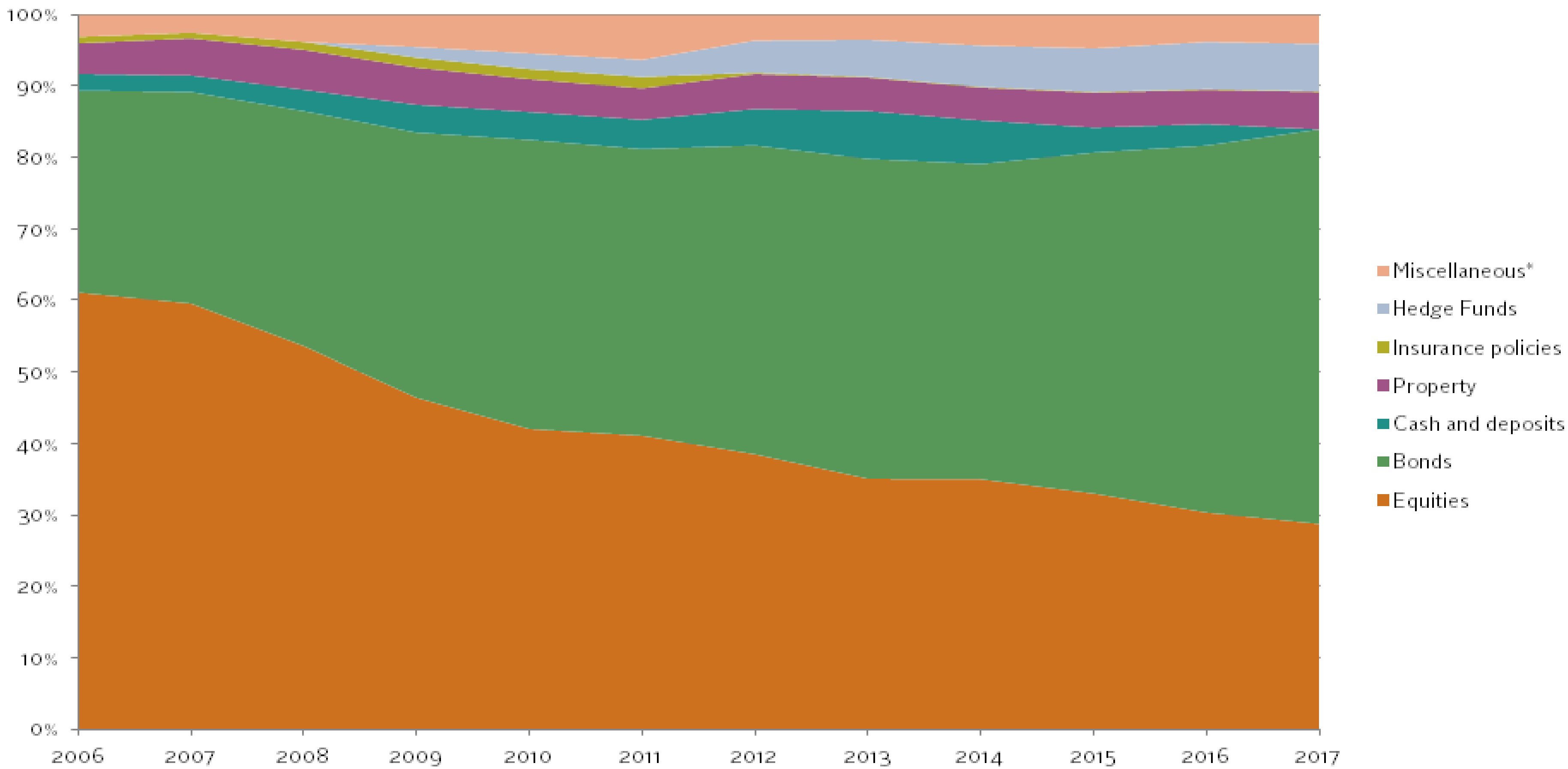

Sources: Barclays, Bloomberg L.P., Cambridge Associates LLC, Global Financial Data, Inc., MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: All projections are in local currency terms and are intended to represent total returns rounded to the nearest half decimal. Projected global equity returns are based on a weighted average of the projections for US, developed ex US, and EM equities using month-end weights for the MSCI All Country World Index. Projected hedge fund returns are intended to reflect market-wide performance as defined by particular HFRI indexes, and not the performance or potential for value-added of a specific program. The return projection for private equity/venture capital is not calculated using the same “bottom up” methodology as the other asset classes; rather, it is calculated as the projected global equity return plus 2%.

Why are we talking about niche strategies?

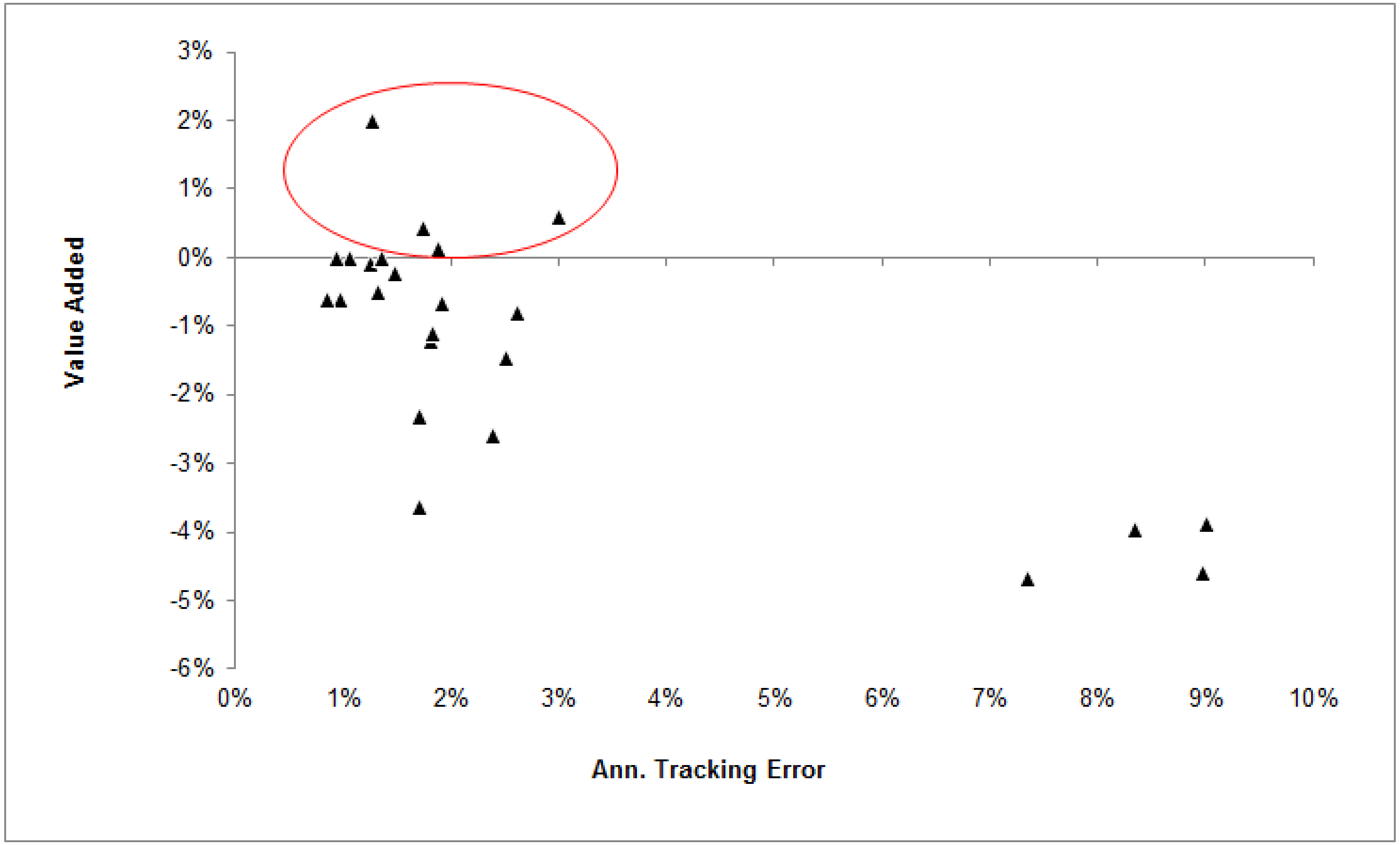
- Asset owners like pension schemes have proportionally lower growth assets today – need to work them harder

Weighted average asset allocation




Source: Pension Protection Fund Purple Book

- "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.*

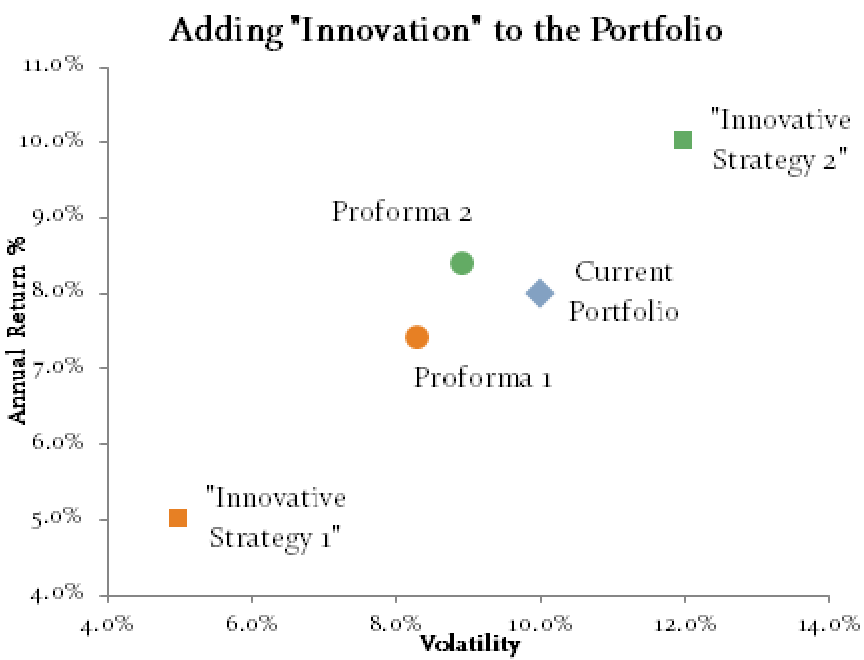



Benchmark = BofA Merrill Lynch Global High Yield Constrained Index (Hedged) - $. Managers included are those in CA databases with High Yield AuM of more than $1bn. Data used is the three years to 30 Sep 2017.

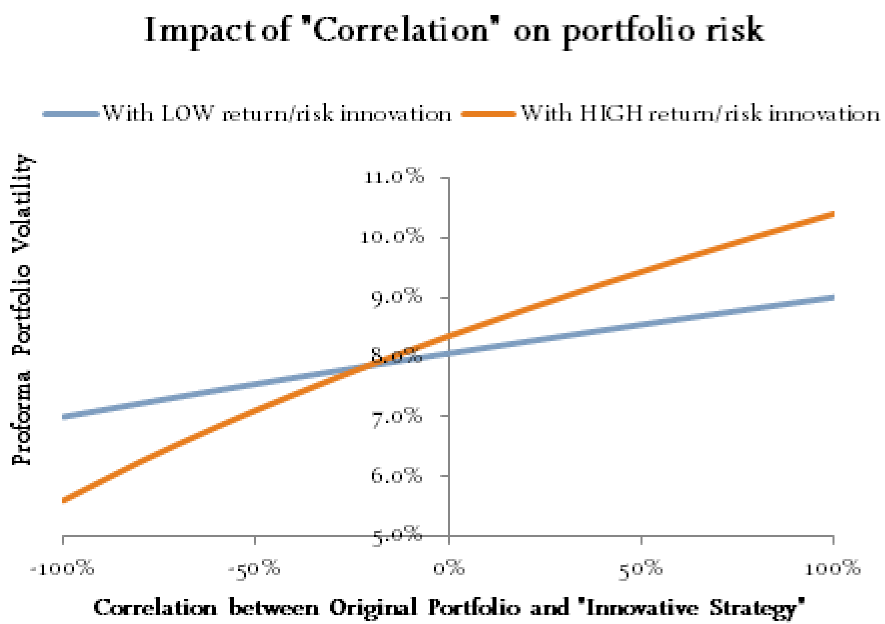
- Often do not fit into traditional "risk models"
  - Quantitative inputs are largely guesswork
  - At best, only reflects "desired profile" and not what is actually available
- Highly sensitive to quality of sourcing and execution
  - Need resources and networks to generate wide pool of ideas and do 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

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

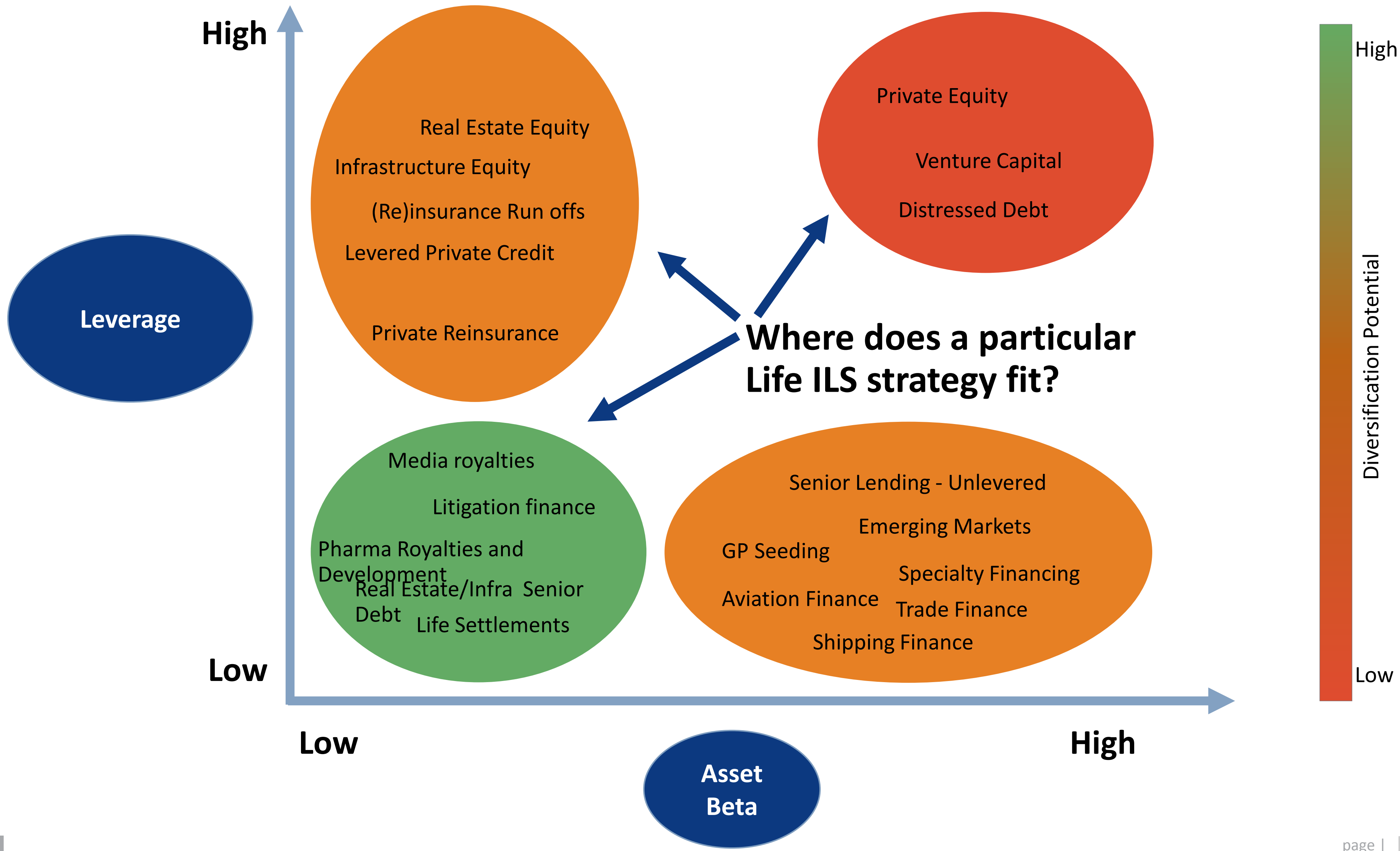
**Low return/low risk opportunities hurt absolute returns**




**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