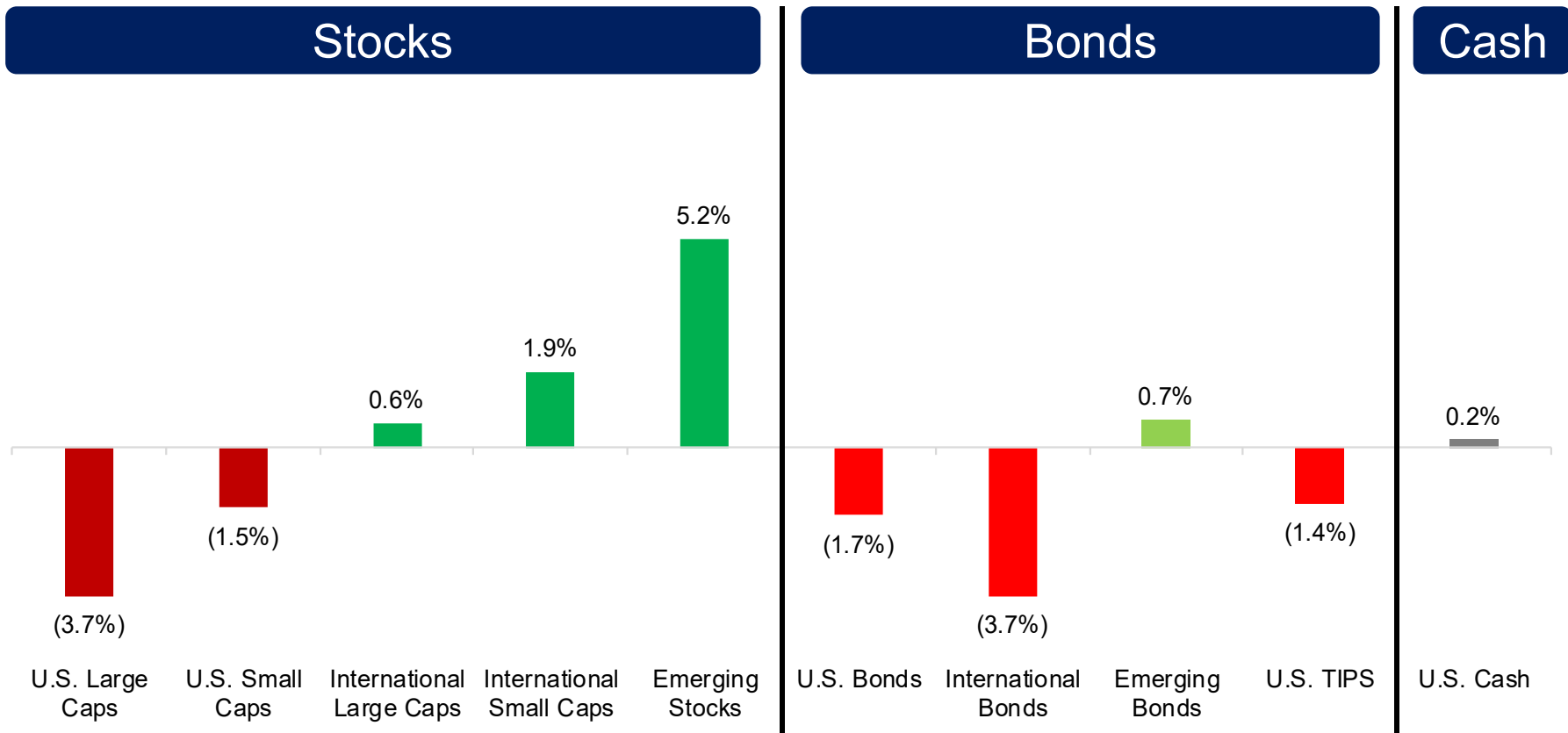




LIQUID ALTERNATIVES:
ALTERNATIVE ENOUGH?

WHY ALTERNATIVES?

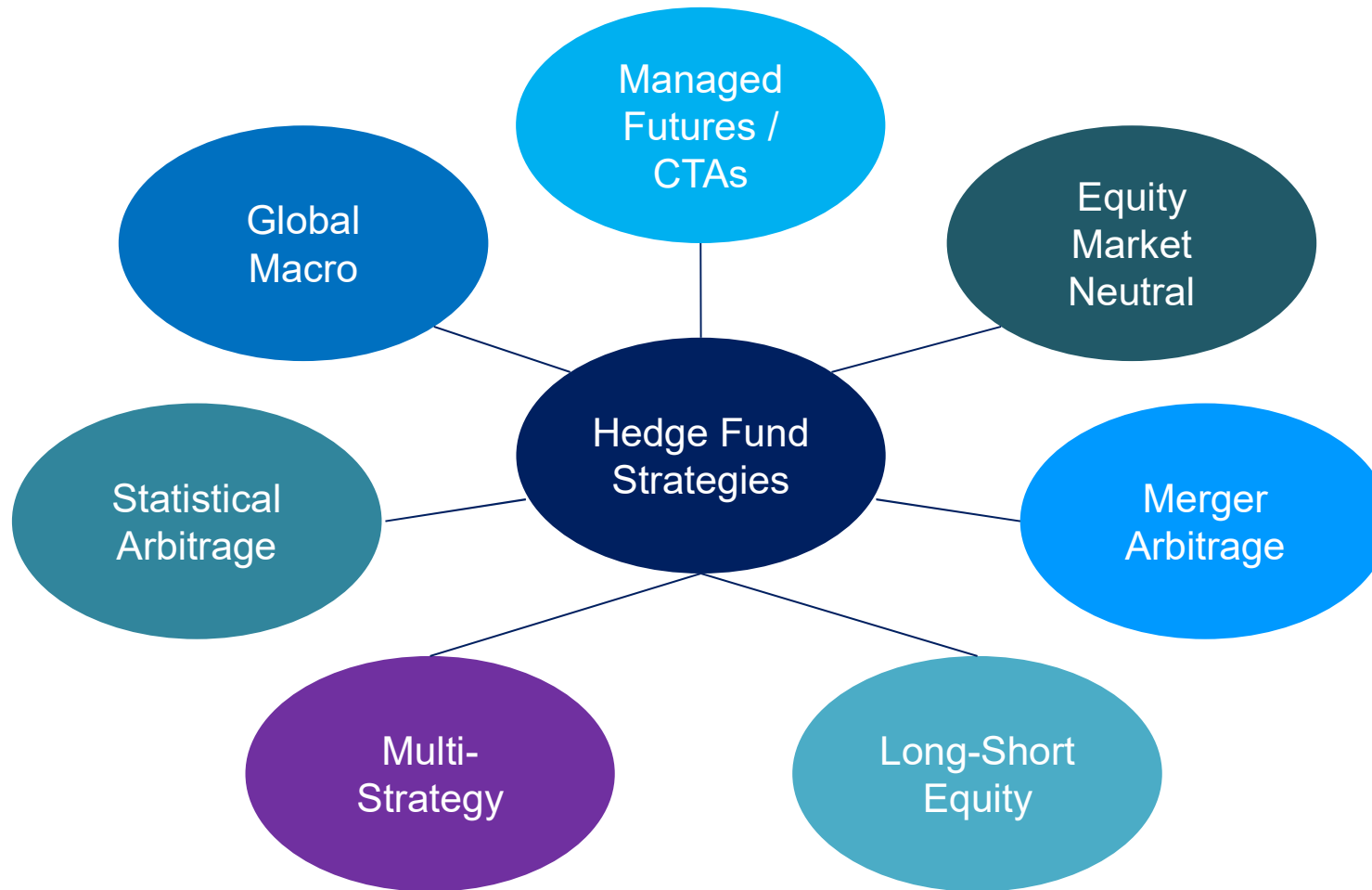
Poor Outlook for Returns: Annual Real Returns for the Next 7 Years



INTRODUCTION TO LIQUID ALTS

DEFINING LIQUID ALTERNATIVES

Liquid Alts = Low Cost, Transparent & Tradeable Hedge Funds



CREATING LIQUID ALTERNATIVES

Direct, Replication & Copying

Direct

- Hedge fund seeking new business
 - Same or similar portfolio as offered in private hedge fund
 - UCITS & 40 Act liquid alternative mutual funds
- AQR Equity Market Neutral Fund



J.P.Morgan

Replication

- Asset manager seeking disruption
 - Replicates well-known hedge fund indices from HFR or Credit Suisse
 - ETFs
- IQ Hedge Multi-Strategy Tracker ETF



A NEW YORK LIFE INVESTMENTS COMPANY

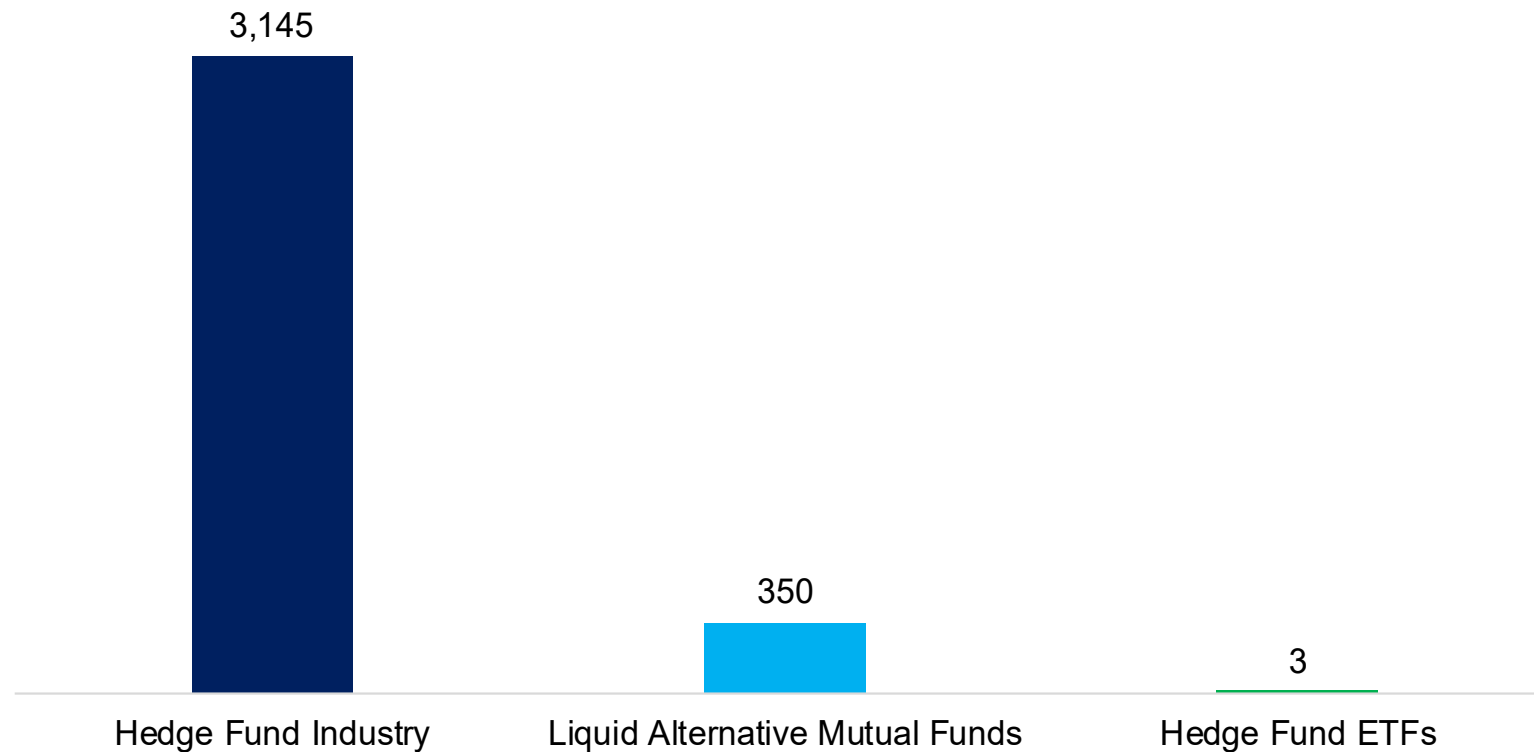
Copying

- Asset manager seeking disruption
 - Copies top hedge fund positions based on public filings
 - ETFs
- Goldman Sachs Hedge Industry VIP ETF (long-only)



ASSETS UNDER MANAGEMENT (\$ BILLIONS)

Why Has Been There So Little Disruption?

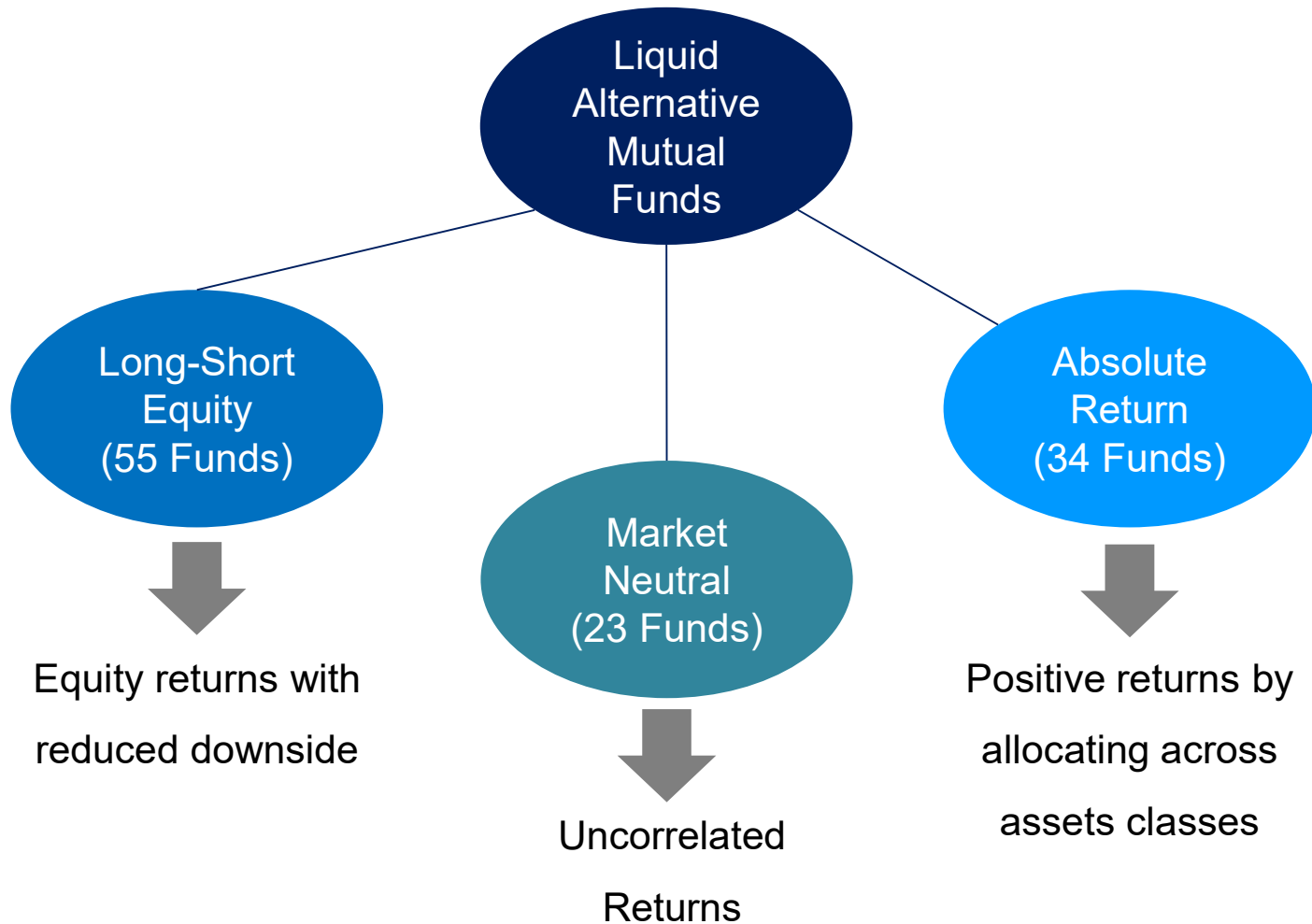


- ETFs have disrupted the mutual fund industry, why not hedge funds?

LIQUID ALTERNATIVE MUTUAL FUNDS

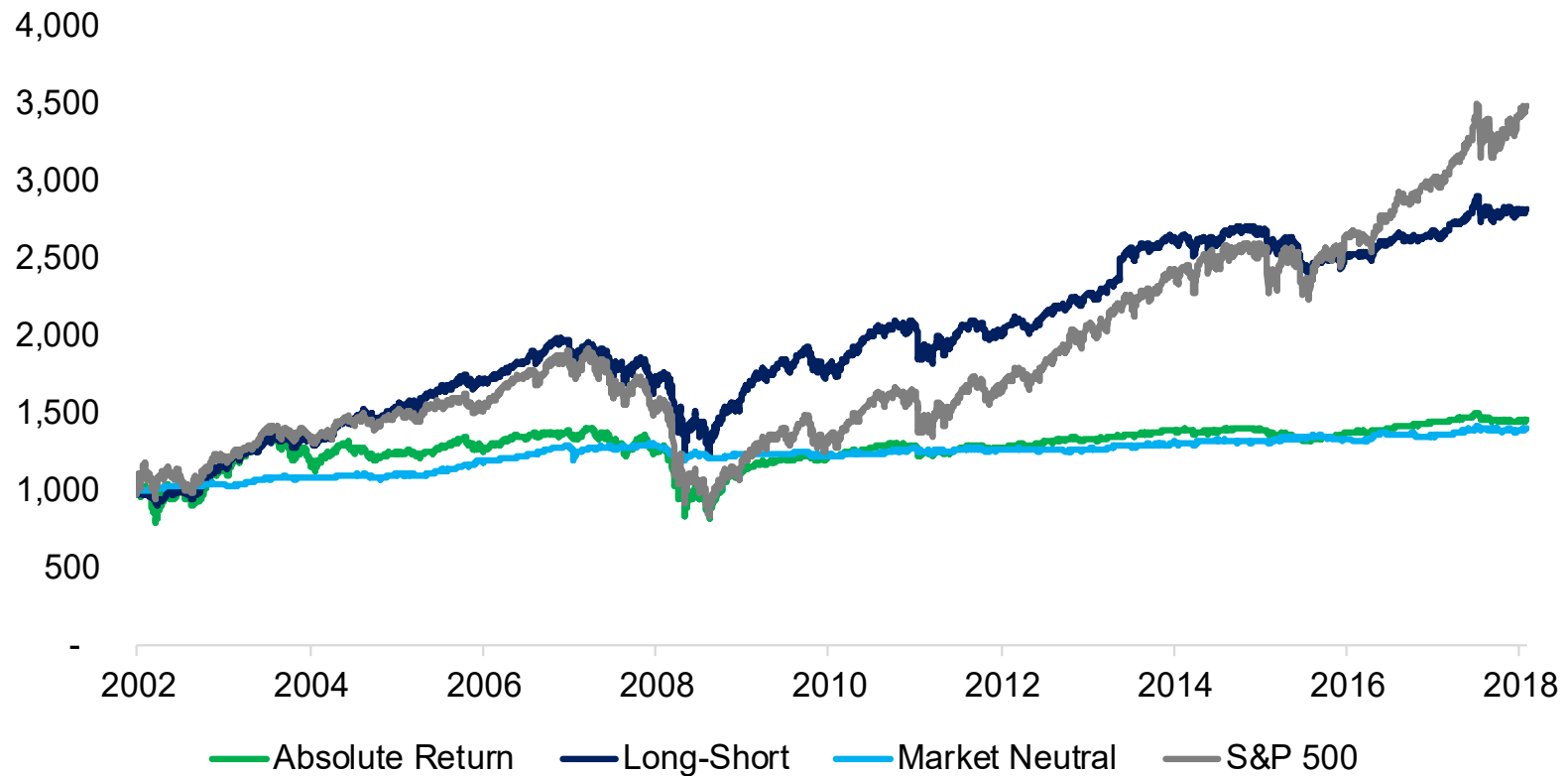
LIQUID ALT MUTUAL FUNDS

Universe: 3 Main Flavours



LIQUID ALT MUTUAL FUNDS

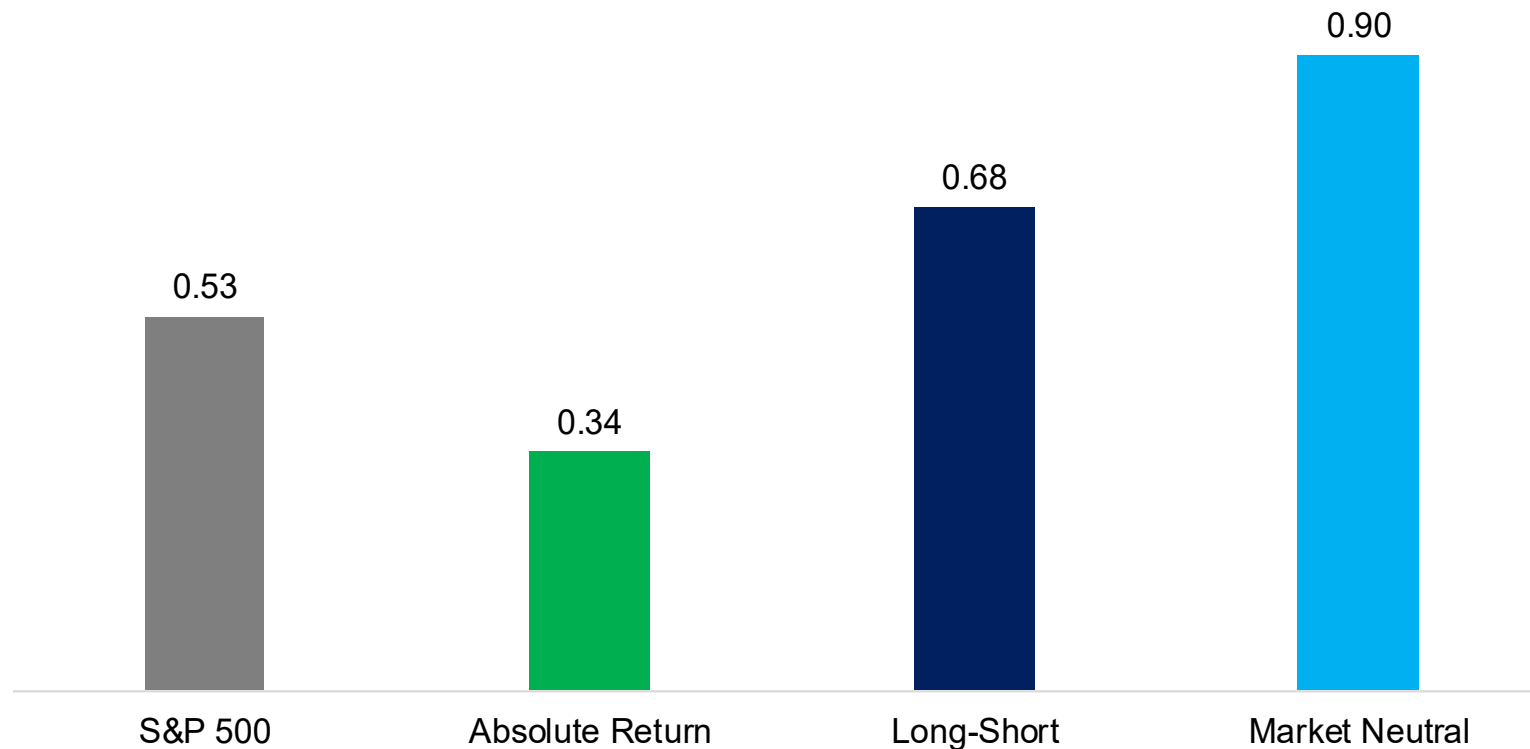
Performance: In Line With Expectations



- Long-short equity and market neutral fund performance is as expected
- Absolute return includes some funds that lost almost all capital

LIQUID ALT MUTUAL FUNDS

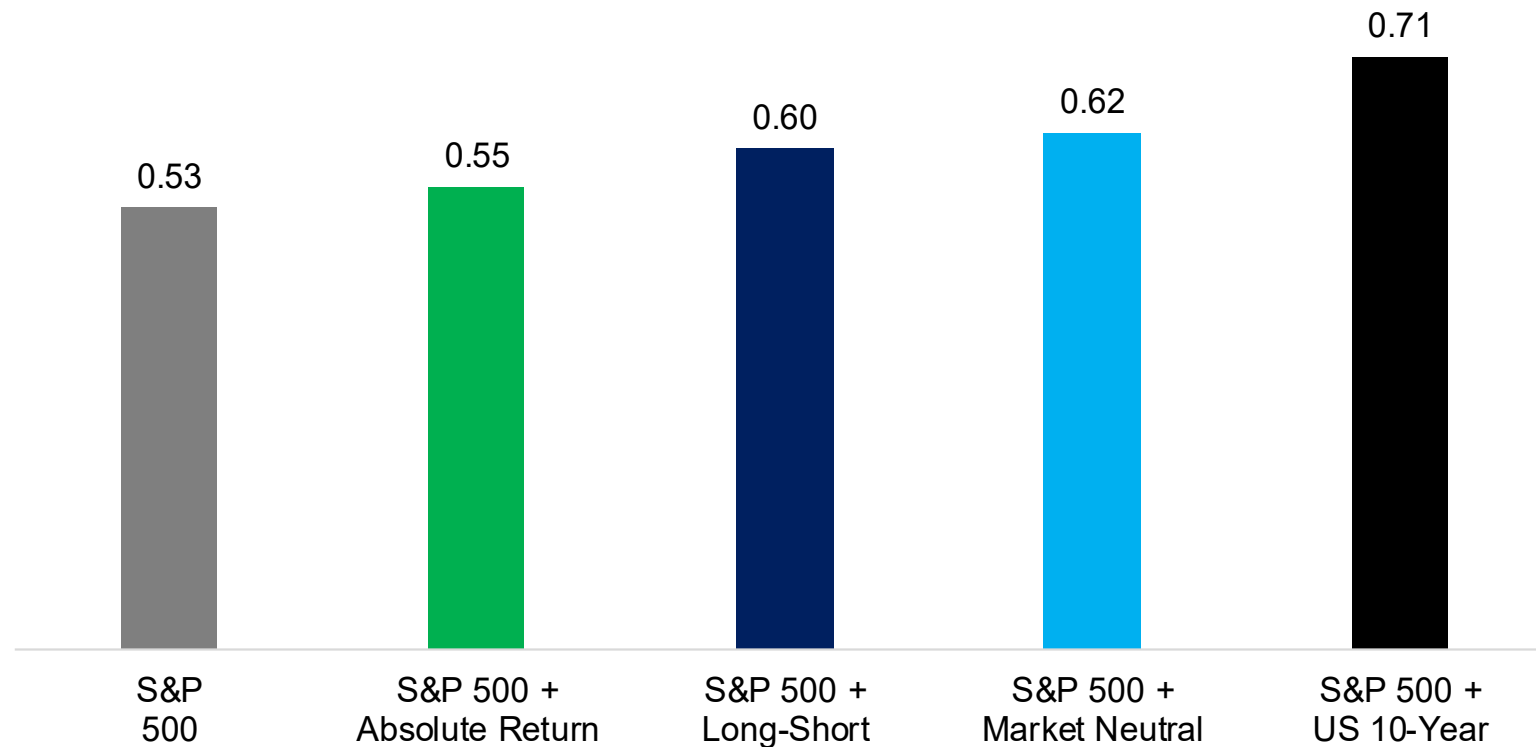
Attractive Sharpe Ratios



- Long-short equity and market neutral funds generated attractive Sharpe ratios between 2002 - 2018

LIQUID ALT MUTUAL FUNDS

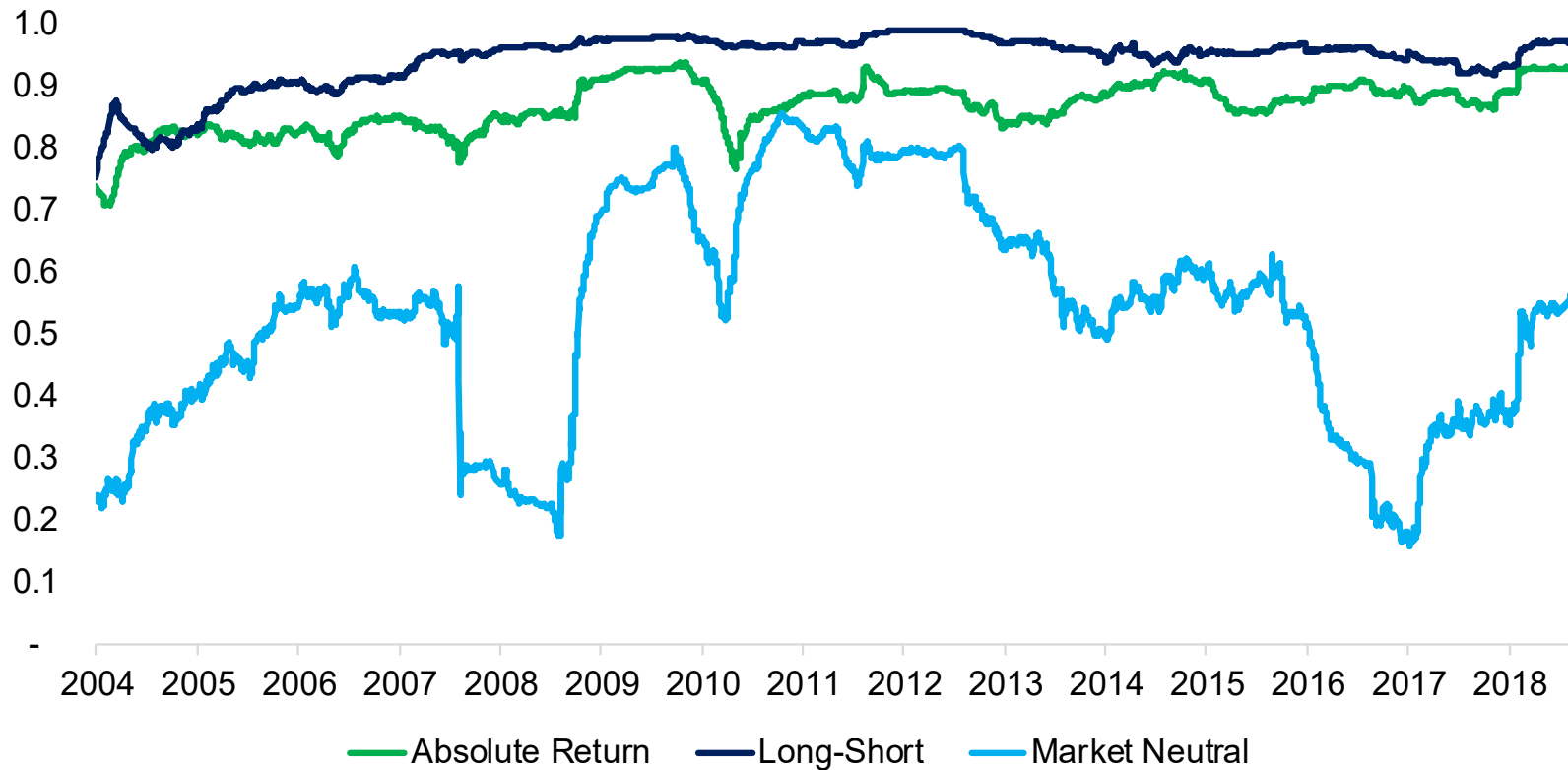
S&P 500 (80%) + Liquid Alts (20%): Sharpe Ratios (2002 - 2018)



- Adding liquid alts increases Sharpe ratios, but less than by adding bonds

LIQUID ALT MUTUAL FUNDS

Correlations to the S&P 500: Higher Than Expected



- Market neutral funds should have a zero correlations to equities

LIQUID ALT MUTUAL FUNDS

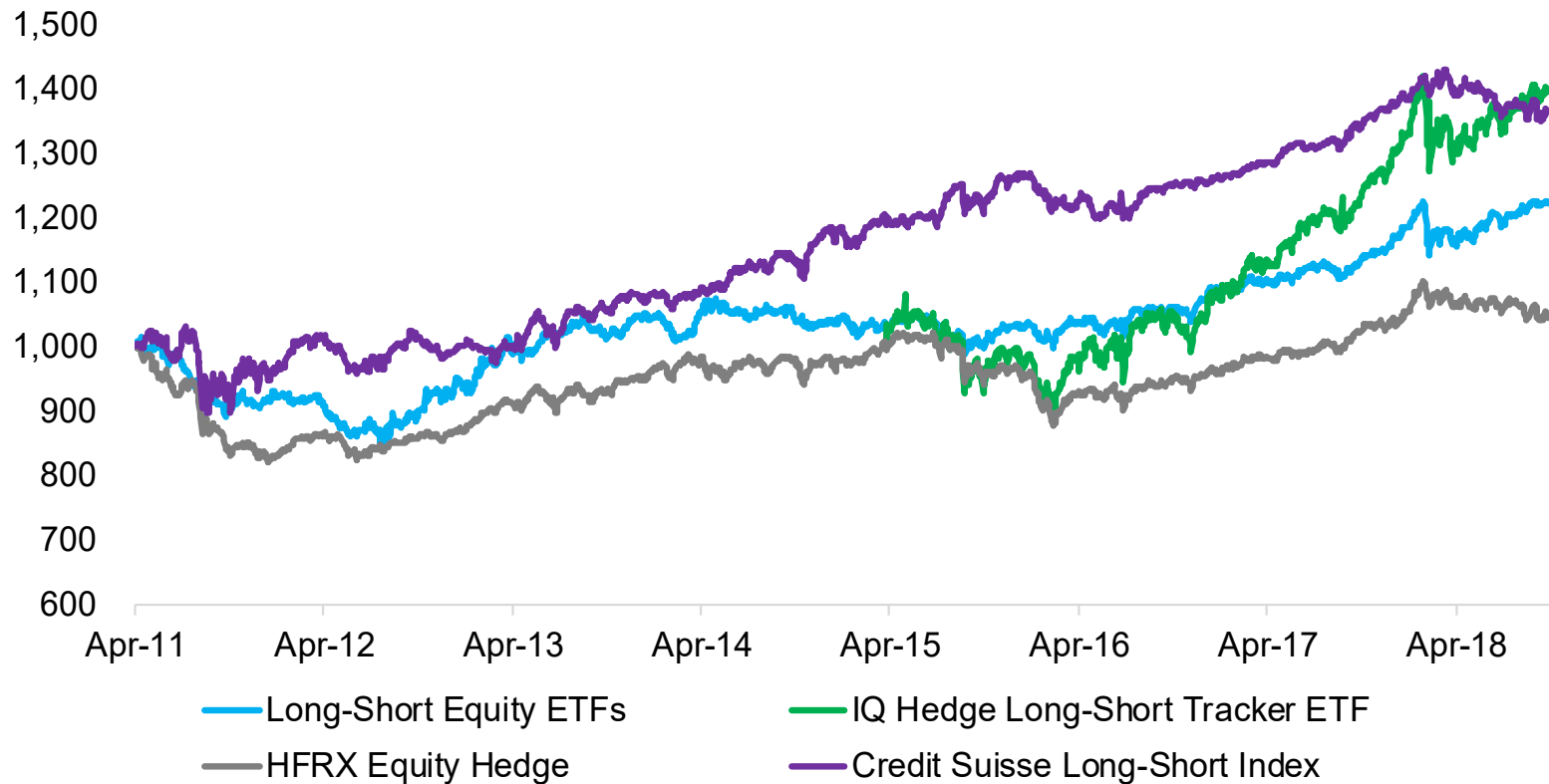
Key Take-Aways

- Absolute return funds were not attractive
- Correlations of liquid alt mutual funds were too high
- Bonds would have been better diversifier
- Perhaps issue of hedge fund strategies, not mutual funds

HEDGE FUND ETFS

HEDGE FUNDS ETFS

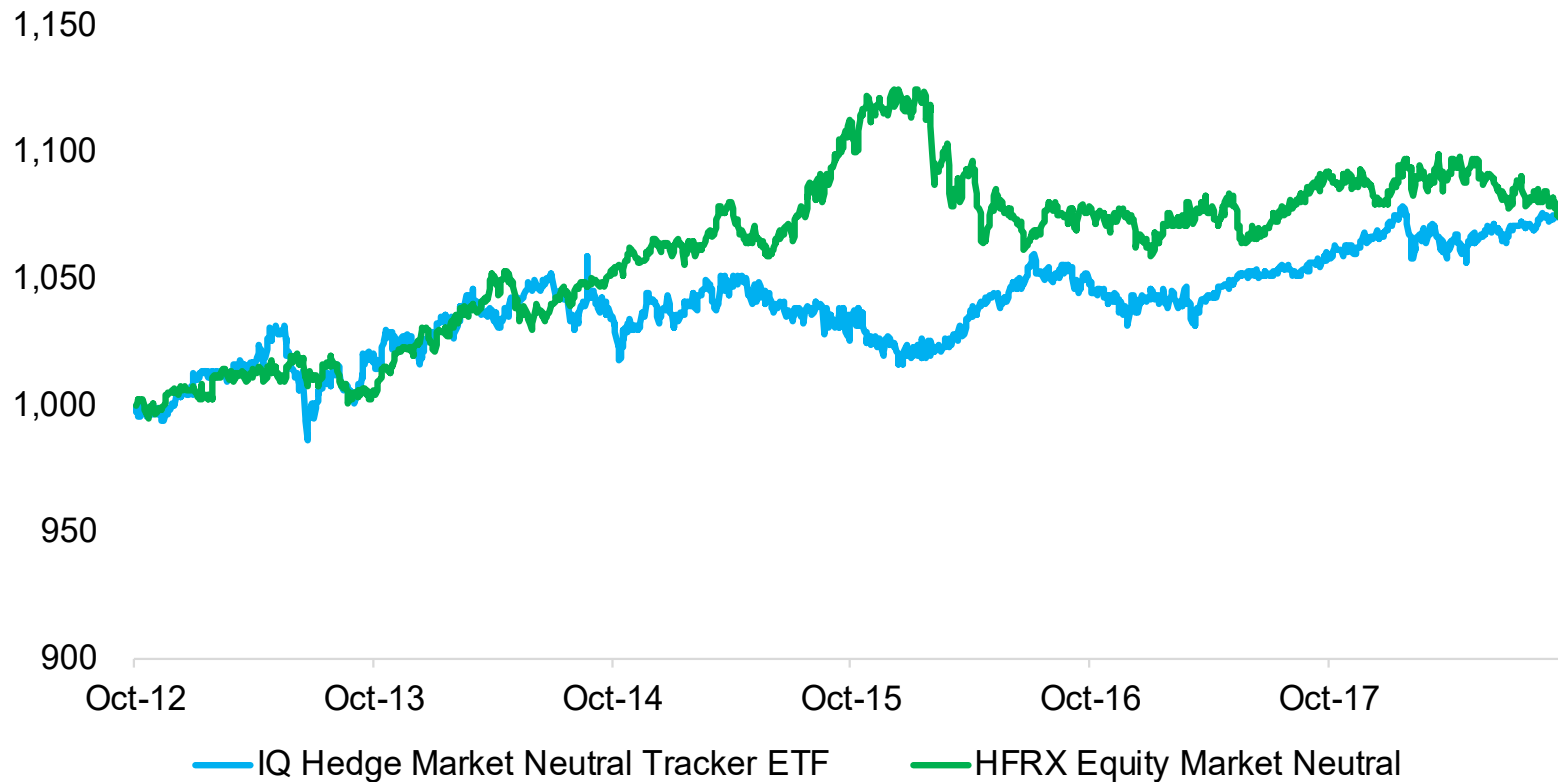
Long-Short Equity



- ETF performance is comparable to that of the hedge fund indices

HEDGE FUNDS ETFS

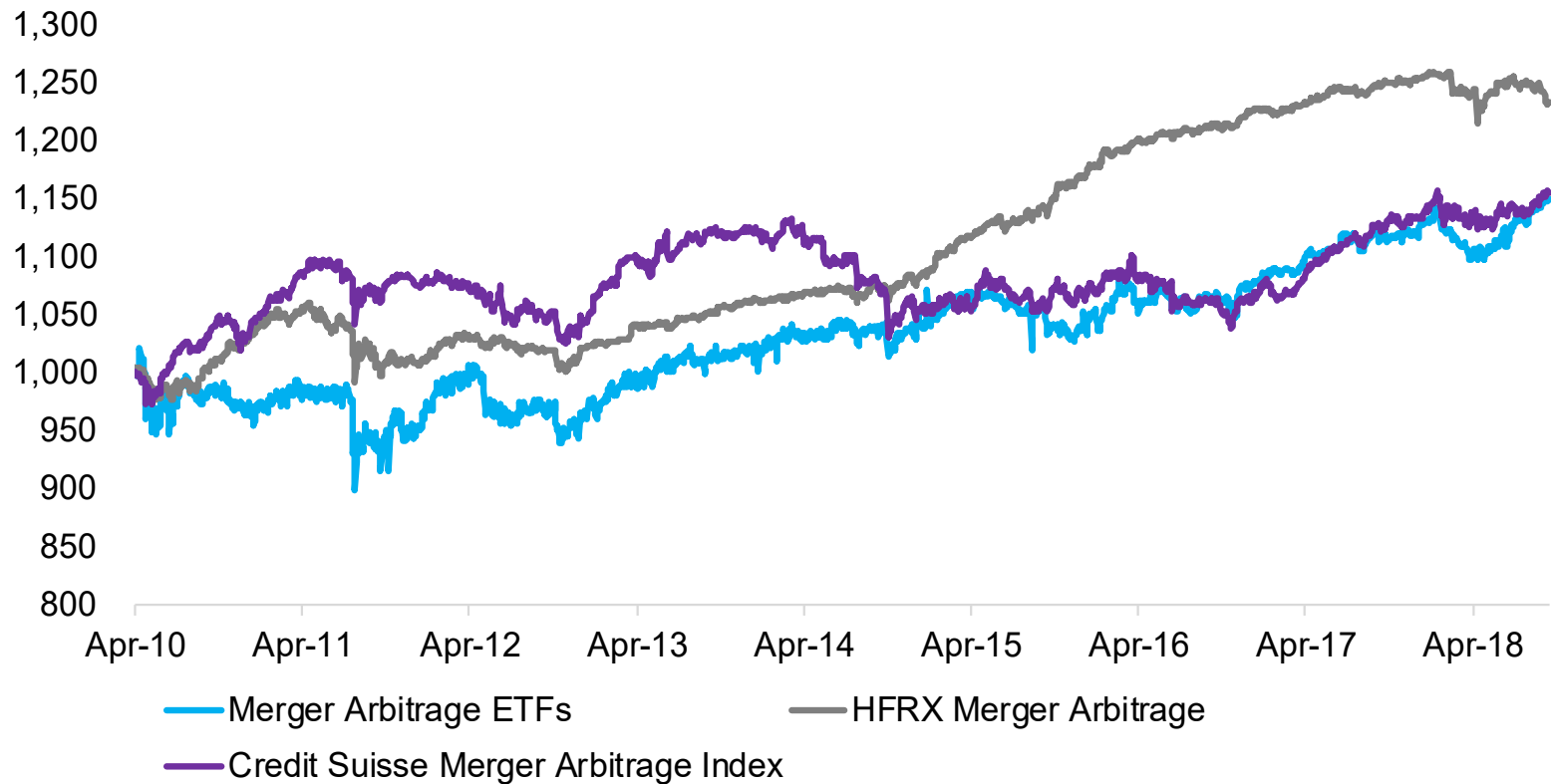
Equity Market Neutral ETFs



- Divergent performance of index tracker and index, highlighting replication challenges
- Limited number of equity market neutral ETFs

HEDGE FUNDS ETFS

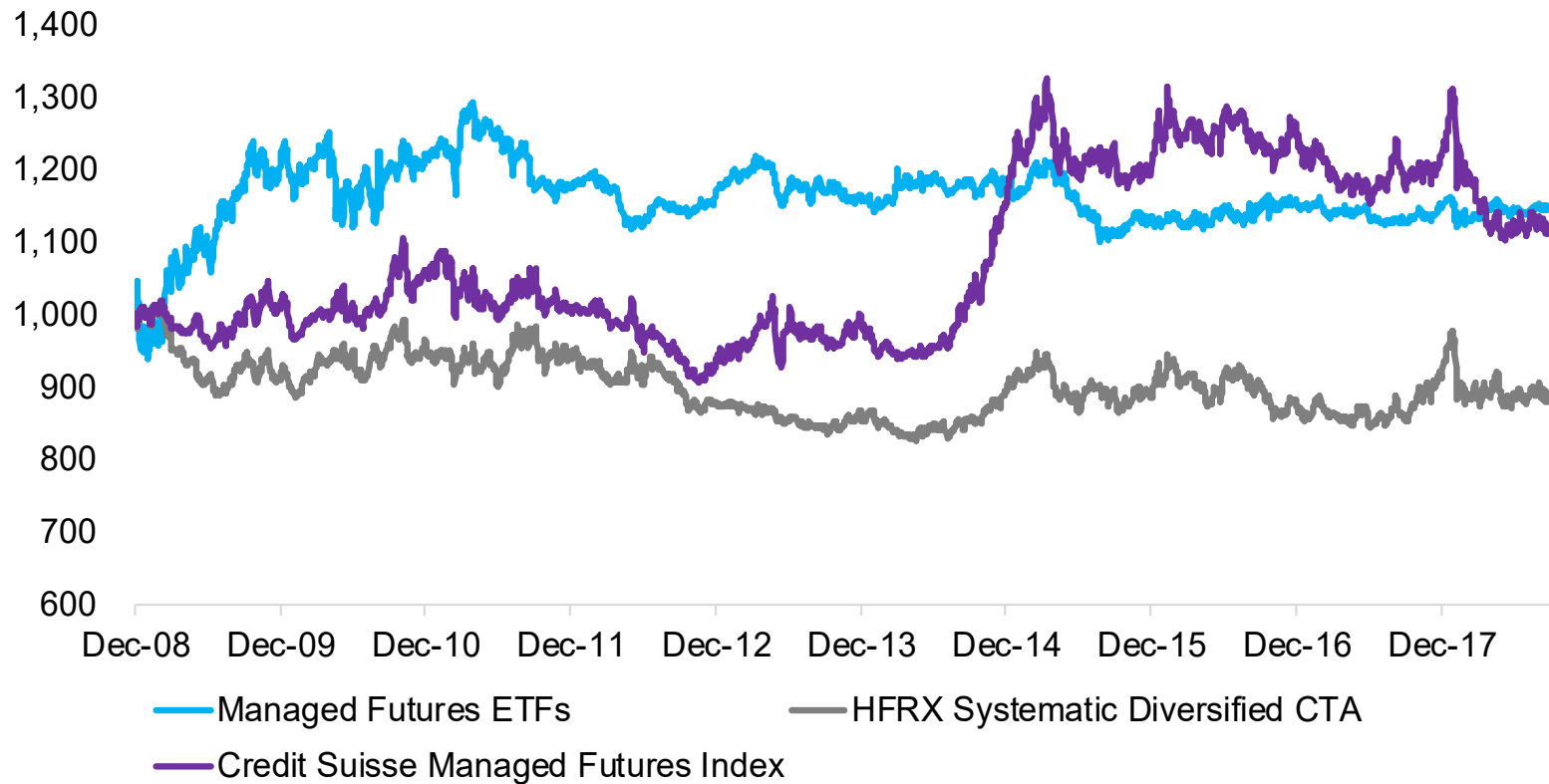
Merger Arbitrage ETFs



- ETF performance is comparable to that of the hedge fund indices

HEDGE FUNDS ETFS

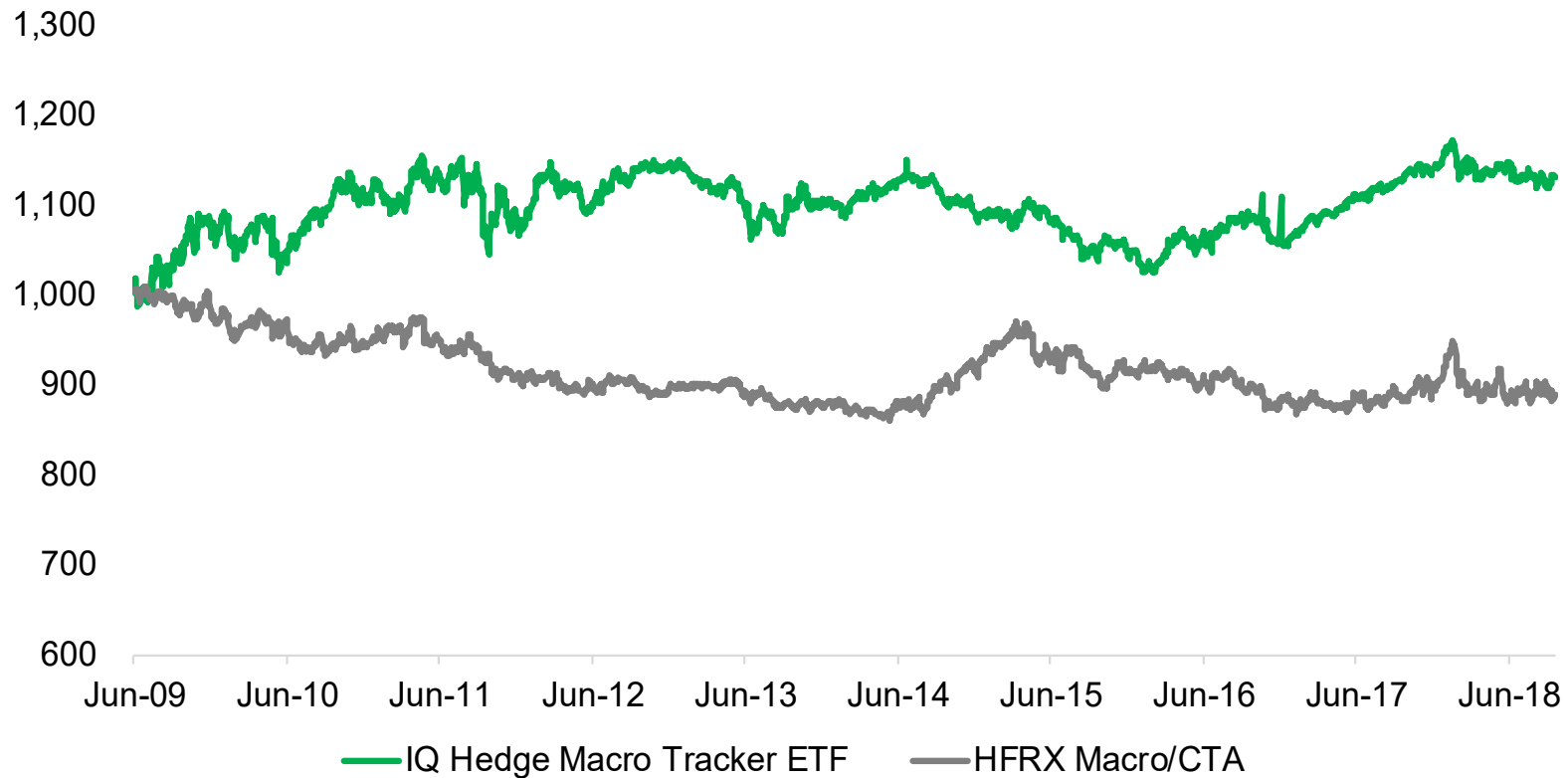
Managed Futures (CTAs) ETFs



- ETF performance is comparable to that of the hedge fund indices

HEDGE FUNDS ETFS

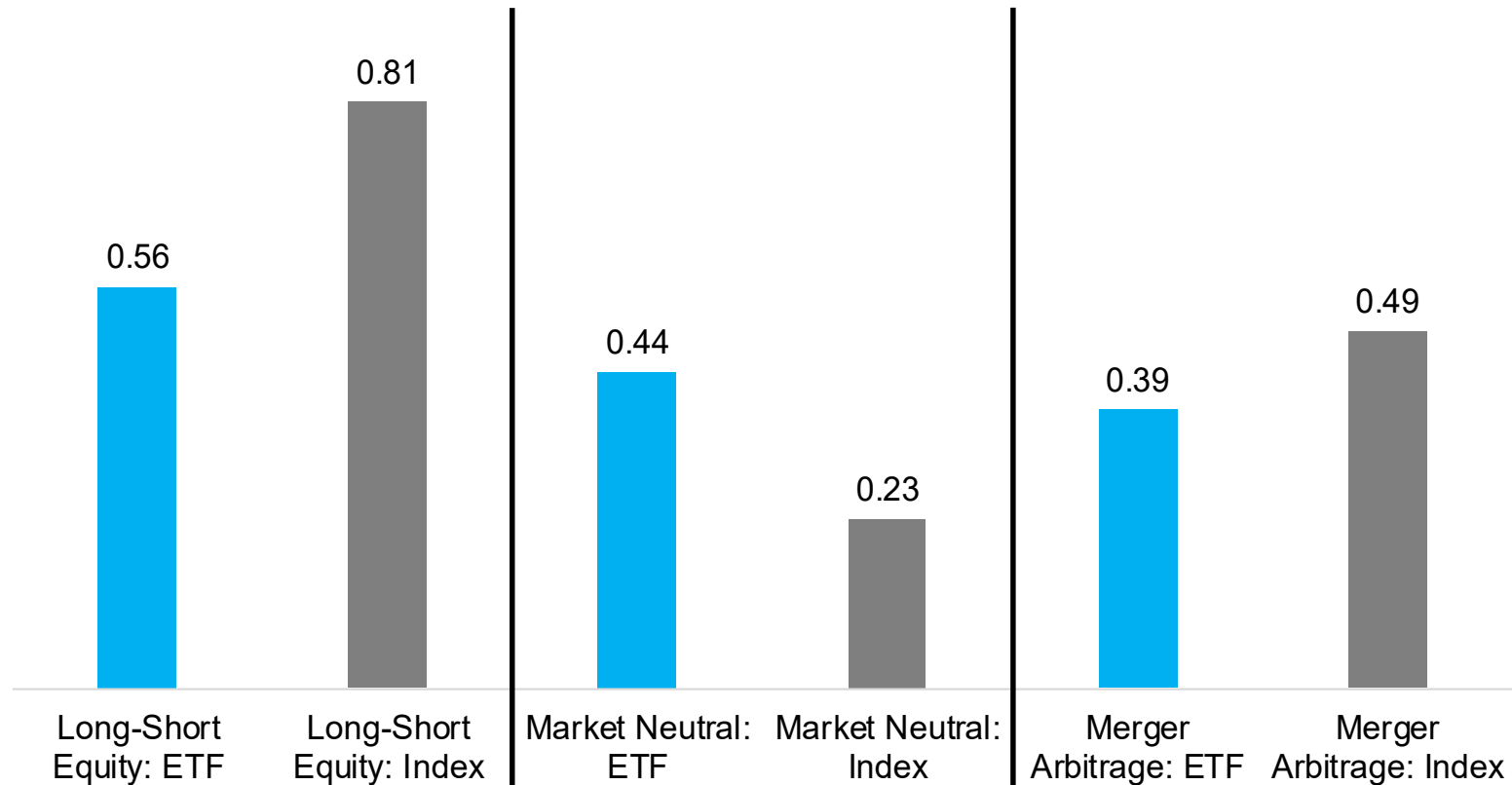
Global Macro ETFs



- Divergent performance of index tracker and index
- No global macro ETFs available

HEDGE FUNDS ETFS

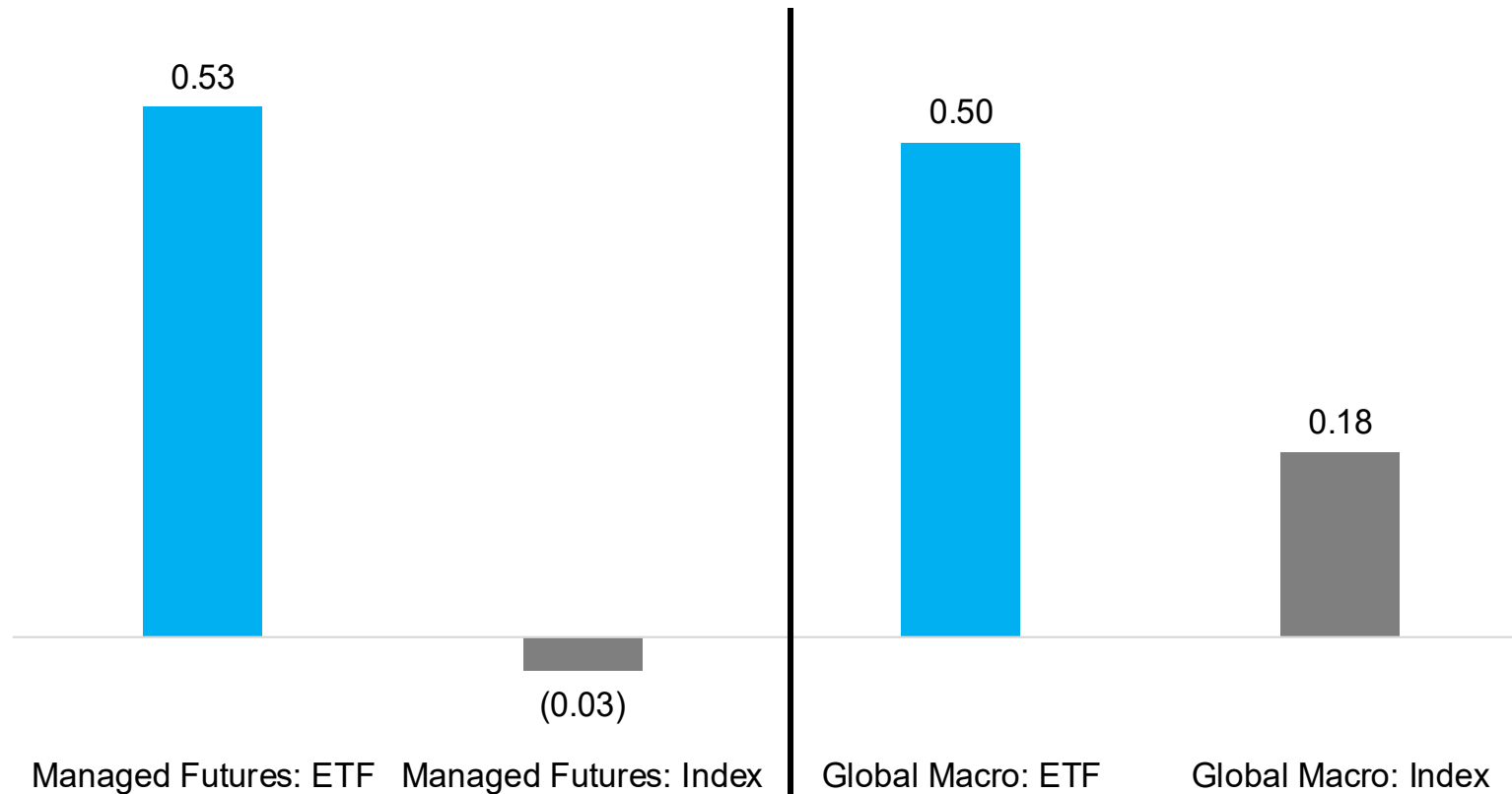
Correlations to the S&P 500: L-S Equity, Market Neutral & Merger Arb



- High correlations to the S&P 500 reduce the diversification benefits
- The fund wrapper, i.e. private hedge fund or ETF, does not matter

HEDGE FUNDS ETFS

Correlations to the S&P 500: Managed Futures & Global Macro



- Managed futures & global macro hedge funds offer low correlations to S&P 500
 - But not in ETF wrapper

HEDGE FUND ETFS

Key Take-Aways

- Some hedge fund strategies can be bought via ETFs

- Requires more financial education

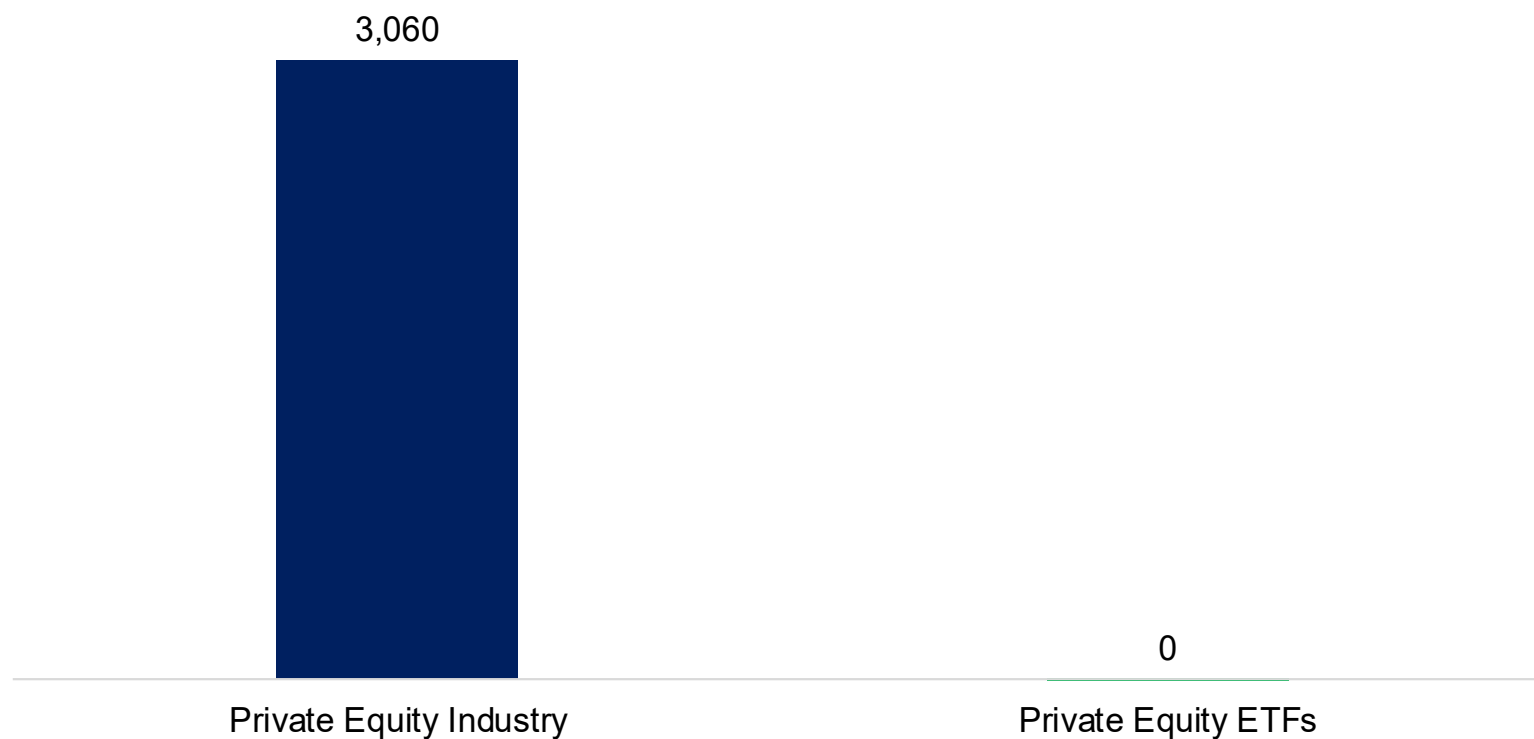
- Issue 1: Many hedge fund strategies are too highly correlated to equity markets

- Issue 2: Managed futures & global macro, which offer low correlations, limited choice of ETFs

NEXT GENERATION LIQUID ALTS

REPLICATING PRIVATE EQUITY

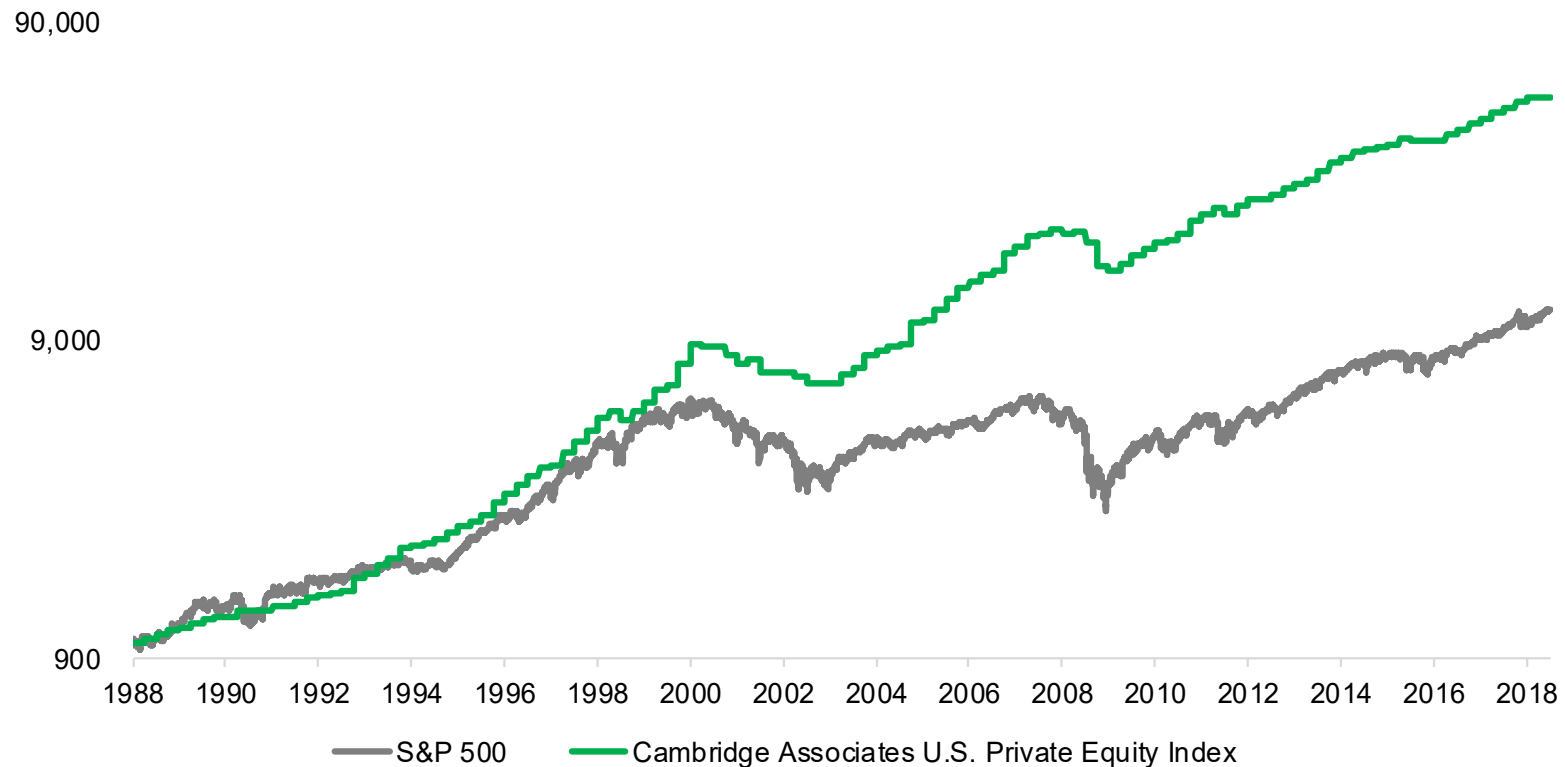
Private Equity Industry – Assets Under Management (\$ Billions)



- The private equity is booming and record funds are being raised
 - > \$ 1 trillion uninvested cash

REPLICATING PRIVATE EQUITY

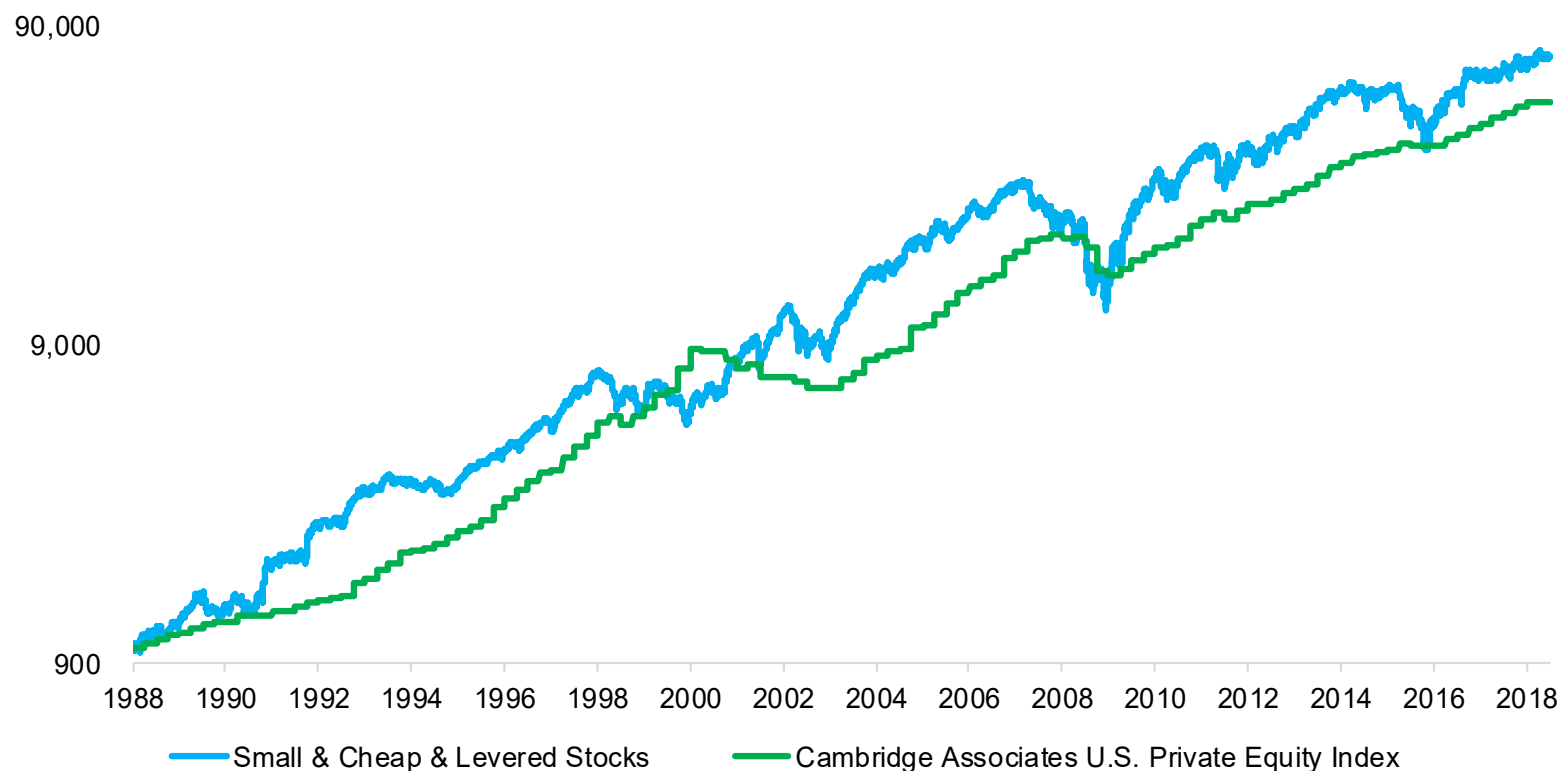
US Private Equity Returns versus S&P 500



- US Private Equity has outperformed the S&P 500 significantly since 1988

REPLICATING PRIVATE EQUITY

Liquid Private Equity Alternatives



- Private equity targets historically were small and cheap companies that could be levered
 - Private equity returns can be replicated efficiently with public equities


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