Asset Class Investment Strategies

Absolute Return

This is a financial promotion. Your capital is at risk, the value of investments may fall and rise and you may not get back the full amount you invested. Past performance is not indicative of future returns.

Major Trends

Backdrop of market uncertainty: While Developed Market Equities[1] ended 2021 in solidly positive territory, their full-year return of over +24% masks various spikes in volatility and deleveraging events that impacted absolute return managers. As we have seen so far in 2022, we expect that elevated levels of volatility are likely to persist, which should create a favorable trading environment for absolute return strategies.

Growth of multi-strategy "platforms": Multi-strategy managers have grown in size and scale, intensifying competition for trading talent and narrowing "off the shelf" investment options. In addition to partnering with the best platforms, building capacity via innovative internal solutions (e.g. managed account platforms) will be increasingly important.

Golden Rules

- Diversification across strategy, manager, geography and asset class is essential to deliver sustainable risk-adjusted absolute returns across market environments.
- Managers who have a proven track record of alpha generation from a discernable and sustainable edge should be core partnerships in the portfolio.
- Emerging managers led by experienced portfolio managers can improve portfolio risk/return characteristics via mandate customisation, enhanced transparency and control, fee discounts, and a focus on more capacity-constrained opportunities.
- Investment strategies focused on niche, inefficient markets often provide the greatest potential for generating attractive, uncorrelated returns.
- Accessing strategies through capital-efficient structures can significantly enhance the risk-return characteristics of the portfolio.

Sub-Strategy Attractiveness

Low-net Equity long/short: Favourable view of regional and sector specialists with strong risk management frameworks, given high levels of stock dispersion.

Event driven: Favourable view of merger arbitrage managers, given record deal volumes and healthy spreads. Positive view of the risk-adjusted return potential in Special Purpose Acquisition Companies ("SPACs"), given many are trading below the value of the cash they hold.

Fixed income relative value: Favourable view, as hawkish central bank rhetoric and rising interest rates can create trading opportunities. However, we still target modest exposure to this asset class given the left-tail risk.

Statistical Arbitrage: Favourable view. While we avoid risk/style premia strategies, we believe higher frequency, sophisticated statistical arbitrage strategies can benefit from elevated levels of volatility and dispersion in equity markets.

Macro: Neutral view. While volatility in global monetary and fiscal policy may create trading opportunities, a sustainable edge is hard to maintain in these efficient markets.

Convertible arbitrage: Neutral view. New issuance has significantly increased the investible universe, though excess supply may create a headwind for valuations.

1 Developed Market Equities as measured by the MSCI World Hedged to USD Total Return Index.

Absolute Return
continued

2022 Strategic Priorities

- **Deepen relationships with selected strategic platforms:** As platforms have gained increasing prominence in talent acquisition, we will drive deeper relationships with those who we believe to have an edge in talent attraction and retention.
- **Scale internal Managed Account Platform ("MAP"):** We believe our MAP program, which has now been live for over two years, gives us an advantage in accessing emerging talent for the program. Our MAP also allows us to structure the overall return stream in a manner that is highly diversified, cash efficient and actively risk managed. We added 20 sub-strategies through 2021 and aim to opportunistically add four or more additional sub-strategies in 2022.
- **Explore additional "niche" strategies:** We are constantly looking to add new, uncorrelated sources of alpha to the portfolio. Areas we will explore in 2022 include non-directional trading strategies in cryptocurrency markets.
- **ESG and DEI:** We continue to focus on a) engaging high-quality, emerging ESG/DEI managers and b) working with existing managers to improve their ESG integration and DEI initiatives. We approved our first liquid, external, ESG-focused manager in 2021 and will be actively engaging with managers to drive ESG process improvements in 2022.

Expected 12-Month Returns

Exhibit 1
Expected returns by scenario

	Recovery Falters (10%)	Stagflation (10%)	Gradual Normalisation (60%)	Reflation 2.0 (20%)	Expected Value
Absolute Return	1.7%	2.7%	4.6%	5.2%	**4.3%**
Notes	Assumes 3% alpha over a beta of (0.1x equity, 0.9x cash)				

Hypothetical return expectations are based on simulations with forward looking assumptions, which have inherent limitations. Such forecasts are not a reliable indicator of future performance. These estimates of performance returns should not be construed to be indicative of actual events that will occur. Please see important disclosures at the end of this document.

Note: Return assumptions are for the 12 months from 31 January 2022.

2 Beta benchmark composed of a 10% allocation to Developed Market Equities (as measured by the MSCI World Hedged to USD Total Return Index) and 90% allocation to cash (as measured by the total return on 3-Month US Treasury Bills), compounded monthly.

3 These estimates of performance returns are based upon certain assumptions which should not be construed to be indicative of actual events that will occur. There is no assurance that the performance presented will be achieved. Please see important Disclaimers at the end of this material.

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