Asset Class Investment Strategies

Public Equities

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Major Trends

Equity market decline from November 2021 peak led by small capitalisation growth stocks: Global equities ended 2021 up +21% for the year, another strong overall result on the back of +15% increase in 2020. This headline return, though, belied the significant turmoil within markets heading into 2022. After markets reached record highs in November 2021, the prospect of higher interest rates and policy tightening by central banks drove stocks lower. Higher valuation, higher growth, smaller capitalisation and recent IPO stocks were disproportionately impacted. Capital markets tightening also put a halt to IPOs, SPACs and general equity issuance by companies. The relative weakness of "small cap growth" can be seen quite clearly by looking at the 13-month period of full year 2021 plus January 2022. While large cap growth, large cap value and small cap value all returned +21% to +23%, small cap growth returned -11%, a relative underperformance of over -30%[1]

Exhibit 1

Small cap growth underperformed by more than -30% over the last 13 months[2]

US Equities (CY 2021 + Jan 2022)	Market	Growth	Value
Small Cap	3.7%	-11.0%	20.7%
Large Cap	22.0%	21.0%	22.8%

Source: *Bloomberg*

Shifting expectations on inflation and interest rate hikes continue to be key drivers of equity market moves in 2022: As markets adjust to the end of a long era of "easy money," the expected path of inflation and interest rate hikes is driving significant volatility and factor rotations in the market. We believe that our asset managers across strategies are generally selecting companies that should perform well in this new environment over the medium to long term, companies that are competitively well positioned with pricing power and strong business models. In the short term, however, stock price moves can simply reflect the impact of discount rate changes on broad style factors and industry sectors. As we have no meaningful insight into these short-term moves, we seek to construct a public equities portfolio with balanced exposures to investments that we expect to be defensive relative to broad markets against unexpected inflation spikes and interest rate tightening and to investments we expect to be relatively sensitive to them. We estimate that our model portfolio contains c.10% exposure to inflation/interest rate sensitive public equities, 10% to defensive and 25% to neutral.

Exhibit 2

We seek a balanced portfolio between inflation/ interest rate sensitive public equities and those that should be relatively defensive

Inflation/ interest Rate Impact	Sensitive	Neutral	Defensive
Themes/ Strategies	Emerging tech, life sciences, Japan digitisation	China, US small cap (non-growth), European midcap, India,multi-sector, quant, co-invest, passive	Sustainability, natural resource equities, US community banks, concentrated (in quality)
Total Allocation	10%	25%	10%

Source: *Partners Capital*

Increased market volatility and, more recently, dispersion: We are mindful of the significantly increased level of volatility within markets, especially for certain investment themes, during this central bank policy tightening cycle. More recently, we are seeing clear evidence of elevated stock dispersion within themes based on growth prospects and operating success coming out of the pandemic. A dramatic example of this was Meta Platforms experiencing the stock market's biggest one-day decline in market capitalisation following its Q4 2021 earnings release (FB down -26% on the

2 US Equities total return during the period January 1, 2021, through January 31, 2022, as represented by the S&P 500 Index (for US large cap), Russell 2000 Index (for US small cap) and their factor variants.

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day), followed the next day by Amazon experiencing the stock market's biggest one-day increase following its own earnings release (AMZN up +14% on the day). We believe this environment should be positive for our industry-expert, deep research-driven, fundamentally-oriented managers.

Golden Rules

- We believe stock selection is the only reliable source of alpha generation.
- Focus on managers with deep fundamental and/ or "big data" research capabilities.
- Select managers who demonstrate nimble portfolio management and proactive risk management.
- Insist on fee alignment tied to value add via fair fee structures and negotiate fee discounts which reward early and large investors.
- Concentrate capital in investment themes and strategy areas with significant alpha potential.

Sub-Strategy Attractiveness

Public equities include the traditional asset classes of hedged equities (long/short strategies with lower equity risk levels than the market) and long equities (long-biased strategies with similar equity risk levels to markets). Long equities have traditionally been further sub-divided into developed markets and emerging markets strategies – and separately into more liquid and longer duration strategies. We have increasingly seen convergence across these classifications in the marketplace and view these distinctions today as not fundamentally meaningful.

We have instead focused on allocating our portfolios to strategies based on their underlying return and risk drivers:

Core Investment Themes: Favourable view. Specialist managers investing behind broad themes with long-term structural drivers supporting returns and asset selection alpha. These strategies generally profit from innovation, dispersion and global growth. They tend to be the highest expected alpha and total return investments in public equities portfolios over the long term.

Diversifying Themes: Favourable view. Specialist managers investing in niche market segments or strategies with what we believe are attractive risk-adjusted returns. These can be narrower (and hence smaller sized), shorter in duration and less growth-oriented than core themes, providing portfolio diversification.

Traditional Strategies: Neutral view. Generalist managers pursuing evergreen strategies with attractive and complementary risk-adjusted return, exposure and liquidity profiles. These have a broad range of expected alpha and include funds meeting liquidity, exposure and other portfolio needs.

2022 Strategic Priorities

- Anchor who we believe are top emerging managers in return for capacity rights and preferential fees, often where we have strong conviction in the strategy and team based on our other investments and relationships.
- Leverage partnerships with leading investment platforms to collaborate on and invest in new vehicles that target emerging investment opportunities or that solve portfolio needs.
- Increase the number of and capital in women-and-minority-owned investment managers through intentional sourcing of new managers and engagement with existing ones.

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Expected 12-Month Returns

Exhibit 3
Expected returns by scenario

	Recovery Falters (10%)	Stagflation (10%)	Gradual Normalisation (60%)	Reflation 2.0 (20%)	Expected Value
Hedged Equities	-7.1%	-4.0%	6.6%	9.7%	**4.8%**
DM Equities	-17.8%	-12.1%	9.3%	15.5%	**5.7%**
EM Equities	-18.1%	-9.9%	11.7%	17.4%	**7.7%**
Notes	Hedged equities assumes alpha of 2% over 0.5x DM equity beta + 0.5x cash. DM equity base case assumes PE multiple contraction from 20.5x to 20x, and earnings growth of 10%. EM assumes no change in PE multiple of 13.3x, 10% earnings growth and manager alpha of 1.5%.				

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

We describe below our investment strategies for each strategy area within public equities.

Core Investment Themes

Major Trends

Selloff in emerging technology and other high-growth areas: Emerging technology companies bore the brunt of the recent selloff, with certain segments down c. -50% from peak. While valuation multiples have declined from peaks, they are still generally above pre-pandemic levels and top quartile expensive relative to long-term history. Software[3] for example trades at 9.3x forward revenue at the time of writing, off peak levels but still historically expensive. However, the broad selloff across companies with varied growth drivers and business models, and the more dramatic impact on smaller companies, has created investment opportunities for our emerging technology managers. We continue to balance long growth biased strategies with more balanced portfolios and significant short books.

Extended bear market in biotechnology: Life sciences has experienced a protracted and dramatic bear market since February 2021, with smaller biotech companies[4] down -24% in 2021. By many measures (including percentage of companies trading at under 2x cash), biotech valuations are at their lowest of the past 20 years. This decline was caused by generally poor clinical outcomes in 2021, subdued M&A volume and fear of negative developments at the FDA and in drug pricing. While the latter two concerns did not materialise, we believe the market is waiting for some return of positive clinical results and increased M&A before re-rating upwards. We maintain conviction in the fundamental innovation underlying our theme and expect increased M&A activity as pharmaceutical company cash balances have reached record levels and the need to address upcoming patent cliffs grows. We believe our managers have taken advantage of this environment to concentrate in those companies with high quality drug platforms that could provide strategic value to big pharma, at attractive valuations.

Regulatory regime shift overhang on Chinese equities: Chinese equity markets saw a significant but uneven decline throughout 2021, accelerating in July 2021, driven primarily by regulatory changes impacting certain industries, compounded by growth, interest rate and investor sentiment. The range in outcomes by industry was stark, with for-profit education down over c.-90%, consumer internet c. -50%, health care c.-20%, financials c.-10% and industrials actually up c. +10%.[5] Our managers defended relatively well through the market turmoil, avoiding the worst of the carnage (no meaningful for-profit education exposure), limiting exposure to major selloffs (significantly underexposed to consumer internet) and rotating into more sheltered areas (large exposures in advanced industrials, healthcare and certain consumer sub-sectors). We believe that our

3 Dow Jones US Software Index as of 28 January 2022
4 Nasdaq Biotech Juniors Index
5 All returns reflect the performance of respective sector indices of the MSCI China Index.

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Chinese managers are positioned appropriately for the current regulatory environment, that they have an ability to adapt to changes on the ground and that we are being compensated for the increased risks by low valuations (relative both to history and to comparable developed markets companies). We also see portfolio diversification benefits from the low correlation to developed markets, the domestically driven stock market (under 5% foreign ownership of China A shares market)[6] and the modest allocation relative to China's GDP, market capitalisation and number of public companies.

2022 Strategic Priorities

- Invest in themes with durable structural drivers, high innovation and high dispersion of outcomes
- Partner with who we believe to be exceptional specialist managers in each theme with true domain expertise and differentiated research platforms
- Maintain investment in emerging technology managers with ability to distinguish what we believe are the best business models across market sub-segments
- Maintain investment in life sciences managers with portfolio and capital base to weather the increased volatility in the segment
- Maintain investments in Chinese equity managers with demonstrated ability to navigate rapid regulatory and fundamental changes

6 Goldman Sachs
7 All returns reflect the performance of respective sector indices of the MSCI World NR LC Index.

Diversifying Themes

Major Trends

Strong returns from cyclical and value-oriented market segments: In 2021, the big winners were sectors that benefited from demand rebound, higher inflation and interest rate normalisation: energy (+40%), real estate (+38%), technology (+31% driven by hardware not software) and financials (+30% led by banks)[7]. Value stocks outperformed, especially within smaller capitalisation indices. Many of these were areas that had shrunk to become a small part of market capitalisation-weighted indices over the past decade and had been largely ignored by the asset management industry.

Mature, reasonably-valued, cash-flowing businesses within smaller capitalisation market outperform: We experienced strong performance from our investment theme of engaged, owner-oriented investing in smaller companies. Operating performance levers like consolidation, pricing power and strong unit economics proved incredibly valuable. The continued "bid" by private equity capital for these assets also helped to support valuations. We continue to believe that market dynamics will benefit these strategies.

Transition to sustainable energy and production accelerates: The global policy, consumer and asset owner shift towards decarbonisation and sustainability accelerated in 2021, with Europe leading in the transition. The market impacts of this theme continue to be complex, however, with most "clean energy" funds generating negative returns in 2021 as certain high-profile pure-play companies disappointed and de-rated, while traditional industries managing the transition well presented significant return opportunities. We continue to believe that sustainability is causing a massive disruption that will generate winners and losers within utility, energy, materials, industrials and other sectors, with outcomes based on companies' ability and willingness to adapt.

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Capitalise on supply/demand tightening within natural resource equities: As a result of the energy transition, complex supply and demand dynamics are at play across the natural resources complex with the potential to benefit select extractors of these critical inputs. We see opportunities in metals and mining, which provide key raw materials for electrification and other innovations, natural gas and other hydrocarbons, which provide key transition energy sources, and related industrial production and transportation infrastructure. Certain extractors can invest capital to expand capacity and reduce environmental impact of their operations. We are accessing this opportunity through expert active managers given the importance of natural resource identification, company selection and engagement.

Banks and other financials benefit from increased net interest margin and elevated market volatility: Banks, including community and regional ones, profited from higher interest rates on loans and increased trading and capital markets activity in 2021. The continued focus on the expectations of higher interest rates from late Q4 2021 and into 2022 has led to banks outperforming overall equity markets by 15-25% depending on index over the 13 months ending January 31, 2022. We continue to favor US community banks where we see tailwinds from accelerating industry consolidation, an underfollowed market niche and significant asset selection opportunity driven by high dispersion.

Expanding pockets of opportunity within niche industries at attractive valuations: We continue to expand the set of investment themes capitalising on favorable trends in largely neglected corners of equity markets. They generally present asset selection opportunities within low valuation and inefficient markets, with examples including European midcaps, Japanese digitisation and Indian financials. We size each opportunity conservatively given its narrowness and volatility, but we expect to invest meaningful capital here in aggregate.

2022 Strategic Priorities

- Allocate sufficient capital to diversifying themes in aggregate to expand sources of return and balance growth-oriented exposures, while sizing each niche theme conservatively
- Focus on investment themes featuring an industry transition or disruption, underfollowed market, attractive valuations and asset selection alpha opportunity
- Grow investments in engaged, owner-oriented small capitalisation managers, who have operational value-add capabilities and who can catalyse private equity exits to realise value
- Expand investments within broad sustainability theme and specifically within natural resource equities partnering with managers who have the expertise to identify winners and losers from the accelerating energy transition
- Identify and invest in additional themes in a dynamic manner, appreciating the sizing constraints and limited life of certain opportunities

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Traditional Strategies

Major Trends

Public equity managers had their worst long/short spread in history: The spread between the return on commonly-owned hedge fund long positions and commonly-owned short positions was -14% in 2021, the worst in the 20 years this data has been tracked[8]. The industry in aggregate poorly managed the "regime shift" caused by interest rate normalisation and has been chronically underinvested in the year's best performing industries (energy, real estate, hardware and banks). Only generalist multi-sector funds with truly balanced portfolios and sophisticated portfolio risk management seemed to avoid disappointing results in 2021.

Quantitative strategies deliver strong performance: After a disappointing 2020 for quantitative equities as an industry, the strategy area performed well in 2021, even the more basic multi-factor approaches. We are reluctant to try to time strategy allocations due to the unpredictability of these reversions. We believe quantitative strategies delivered by the strongest research, data and portfolio implementation platforms should deliver strong returns and form an important part of portfolios.

Liquidity is valuable to portfolios but comes at lower expected alpha: We continue to view liquid capital in public equities as important to capitalising on market opportunities and managing risk, not to mention funding other asset class allocations like private equity. At the same time, we see the best asset managers seeking more stable capital bases, with quarterly 25% investor-level gates replacing standard 100% quarterly redemption as the new market norm. Finding alpha in more liquid managers has become increasingly challenging. As a result, we access liquidity through our co-invest strategy (which though liquid is quite volatile) and through passive funds (which can also be used to complement active manager exposures).

8 Goldman Sachs VIP Index for long returns and VISP Index for short positions.

2022 Strategic Priorities

- Invest only in who we believe are exceptional people and platforms with the the most talented stock-pickers to deliver "evergreen" alpha with their strategy (for active investing allocations)
- Concentrated funds, multi-sector generalists and quantitative strategies remain high conviction alongside the right manager
- Pay careful attention to investment style biases within strategies and seek to balance at portfolio level
- Ensure adequate liquidity to capitalise on opportunities and meet portfolio needs, with preference for low cost or fully passive options

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