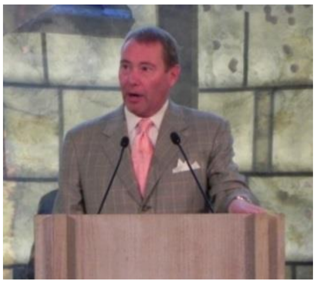
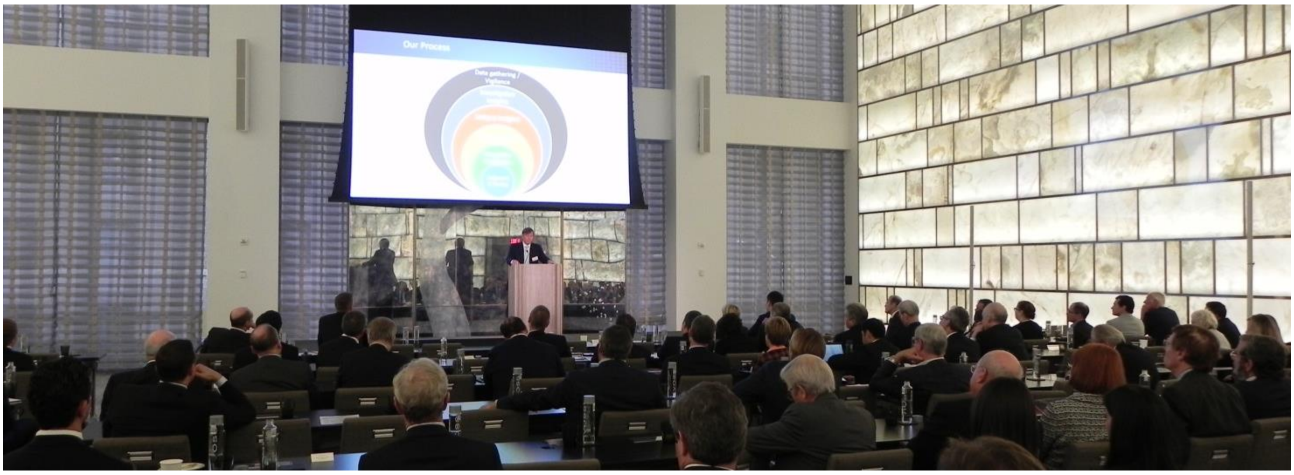
Partners Capital Annual Client Workshop
Executive Summary
11th October 2017
Park Hyatt, New York









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Agenda

Time	Speaker	Topic
12:30 - 12.40pm	**Stan Miranda**, Chief Executive Officer, Partners Capital	**Introduction**
12.40 - 1.00pm	**Kamran Moghadam**, Managing Director - Macro and Asset Allocation, Partners Capital	**Investing in Periods of Political Turmoil**
1.00 - 1.50pm	**Peter Zeihan**, Author of The Accidental Superpower and The Absent Superpower	
1.50 - 2.30pm	**Jeffrey Gundlach**, Chief Executive Officer, DoubleLine Capital	
2.50 - 3.30pm	**Suzanne Streeter**, Head of Private Markets, Partners Capital **Paul Dimitruk**, Chairman, Partners Capital **Jason Klein**, CIO, Memorial Sloan Kettering **Bob Peck**, Managing Director, FPR Partners **André Perold**, Managing Partner & CIO, HighVista Strategies	**Panel Discussion: Challenges to the Endowment Model**
3.30 - 3.50pm	**Stan Miranda**, Chief Executive Officer, Partners Capital	**Technology's Impact on Investing**
4.10 - 4.40pm	**Lee Ainslie**, Managing Partner, Maverick Capital	
4.40 – 5.10pm	**Jeffrey Ubben**, Chief Executive Officer, ValueAct Capital	
5.10 – 5.30pm	**Colin Pan**, Chief Investment Officer, Partners Capital	**CIO Summary**

Introduction

Partners Capital hosted 115 clients for our annual workshop at the Park Hyatt in New York on 11th October, 2017. Clients attended from North America, Asia and Europe, who collectively represented just under half of the $21Bn in assets advised globally. 35 senior members of Partners Capital were in attendance including all 11 partners from around the globe.

Our objective for the 5 hour afternoon workshop was to take our clients "behind the curtain" and discuss those most significant challenges to performance looking forward. The three questions that are most relevant today were addressed by various speakers and a panel discussion.

Part I. ***How to invest in periods of political turmoil?***
Part II. ***Is the Endowment Model still the best institutional approach?***
Part III. ***How will technology affect active investing?***

Brief summaries of the key insights from each session are included in the pages to follow. We ask you please treat this document as highly confidential.

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Key to photos on cover page: from left to right

Top Row: Stan Miranda, Jeffrey Ubben, Jeffrey Gundlach, Colin Pan

2nd Row: Lee Ainslie, Kamran Moghadam, Peter Zeihan

3rd Row: Panellists Suzanne Streeter, André Perold, Jason Klein, Bob Peck & Paul Dimitruk

Part I. Investing in Periods of Political Turmoil

Kamran Moghadam, Managing Director at Partners Capital

Kamran Moghadam joined Partners Capital four years ago as Managing Director of global macro and asset allocation. Kamran has over twenty-five years' experience in global finance and investment management, having worked at JP Morgan for over a decade, initially heading Derivatives Strategy in Europe and later managing macro portfolios in the proprietary investments office. He later helped launch a London-based macro hedge fund as partner and portfolio manager for three years prior to joining us.

US hegemony reached its peak during the two decades following the collapse of the Soviet Union. Recent political rhetoric suggests the US may be looking increasingly inwards. This is suggested to be due to a combination of:

1. Lower reliance on external energy supplies due to low cost shale production (<$40/bbl) and advances in renewable technology
2. Greater populist tendencies favouring inward-looking economic nationalism over globalisation
3. Lack of a definitive positive resolution after almost three decades of military engagement in the Middle East

As a result, the US is increasingly seen as abdicating its global policeman role. Examples of this include a much lower level of engagement in Middle East conflicts including Syria and Libya, as well a passive response to the Russian incursion into Ukraine. In 2017 there are c. 20 global sources of political conflict, compared to c. 10 in 2007. Examples of major political risks include a potential war with North Korea, a Russian invasion of Eastern Europe or the Baltics, or trade agreements like NAFTA being rescinded or severely diluted.

Today, energy supplies are better dispersed across the globe (including US shale) such that OPEC controls only one-third of global crude supply, vs. two-thirds in the 1970's. Alternative energy sources and greater efficiencies are also diminishing the importance of oil.

The main supply chain risk today to Western economies could come from a collapse in trade with Asia. A possible scenario would be a potential North Korea/US conflict forcing China to take sides against the US. About $4.4 trillion or c. 30% of global exports coming from developing Asia could be put at risk. Apple could not produce iPhones at affordable prices without Taiwan's Foxconn.

The principle impact of the above on the economy would likely be stagflationary, i.e., slowing real growth and rising inflation. Financial markets will also see both risk assets (e.g. equities) and safety assets (e.g. government bonds) depreciate, while alternative stores of value such as Gold could appreciate.

But the scale of the economic disaster that would impact both Western and Asian economies could itself diminish the probability of such events occurring. Analogous to the role played by mutually assured destruction as a deterrent to nuclear warfare between the US and Soviet Union during the cold war. In addition, probabilities of these extreme events remain very low as the populist wave appears to be ebbing in Europe and constitutional checks and balances are working in the US. The UK is just beginning to appreciate the scale of the economic risks of Brexit.

History suggests that even when extreme political conflicts do occur, financial assets tend to perform reasonably well over longer horizons. With the exception of the Israeli-Arab war of 1973 (which led to a Saudi oil embargo against the US and a quadrupling of oil prices), military confrontations did not have a lasting medium-term impact on US equity markets.

At Partners Capital, we shy away from predicting specific political events where we have relatively low confidence in our predictions, in favour of investing behind broad political trends where we have higher confidence in their likely outcomes. The major investment implications of the broad political trends of populism and economic nationalism are:

1. Multi-polarity (increased geopolitical conflicts) point to rigorous rebalancing of portfolio risk combined with investment in non-bond safety net allocations
   - Short-duration credit
   - Gold
2. More state-directed economic policy point to geographic and sectoral dispersion; invest in fiscal stimulus beneficiaries
3. Economic Nationalism points to inflation protection; and investing in sectors less dependent on international supply chains
4. Technological disruption will be exploited through hedged equities, sector plays, and technologically-driven investing
5. Social inequality driven shift to socialist regimes will cause all assets to suffer under lower growth, rising inflation and higher taxation. Selective real assets are likely to outperform.

<u>Peter Zeihan, Author of The Accidental Superpower and The Absent Superpower</u>

In his career, Peter Zeihan has ranged from working for the US State Department in Australia, to the DC think tank community, to helping develop the analytical models for Stratfor, one of the world's premier private intelligence companies. Mr. Zeihan founded his own firm, Zeihan on Geopolitics, in 2012 in order to provide a select group of clients with direct, custom analytical products. His freshman book, The Accidental Superpower, forecasts the coming collapse of the global order. His newest publication, The Absent Superpower, highlights what comes next.

The World the United States Made

The United States is gradually pulling back from the post-World War II global order they created at Bretton Woods, where they led and subsidized an international alliance. This pull back is being driven by:

- The United States' economy has a relatively low reliance on trade compared to other major economies, and runs a significant trade deficit. Additionally, there is no correlation between most countries' reliance on trade for economic growth, and any alignment with US policy goals. Hence, the United States cannot justify its trade policies by linking them to longer term geopolitical objectives.
- Better demographics than the rest of the developed world, balanced across consumption and investment
- Energy independence through the development of shale technologies
- Favourable geographic location and climate allows for physical security and sustainability

The political system within the United States is fractured and polarised, with neither side effectively able to negotiate with or dominate the other. Therefore, before the United States can craft a new global strategy, it needs to be able to define what it wants to achieve, which requires discussion, goal setting and implementation. None of this can happen until political parties reform themselves. The last time the major political parties went through a period of reform was during the Great Depression and it took 12 years to straighten out.

Potential Military Conflicts Arising from US Withdrawal

- **The Twilight War:** Potential for a conflict between Russia and 11 countries within Eastern Europe, where the area of invasion is responsible for more than 7 million barrels of oil and 12 billion cubic feet of natural gas transported every day.
- **The (Next) Gulf War:** With the US moving towards energy independence, it will be less involved in the Middle East and no longer mediate between Iran and Saudi Arabia. Right now, there is an estimated 20 million barrels of oil transported per day out of that region.
- **The Tanker War:** As an outcome from the Twilight and Next Gulf wars, the global oil supply will be interrupted resulting in a shortage for northeast Asia. For Japan, China, Korea and Taiwan the result of the shortage is a wide-ranging naval war for the remaining oil supply.

Potential Financial Crisis Arising from US Withdrawal

- **European crisis:** Overall, the European Union cannot work without the United States as an outside arbitrator. As Germany becomes more efficient, its existence threatens to overwhelm its neighbours, promoting an anti-German coalition. Italy remains a major risk with no sign that reforms will come through to boost growth and revenues in time to avoid a debt crisis in the EU that would dwarf what was experienced around Greece and other peripheral nations. Italy is a major plank in the European experiment.

Jeffrey Gundlach, CEO, DoubleLine Capital

Jeffrey Gundlach is the Chief Executive Officer of DoubleLine Capital. DoubleLine AUM exceeds $100bn and the firm has its origins in the Fixed Income sector, but covers most liquid asset classes today. In 2011 Jeffrey appeared on the cover of Barron's as "The New Bond King". In 2013, Institutional Investor named him "Money Manager of the Year". In 2012, 2015 and 2016 he was named one of "The Fifty Most Influential" in Bloomberg Markets. In 2017 he was inducted into the FIASI Fixed Income Hall of Fame. Mr. Gundlach is a Summa Cum Laude graduate of Dartmouth College, with degrees in Mathematics and Philosophy.

While President Trump has been largely ineffective as a president, this ineffectiveness has led to gridlock which has a market volatility dampening effect. Looking forward, the presidential election in 2020 would be "even crazier" than the 2016 election, with the two core political parties potentially fracturing and 3-4 major candidates running against each other.

While geopolitical risks today are potentially overstated, the greatest risk to markets is a combination of rising commodity prices and a Fed policy mistake (tightening too much too quickly) which could lead to a recession in the second half of 2018. The lockstep relationship in recent years between equity market capitalization and the size of central bank balance sheets illustrates the view that Quantitative Easing has led to a wave of liquidity that has driven prices of risk assets. The global coordinated action of loose monetary policy looks increasingly likely to reverse in 2018 with tapering from the ECB coinciding with interest rate hikes and quantitative tightening from the Fed. Mr. Gundlach asserts that these actions could dampen growth and prompt a sell-off in risk assets.

Other Market Views:

- Both technicals and fundamentals suggest that the fixed income markets could be on the verge of a bear market
- The steady rally in high-yield bonds over the past 18 months could potentially reverse
- The near-term bullish view on the US dollar implies a more conservative stance on emerging markets in the short term. However, Emerging Markets remain extremely undervalued.
- Commodities are potentially poised for a rebound, most notably in industrial metals

Part II. Is the Endowment Model still the best institutional investment approach?

Suzanne Streeter (Head of Private Markets, Partners Capital, formerly with Yale University Endowment), André Perold (CIO, HighVista Strategies and former Harvard Business School professor of Finance), Jason Klein (CIO, Memorial Sloan Kettering Foundation), Bob Peck (Managing Director, FPR Partners; Board Member, Princeton University Investment Company), and Paul Dimitruk (Chairman and Partner, Partners Capital).

The surprise here was how differently the endowment model was portrayed by each panellist to include not just the traditional multi-asset class/heavy alternatives definition, but expanded to include many of the most sensible of investment principles (i.e., research driven approach, disciplined process, having courage and patience, alignment and partnership with managers). Our main takeaway was that any good investment idea will draw crowds as has the endowment model over the past 20 years, but there remain structural and human emotion-driven reasons for not investing with a long time horizon and this “arbitrage” still exists today, but competition for the best investments will only become tougher and the winners will be those who are most successful finding alpha off the beaten path and who appeal most to the top asset managers as value added to them.

Professor André Perold reminded us that the 60/40 equity/bond portfolio is currently priced to generate a 3% real return compared to its historical average of 5%, so there is a gap to fill. Unless you want to take more risk and allocate your entire portfolio to equities (currently priced to generate a 5% real return), you need to find sources of alpha which is a challenging proposition. Alpha in public markets has to be harder to come by as sophisticated investors now must beat other sophisticated investors to outperform. The private markets are more hospitable to alpha, whereby asset managers can internalize more of the benefits for themselves compared to the free loading that occurs in the public markets.

Paul Dimitruk honed in on the need to invest off the beaten path, with the ability to source and evaluate alternatives to the “traditional” alternative asset classes, opportunities that are outside and uncorrelated with the conventional capital markets. Finding these investments today is even more critical given the elevated valuations in many on-the-run private investments. All of the panellists agreed on the importance of maintaining a long-term view on the multi-asset class diversification benefits, and not be misguided by expecting what has driven the exceptional returns of the traditional 70/30 or 60/40 equity/bond portfolio over the last five years to continue in the future.

Part III. How Will Technology Affect Active Investing?

Stan Miranda, CEO Partners Capital

As Founder and Chief Executive Officer, Stan is responsible for leading the Partner group as they fulfil their responsibilities in running the day to day business as well as chairing the Internal Investment Committee. Previously, Stan was a Co--Founder and Managing Director of Evolution Global Partners, a Kleiner Perkins & TPG affiliated venture capital firm; Director of Bain & Company and a member of its Worldwide Executive Committee (Chairman in 1997--98); founding member of Bain & Company's Private Equity Practice and Private Equity Investment Committee member; and is a Certified Public Accountant.

Technology is disrupting most industries today. Active investing is no exception. The most important changes that are shaping the industry are: processing power enhanced by cloud computing and low cost memory, an explosion in the type and quantum of data, and advances in machine learning / artificial intelligence.

At the highest level, “Alpha” is derived from one or more of the following three sources: a) speed advantage; b) information advantage; or c) analytical advantage. The technological changes will fully destruct speed and information advantages that discretionary managers enjoyed, and their analytical advantage will be severely challenged by progressive systematic investors exploiting more data and processing power.

The growth of the smart beta industry has already put many "discretionary" managers out of business and represents just the tip of the iceberg. As "alternative data" is collected from social media, web searches, transaction data, satellite imaging and other sensors, and analysed using artificial intelligence, all but the longest horizon discretionary investor is under threat in the next decade.

The most vulnerable are opportunistic discretionary managers trading with sub 1-year horizons as quantitative firms exploit superior predictive data to outmanoeuvre humans. The least vulnerable in the near-term are long-horizon deep fundamental research based managers where machine learning has not yet progressed to the point of being able to replace human judgment assessing management quality, strategy effectiveness, etc. Machines also work on recognized historical patterns, so non-linear pattern dislocations in industries are difficult to automate.

Many, but by no means the majority, of discretionary managers have woken up to the new paradigm and are investing in "data science" capabilities. Simply hiring "quants" will do little to enhance alpha generating capability. Scale organizational rebuilding over a number of years is required, with all of the associated organizational risks and cultural integration having to be carefully managed.

Parallels in other disrupted industries (e.g. traditional retailers launching an online offering but not focusing on making it a truly seamless customer experience) suggest that it is critical for the corporate culture to truly embrace the change and devote sufficient resource to it even if it cannibalizes some existing lines of business.

Against this rapidly changing landscape, Partners Capital will look to:

1. Avoid the fundamental managers most vulnerable to systematic managers – those with shorter time frame liquid trading strategies
2. Back fundamental managers who are using technology most effectively in evolving toward the hybrid "human + machine" investor
3. Build strategic relationships with leading systematic managers to secure access to future capacity and strategies

Lee Ainslie, Managing Partner Maverick Capital

Lee S. Ainslie III is Managing Partner of Maverick Capital and serves as Chairman of the Portfolio Management Committee. Before founding Maverick in 1993, Mr. Ainslie was a Managing Director of Tiger Management. Mr. Ainslie received a B.S. in systems engineering from the University of Virginia and an M.B.A. from the University of North Carolina (Beta Gamma Sigma).

Maverick is a fundamentals-focused global equities manager that has heavily embraced technology in their investment process. In 2006, the firm initiated its quantitative research effort and embraces both fundamental and quantitative methods to create synergies in their fundamental investment process. Technology is utilized throughout the investment process (i.e. not just in analyzing the company) in three main ways:

1. Quantitative research serves to screen potential stocks from a universe of thousands for inclusion in the portfolio, based on a number of metrics
2. Big data is harnessed to improve their understanding of how the company is performing (in real time) and has improved the accuracy of the firm's stock forecasts. These forecasts are primarily <u>short-term</u> in nature.
3. Quantitative models are used to inform and monitor portfolio construction and risk. Today, Maverick monitors over 30 portfolio metrics (e.g. sector exposures) on a real time basis.

Maverick does not expect either systematization or traditional fundamental research to dominate as a model for global equities investing. But rather, they expect these two models to co-exist in a 'hybrid' model in which humans are used to make subjective judgments that impact long term fundamentals, while technology is embraced to systematize aspects of short term fundamental research.

Jeffrey Ubben, Chief Executive Officer, ValueAct Capital

Jeffrey Ubben is a Founder and the Chief Executive Officer of ValueAct Capital. ValueAct was founded in 2000 and currently has $15 billion of assets under management. Mr. Ubben is a director of Twenty-First Century Fox Inc. and Willis Towers Watson plc. He is the former Chairman and Director of Martha Stewart Living Omnimedia, Inc., and a former Director of Catalina Marketing Corp., Gartner Group, Inc., Mentor Corporation, Misys plc, Sara Lee Corp., Valeant Pharmaceuticals International and several other public and private companies. In addition, Mr. Ubben has a B.A. from Duke University and an M.B.A. from the Kellogg School of Management at Northwestern University.

ValueAct views their strategy as a long-term fundamental approach that is not dependent on the majority of technological advancements in the investment industry. While technology can enhance their investigative processes by providing support, the utilization of ever increasing number of data sources is not the way to create lasting, repeatable value. In particular, these data sources can create short term advantages, but that those advantages will be arbitraged away in time as new data sources emerge. In addition, data is not necessarily insight. A large portion of the investment community today is overly focused short-term data releases as opposed to understanding the underlying business fundamentals.

Technology cannot replicate certain pieces of the ValueAct value creation strategy, all of which are based around human judgement, interaction and relationships. In particular:

- Building relationships with management and influencing their behaviour
- Gaining critical insight from a board room or executives (e.g., reading non-verbal cues and proprietary discussions)

- Creating a network of top executives through trust and respect who will provide further critical insight and act as a sounding board
- Understanding the key insight of a business model

CIO Summary of Investment Progress in 2017

Colin Pan, Chief Investment Officer of Partners Capital

Colin joined Partners Capital in 2010. As Chief Investment Officer, Colin sits on the firm's Internal Investment Committee (IIC) and leads the Central Research Team, which is responsible for overall investment strategy and policy portfolio construction. Prior to joining Partners Capital, Colin worked with Fremont Realty Capital, an opportunistic Private Equity Real Estate firm that was part of the Fremont Group. Previously, Colin was a Senior Associate Consultant at Bain & Company in San Francisco.

Four key initiatives of our Research Team to combat higher valuations, a competitive fundraising environment, and the greater impact of fees in a lower return environment:

1. **"War on Fees".** Recently a second equity co-investment program launched, which invests in what we believe to be the best ideas of our generalist and specialist equity managers on a fee-free basis. We have also been increasingly successful in our ability to lower the fees charged by existing and prospective asset managers. These discounts have resulted in 50-200 bps of additional performance being passed on to our clients.[1]

2. **Stronger strategic relationships with our asset managers.** Given our size at over $20bn in AUM, the sophistication of our team, the attractiveness of our clients and our ability to add value to our asset managers' businesses, we should be on most asset managers' short list of most attractive investors. This allows us to access rare capacity, gain more transparency and negotiate better terms. This often has us focussing on supporting promising smaller new managers and accounting for a significant portion (10-30%) of a firm's assets under management.

3. **Alternative Alternatives Initiative.** In 2017, we have invested a significant amount of capital in strategies where returns are driven by a non-correlated event (e.g. life settlements and FDA drug-trial funding) and in less-correlated income producing strategies (e.g. income sharing arrangements and bridge lending).

4. **Co-investments and Direct investments in liquid and illiquid asset classes.** Over the last 12 months we have made close to $400 million of co-investments and direct investments across a number of strategies.

[1] These estimates of fee savings 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 fee savings presented will be achieved.

These initiatives, along with the constant re-evaluation of our investment processes and approach, give us reason to believe that we can maintain, and hopefully, increase our client's outperformance in the years ahead.

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