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# Partners Capital Annual Investor Workshop
# Executive Summary

**10th October 2018**

**St. Pancras Renaissance Hotel**

## "A lifetime of investment learning in one afternoon"

| Stan Miranda<br>CEO | Kamran Moghadam<br>Deputy CIO | Professor Keyu Jin<br>LSE | Arjun Raghavan<br>Head of Portfolio Construction |
|---|---|---|---|

| Ric Lewis<br>CEO, Tristan Capital Partners | Andrew Saker<br>CEO,<br>IMF Bentham | Omar Selim<br>CEO, Arabesque Asset Management |
|---|---|---|



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**Suzanne Streeter**
**MD, Private Markets**

**Colin Pan**
**CIO**

**Alex Band**
**MD, Public Equities**

**John Collis**
**Head of Europe**

**The Hansom Hall, St. Pancras Renaissance Hotel**

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# Agenda

| Time | Speaker | Topic |
|---|---|---|
| **1:00 - 1.10 pm** | **Stan Miranda**, CEO & Founder | **Introduction** |
| **1.10 - 1.55 pm** | **Kamran Moghadam**, Managing Director, Deputy CIO<br>**Keyu Jin**, Professor of Economics, London School of Economics | **Geopolitics and Macroeconomics** |
| **1.55 - 2.15 pm** | **Arjun Raghavan**, Partner & Head of Portfolio Construction | **The Endowment Model Redefined** |
| **2.15 - 2.35 pm** | **Stan Miranda,** CEO & Founder<br>**Suzanne Streeter,** Managing Director | **Private Equity** |
| **2.35 – 3.00 pm** | **Break** | |
| **3.00 - 3.30 pm** | **Ric Lewis,** Tristan Capital Partners | **Real Estate** |
| **3.30- 4.10 pm** | **Colin Pan,** CIO<br>**Euan Finlay,** Partner<br>**Andrew Saker**, IMF Bentham | **Private Debt and Alternative Alternatives** |
| **4.10 – 4.30 pm** | **John Collis,** Partner & Head of Europe<br>**Alex Band,** Managing Director | **Public Equities** |
| **4.30 - 4.55 pm** | **Break** | |
| **4.55 – 5.25 pm** | **Omar Selim**, CEO & Founder, Arabesque Asset Management | **How ESG Measurement will impact returns** |
| **5.25 – 5.45 pm** | **Will Fox**, Partner<br>**Rich Scarinci**, Partner | **Absolute Return and Credit** |
| **5.45 – 6.00 pm** | **Colin Pan, CIO** and **Stan Miranda, CEO** | **Closing Remarks** |



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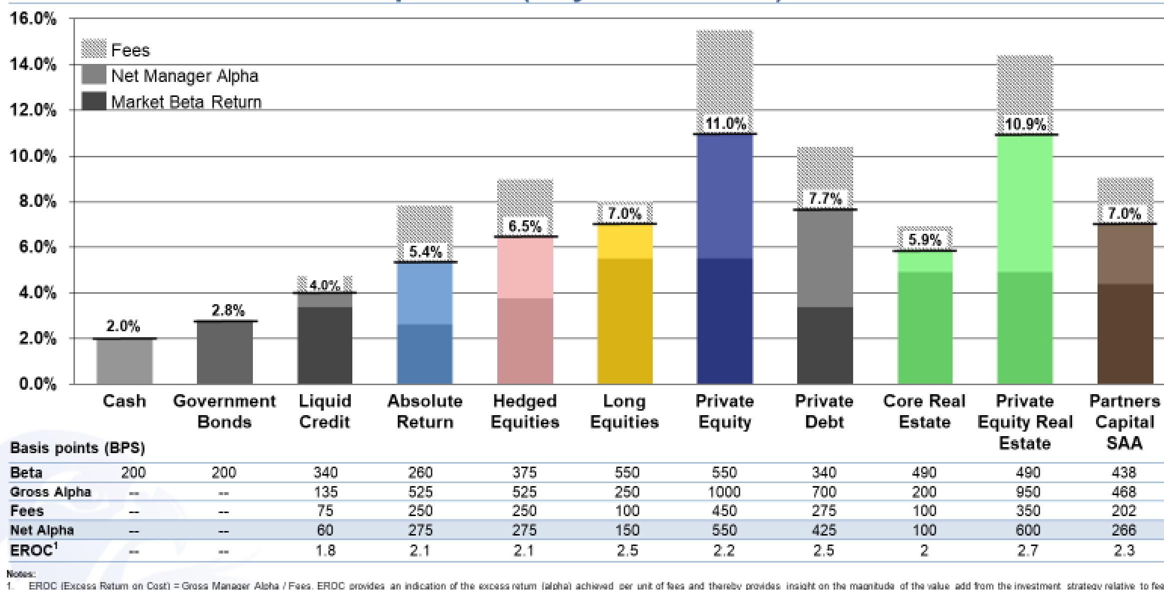
## Partners Capital Annual Investor Workshop – Executive Summary

Partners Capital Annual Investor Workshops have typically sought to address the prevailing topic on the minds of investors. In 2016, we focussed on active investment management which was suffering an existential crisis following a period of severe underperformance. In 2017, we addressed how technology was likely to affect the investment industry. However, in response to client feedback, our 2018 workshop approach pivoted, and instead we featured our senior investment team and provided our clients with a better sense of our strategy for generating outperformance in each asset class.

The workshop opened with Stan Miranda, founder and CEO, providing the audience with a reminder of the two sources of investment return; alpha and beta. Beta is the return that an investor can earn cheaply through market exposure. Alpha is the excess return over and above the market exposures. Alpha is difficult to access, requires skilled managers and has to be paid for. The combination of alpha and beta is the total return.

Based on our return forecasts, our typical client should expect total returns of around +7% per annum over the next ten years (see far right bar, "Partners Capital Strategic Asset Allocation"). Of this, roughly +4.4% is derived from market exposure, or beta. This forecast uses the fairly consensus +5.5% nominal return expectation for global public equity markets over the next ten years. The remainder of the expected return is derived from alpha. We expect +4.6% of gross alpha, of which, +2.0% will be paid in fees to the underlying managers. This leaves a net gain of around +2.6% per annum for our clients' portfolios.[1]




| Basis points (BPS) | Cash | Government Bonds | Liquid Credit | Absolute Return | Hedged Equities | Long Equities | Private Equity | Private Debt | Core Real Estate | Private Equity Real Estate | Partners Capital SAA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Beta | 200 | 200 | 340 | 260 | 375 | 550 | 550 | 340 | 490 | 490 | 438 |
| Gross Alpha | -- | -- | 135 | 525 | 525 | 250 | 1000 | 700 | 200 | 950 | 468 |
| Fees | -- | -- | 75 | 250 | 250 | 100 | 450 | 275 | 100 | 350 | 202 |
| Net Alpha | -- | -- | 60 | 275 | 275 | 150 | 550 | 425 | 100 | 600 | 266 |
| EROC[1] | -- | -- | 1.8 | 2.1 | 2.1 | 2.5 | 2.2 | 2.5 | 2 | 2.7 | 2.3 |

Notes:
1. EROC (Excess Return on Cost) = Gross Manager Alpha / Fees. EROC provides an indication of the excess return (alpha) achieved per unit of fees and thereby provides insight on the magnitude of the value add from the investment strategy relative to fees.

Source: Partners Capital

Achieving such a level of alpha will be challenging. The key topic for the 2018 workshop was focused on the strategies employed by each of our Asset Class Teams to generate this outperformance. Each Asset Class Team presentation culminated in our "Golden Rules" that we believe will give us a competitive edge in meeting these alpha targets for each respective asset class. Ahead of those learnings, we reviewed the macroeconomic context in which we expect to influence our investing in the coming years.

[1]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.



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## Geopolitics and Macroeconomic Overview – Kamran Moghadam (Deputy CIO, Partners Capital)

Kamran Moghadam, our deputy chief investment officer, provided the macroeconomic context prior to the asset class discussions. This focused on the three key questions facing investors currently:

1. **How long can the current economic expansion last, now in its ninth year since the great financial crisis?**

   Our analysis of prior expansions shows that these do not die of old age but rather are driven by excess monetary tightening by central banks to prevent inflation as economic output outstrips potential productive capacity. Based on this framework, current conditions do not imply an impending end to the expansion. Despite tightening economic conditions, the real interest rate in the US remains negative, well below levels typically seen near the end of a cycle. Additionally, the output gap, which measures the degree to which spare capacity is being utilised in an economy, indicates that current economic growth is marginally above potential growth, but not by the amount typically seen just prior to a recession. The implication is that there remains sufficient slack in the economy for the Federal Reserve to raise rates slowly without the economy overheating or stalling.

2. **What are the implications of the US congressional mid-term elections?**

   The upcoming US midterm elections in November are not expected to have any material influence on financial markets, irrespective of the result. The market is currently expecting the Republicans to retain control of the Senate whilst the Democrats are expected to regain control of the House of Representatives. Such a result would likely result in political gridlock in Washington, reduce the pace of deregulation and limit public spending cuts, most likely resulting in an increase in inflation and the budget deficit resulting in further upward pressure on US Treasury yields. The Democrats are unlikely to reverse the recent changes to trade policy which appear to have been popular with voters and securing sufficient votes for the two thirds majority required to reverse the tax cuts is a statistical impossibility given the number of seats being contested.

3. **How big an impact will US and Chinese trade tensions have on economic growth?**

   The largest risk to the outlook for global growth is escalating trade tensions between the US and China. Trade wars are inherently inflationary and contribute to the risk of interest rates being raised too quickly to the detriment of economic growth. Keyu Jin, professor of Economics at the London School of Economics provided her expert views on the current situation.

## US and Chinese Relationship – Professor Keyu Jin, London School of Economics

*Dr Keyu Jin is a tenured professor of Economics at the London School of Economics. She is from Beijing, China, and holds a B.A., M.A. and Ph.D. from Harvard University. Her research focuses on international macroeconomics and the Chinese economy.*

US-China relations will be one of the key challenges of our time. It is too late for the US to try and contain China. The trade war will become a long-term feature and will not go away soon. Its main consequence will be a renewed effectiveness of reforms within China that will curtail wasteful borrowing and spending by state owned enterprises in the name of responding to a common enemy, the US. This will allow for resources to be directed to investing in the domestic economy and



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measures increasing household spending. The government will continue to liberalise the financial sector, opening it up to foreign competition, and continue to support large tech investment. It is the digital economy that will continue to drive the Chinese growth story, as it improves productivity and fosters entrepreneurship.

## The Endowment Model Redefined – Arjun Raghavan (Partner and Head of Portfolio Construction, Partners Capital)

Arjun Raghavan provided an overview of how Partners Capital have refined the "endowment model" over the last 15 years. At our founding in 2001, Partners Capital sought to take the most advanced proven institutional investment approach to our clients. To that end, we adopted the endowment model of investing which had been developed by David Swensen, the CIO of the Yale Endowment. That model was based on three core tenets: 1) maintaining a high and static risk level; 2) diversifying across a broad set of asset classes with a particular focus on nascent asset classes where the potential for alpha creation was greatest; and 3) investing via high quality third party owner operated asset managers.

Since this investment strategy was codified in Swensen's book "Pioneering Portfolio Management", there have been a number of developments which have disrupted the investment industry; most notably: 1) Alternative investments grew from a relative niche to become mainstream (now accounting for 12% of total invested capital); 2) passive index trackers and ETFs have proliferated to provide investors with low fee exposure to the majority of market niches. The net effect of these two developments is the reduction in outperformance delivered by active managers, particularly when benchmarked appropriately versus the growing array of passive alternatives.

As the investment industry was developing, we also felt that the "endowment model" required amendments. We did this in three key ways:

1. Asset class labels obfuscate the true look-through risk of an underlying strategy. The most effective way of managing overall portfolio risk is to look-through each underling asset manager's portfolio to the underlying exposures to the traditional market risks of equities, credit, fixed income and inflation.

2. The best measure of overall portfolio risk is the aggregated look-through market exposures re-based to a common unit of risk measurement. Overall portfolio equity equivalent risk provides the most effective single measure given the equity exposure dominates other risk factors in the portfolio. We spurn volatility targets in favour of adherence to equity equivalent risk budgets.

3. Assess asset manager performance against a passive replication of their normative underlying risk exposures to accurately quantify past outperformance or alpha.

These advancements have been incorporated into our investment model to arrive at what we call Partners Capital Risk Managed Endowment Approach ("PRMEA"). This separates investment performance in its two key components: tightly risk managed exposure to market exposures and an uncorrelated alpha stream.



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Specifying what sort of managers could be expected to generate outperformance over and above their passive market exposures in future was the key topic of discussion for the remainder of the conference.

**Private Equity - Stan Miranda (Founder and CEO, Partners Capital) and Suzanne Streeter (Managing Director, Partners Capital)**

Private equity refers to the equity ownership of private companies; typically, orphaned divisions of larger conglomerates, independent founder operated companies and new start-ups. These investments are illiquid given their expected hold periods of five to ten years. Contrary to common perception, private equity does not generally provide much diversification benefit to a multi-asset class portfolio given the equity market risk inherent in the strategy. Its key role is the generation of among the highest returns of any asset class.

We expect the asset class to generate 11% per annum over the next ten years due to the combination of market beta (5.5%) and the alpha generated by the asset class which is the net effect of 10% gross alpha minus the average of 4.5% in fees paid to underlying managers. While this is a reduction from the c. 15% annualised returns of the asset class in the past, we still expect it to be the highest return generating asset class in our portfolios. [1]

Over the decades spent analysing the asset class, we have taken on board a number of lessons which form the basis of our private equity investment strategy going forward. These **"Private Equity Golden Rules"** include the following:

1. Invest off the beaten path in "niche" strategies where there are pockets of inefficiency. This includes company size, sector and regional specialists.

2. As with all asset classes, track the spin outs from top tier firms and back the new emerging manager teams who re-commit to the core competencies of the original firm but often with a fund size optimised for the strategy and a re-energised team.

3. Allocate to those managers with demonstrable ability to generate superior earnings growth through improving the operational efficiency of the firm.

4. Take advantage of our scale to reduce look-through fees by co-investing with our managers.

5. While we continue to build relationships with the "old guard" venture capital firms, we also aim to source and support next generation venture capital talent.

## Real Estate – David Shushan (Partner, Partners Capital) and Ric Lewis (Founder and CEO, Tristan Capital Partners)

Real Estate serves a number of roles in multi-asset class portfolios. It provides an inflation hedge given rental rates rise with inflation and replacement values are indexed to input costs of materials and labour. It provides a steady source of income from rental yields with returns further improved using leverage and operational improvements to the properties. It tends to have low correlation to equity markets providing significant diversification benefits. Finally, for tax paying clients, particularly in the US, it can be highly tax efficient.

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However, despite these benefits, we find that most of our clients remain underweight the recommended target allocations to real estate due to their belief that they already have sufficient exposure to the asset class through other property they own or based on the perception that the asset class is currently expensive.

Ric Lewis, the founder and CEO of Tristan Capital Partners, provided his perspectives on the current market environment for real estate. Tristan is €10B European Real Estate focused manager with a strong 15 year track record.

Ric painted a cautiously optimistic picture for the European real estate market driven by a combination of:

1. Improving fundamentals given rising GDP growth and limited development activity giving rise to low vacancy driving rental rates upwards.

2. Cap rate spreads between impaired and repaired assets remain wide providing skilled managers with the ability to significantly reduce cap rates through operational improvement.

3. Cap rate spreads remain wide relative to the cost of financing.

However, he encouraged broadly diversified portfolios, both across geographies and property type, limiting the use of leverage and retaining underwriting discipline, particularly in regard to assessing the institutional liquidity of impaired assets.

## Private Debt and Alternative Alternatives – Colin Pan (CIO, Partners Capital), Euan Finlay (Partner, Partners Capital) and Andrew Saker (CEO, IMF Bentham)

Private debt refers to the privately negotiated, senior loans collateralised by the cash flows of corporations or real estate. The asset class can add a high level of total return to a portfolio with downside protection through its senior position in the capital structure.

"Alternative Alternatives" are those investment strategies whose underlying return driver is uncorrelated to the drivers of return of traditional asset classes. Examples include litigation funding, the returns of which are based on the outcome of a judicial process or catastrophe insurance, where returns are determined by the prevalence and severity of natural disasters.

Partners Capital's private debt and Alternative Alternatives allocations have generated a +10.7% IRR since 2012 which represents 440bps of outperformance versus the public market equivalent return of global high yield bonds.[1]

Over the years analysing these asset classes, we have established the following three **Private Debt Golden Rules** and a simple maxim relating to Alternative Alternatives which form the basis of our investment strategy in these two asset classes.

1. **Understand the cost of capital of banks**: under the Basel II regime, banks were obligated to hold 2% common Tier 1 equity against their lending activity. Under Basel III by 2019, this will increase to 7%. For systemically important financial institutions, that will rise to 12% in the coming years. This has resulted in the banks share of the US leveraged loan market falling

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from 45% in 2000 to 9% in 2017. This has been a tailwind for private lending strategies, but these dynamics must be monitored carefully.

2. **Allocate to specialist niches with greater alpha potential**: invest off the beaten path in those sectors which have barriers to entry preventing competition from banks and generic cash flow lenders; e.g. lending to early stage life sciences companies.

3. **Alpha comes from downside protection**: avoiding realised losses (defaults) in market downturns is a key source of alpha over the cycle. Allocate to those managers with the discipline, skill and resources to weather the next downturn.

4. **Allocate to Alternative Alternatives**: the prospect of uncorrelated, double digit returns from Alternative Alternatives strategies are the holy grail of investing. However, they are hard to find and hard to diligence. Maintain an exceptionally high bar for partnering with managers in these niches.

## Public Equities – John Collis (Partner, Partners Capital) and Alex Band (Managing Director, Partners Capital)

Allocations to global equities allow investors to participate in the growth of the global economy. This includes the commercialisation of new technologies, the rise of the internet economy and opportunities presented by the urbanisation of emerging market economies.

The only possible sources of alpha for public equity managers are to either take from other investors or to grow the value of the underlying companies during one's ownership period. Public equity managers can extract outperformance at the expenses of others by being early to an investment opportunity or by having a unique, defensible skill, usually based on specialist knowledge. Alternatively, managers can grow the value of their portfolio companies by applying private equity-style activist management techniques to their investments.

Public equities have always been a difficult asset class in which to generate alpha. The rise in passive index mutual funds and ETFs, which offer nearly free exposure to equity markets, has served to highlight this point. Over the past 50 years, only 41% of traditional active equity funds outperformed the S&P 500 over cumulative 5-year periods, falling to less than 10% in the last 5 years. Despite the challenges to alpha returns within public equities, Partners Capital public equites investment program has delivered 1.4% annualized alpha over the last five years. While this represents significant outperformance compared to passive global equities, we believe it is possible to extract 1.5% - 2.0% annualized alpha in the future. [1]

We have developed five **Public Equities Golden Rules** for investing in the asset class which we expect to contribute to this goal.

1. **Stock selection is the only reliable source of alpha generation**: we search for those managers with the unique combination of resources, process and access tailored to a specific market niche to deliver consistent security selection driven outperformance, as opposed to market timing, factor exposure and sector and geographic asset allocation.

2. **Focus on managers with deep fundamental and/or "big data" research capabilities**: we believe a manager's structural advantage is often rooted in deep fundamental and/or "big data"



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research capability, often applied to a specific investment universe which has complex and unique drivers of performance. We have backed such managers focused on life sciences, technology, US utilities and US community banks.

3. **Insist on fair and aligned fee structures.** Most fundamentally, do not pay fees on equity beta which can be easily and cheaply accessed through passive instruments.

4. **Execute a robust process to source, diligence, partner and innovate within equities**: Our public markets team evaluates over 300 equity managers every year and assess them with analytical processes to isolate true stock selection alpha. Only by establishing close working relationships will we have the ability to be value added in their strategy execution or to know when a given strategy is losing its edge and effectiveness in generating alpha.

5. **Concentrate capital in strategy areas with significant alpha potential:** There is significant variation in alpha across equities investment strategies. We are seeking to move away from generalist managers in favour of the following four strategies:

   **a.** Long-short sector specialist hedge funds,
   **b.** long hold activist managers with the ability to improve the value of the companies,
   **c.** co-investment with our higher conviction managers to reduce fees and
   **d.** quantitative strategies managed by firms that have the economic scale, research talent, data access and experience to stay ahead of the growing competition from technology-based investors.

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## How ESG Measurement will impact returns – Stan Miranda, CEO Partners Capital and Omar Selim (CEO and Founder, Arabesque)

Hopefully you have all read our various white papers on the topic and know what ESG (Environmental, Social and Governance) based investing is and what it is all about. In sum, it is about investing responsibly; whose definition, of course, is in the eye of the beholder. We would all agree that investing in companies with corrupt practices or who otherwise break the law is not responsible investing. It becomes greyer when we get into whether investing in companies who produce fossil fuels which contribute to global warming is responsible investing. The second large issue is whether investing responsibly costs investors returns or enhances returns. Our work on this topic is inconclusive. While we can find ESG focussed investors generating 200 basis points of alpha, we have non-ESG managers where we expect them to carry on generating 400-600 basis points of alpha.

While we are still in the early days of setting broadly accepted standards of measurement of companies and investment firms on their ESG profiles, we believe there is considerable momentum behind institutional investors' desire to invest using a combination of financial and ESG measures, such that in future share prices will increasingly reflect a company's ESG score. Also, in future, most asset managers will embrace investment processes which incorporate an "ESG lens". We see a self-fulfilling aspect of ESG investing that works something like what is shown in the chart below.

It all starts with measurement of any one company's ESG score. How good is Unilever or Facebook's corporate governance, carbon foot print, etc.? It is our premise that as ESG scoring becomes commonplace, institutional investors such as our clients will be evaluated on the look through ESG



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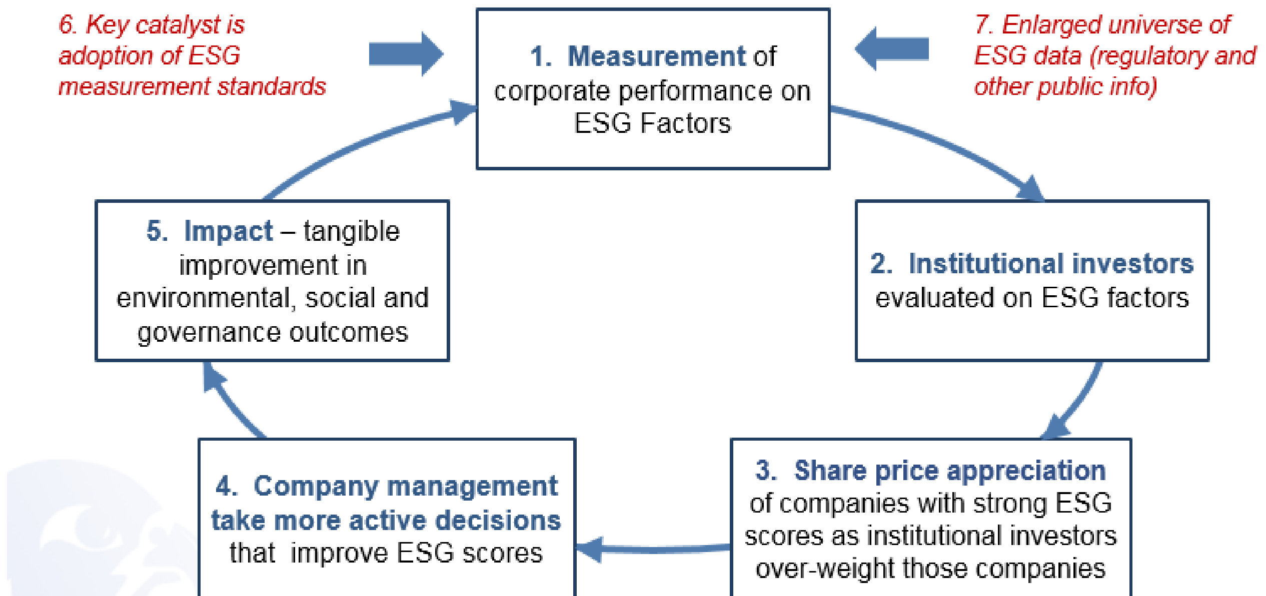
scores of their investments and this could lead to share price appreciation to the extent that institutions skew holdings toward high ESG score businesses.




Source: Partners Capital

There is a weak link today between box 2 and 3, but as company management start taking more active decisions that improve ESG scores (box 4) and we start seeing real impact (box 5), as measurement systems improve around what they can see is having an impact. The key catalyst to seeing this virtuous circle create its own momentum will be #6 – adoption of measurement standards and #7 – an enlarged universe of ESG data that regulators and corporations make available to measure. This builds momentum to the point where the link between #2 and #3 becomes stronger and stronger and high ESG scoring companies have the best share price performance.

There are many different measurement providers and standards, including Sustainalytics, RepRisk and MSCI. To make it clearer what they are measuring, we shared with the audience a list of the 37 measures of the MSCI measurement system which is applied to public companies and how these are weighted to arrive at a single ESG measure from 0 – 100.

Omar Selim, the CEO and Founder of Arabesque Asset Management spoke to the Partners Capital ESG "virtuous circle" above. The conclusion from Omar's presentation was that static ESG measurement systems like Sustainalytics and MSCI won't work in the way that Partners Capital describes above. Rather, every company will have a different set of relevant ESG value drivers (different factors being weighted differently) and quantitative, artificial intelligence-driven models based on huge data sources will be most effective at identifying ESG factor driven value in any given company. This makes sense to us.



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## Absolute Return and Liquid Credit – Will Fox (Partner, Partners Capital) and Rich Scarinci (Partner, Partners Capital)

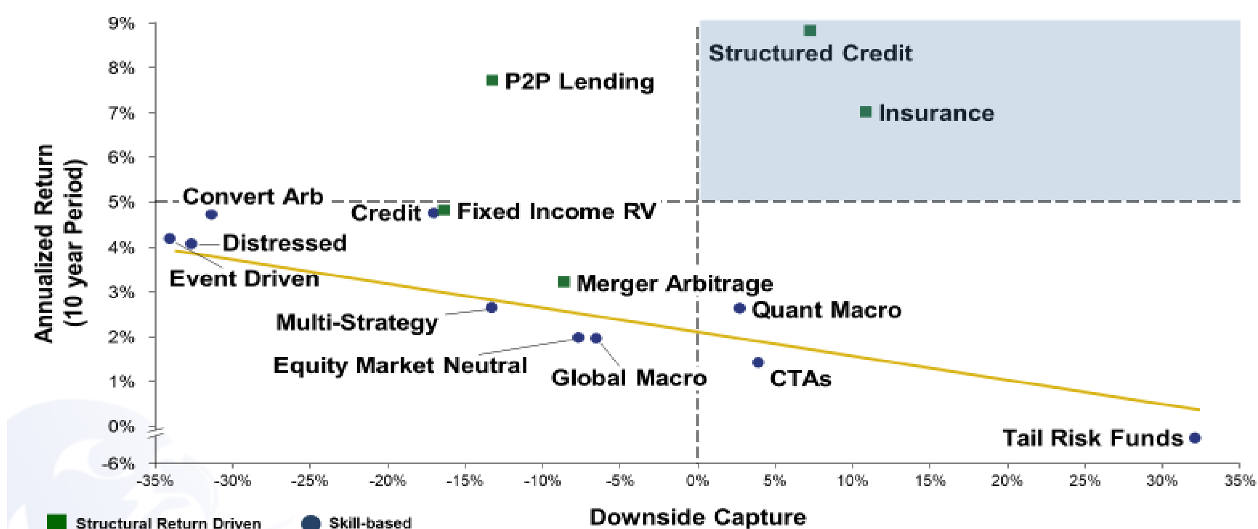
Absolute Return is best defined as a set of investment strategies that seek to generate attractive returns that are not influenced by the direction of financial markets (equity risk, interest rate risk, credit risk, or inflation risk) and that aim to preserve capital in times of broad market stress. The two words "Absolute Return" imply ongoing steady positive returns in all environments, although, this is more of an ambition rather than the realised outcome. This is arguably the most heterogenous asset class that is made up of many complex investment strategies which often involve a combination of moderate amounts of leverage, use of derivatives and other complex financial instruments.

Absolute Return has the dual and somewhat conflicting objectives of generating returns that are uncorrelated to traditional asset classes and to preserve capital in times of broad market stress. Accordingly, the asset class is a supplement to classic safety net assets, particularly when government bonds are unattractive. However, over the years investing in the asset class, we have learned that strategies with low market risk in normal environments can become correlated in periods of equity market stress. To achieve both objectives, we seek to allocate to strategies that generate returns with limited downside capture in equity market sell-offs and then construct a portfolio of managers with sufficient strategy diversification to further limit the downside in stress periods.

Our 10-year return expectation for the asset class is +5.4% per annum of which +2.6% is derived from market exposure, predominately the return on cash. The asset class is expected to generate more than 500 bps of alpha gross of fees with roughly half paid to the underlying managers in fees.[1]

Our investment strategy for the asset class is based on the following **Absolute Return Golden Rules:**

1. **Target a balanced mix between structural and skill-driven returns:** Strategies with "structural" drivers of return are typically able to generate returns consistently with lower downside capture in equity market sell-offs (e.g. catastrophe insurance and merger arbitrage). Downside capture measures the strategy's response to just major equity corrections.




Source: Partners Capital

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However, all these strategies are subject to their own cycles, requiring any strong performing absolute return portfolio to be diversified beyond just structurally-driven strategies and managers. Accordingly, we add traditional "skill-driven" absolute return strategies, where returns are generated by the security selection prowess of the manager around a narrow set of assets where price dispersion can be arbitraged or are looking to make a prediction on the future movements of assets (e.g., global macro).

2. **Dynamically allocate to strategies in line with changing market opportunities**: We believe there is value-add from tactically adjusting strategy allocations based on the market environment and resulting opportunity set for each strategy.

3. **Select managers with a near-monopoly on the skill required in specific strategies**: Find those managers with a clear and sustainable competitive edge over their peers. The notion of a monopoly is best displayed in quantitative managers where the technology arms race is creating barriers to entry for new funds. Many of the largest hedge funds in the world are quantitative firms (such as AQR, Renaissance, Bridgewater), where scale is critical to defend their edge and continue to generate alpha.

## Liquid Credit

We define Liquid Credit as a standalone asset class, separate from Fixed Income, given that its return is driven by default or credit risk and due to its generally positive correlation to equities. The asset class spans a wide range of fixed and floating rate instruments across corporate credit, structured credit and emerging market debt. However, alpha has historically been challenging given the efficiency of the market. We estimate that the 10-year forward looking returns for the asset class will be +4.0% per annum, with net manager alpha contributing 60 basis points of the return.[1]

Our two **Liquid Credit Golden Rules** are:

1. **Dynamically allocate to different liquid credit strategies in line with stages of the credit cycle**: Our 2018 tactical asset allocation has no allocation to Liquid Credit currently given pricing. We have preferred Private Debt where pricing and covenant protection are stronger. However, on the back of credit dislocations, it can be a very strong performer, particularly relative to its risk level. Recent examples include 2009 and Q1 2016. A portfolio of Liquid Credit investments should benefit from diversification, as correlations across the many sub-asset classes within credit are relatively low in normal market environments.

2. **Select managers with deep expertise in complex credit niches and deep bottom-up fundamental research capabilities**: We generally prefer specialists versus so called "multi-strategy credit" generalists who have a tendency of adding value in some segments and destroying value in others, resulting in weak alpha net of high fees.

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## Closing Remarks – Colin Pan (CIO, Partners Capital)

Colin Pan, our CIO, concluded the workshop by giving our clients an overview of the activity of the Partners Capital research team in 2018 before highlighting key differences in our approach today versus our investment strategy at our founding.

In the year to 30th September 2018, the research team had logged 1,500 specific interactions with current and prospective managers which has resulted into just 43 new manager approvals. Of these approvals, 32 have been in private markets which includes 7 co-investments with our managers as we continue to reduce the fee burden within portfolios.

Since our founding, our investment strategy has constantly evolved. Below we summarise some of the key developments which we believe have contributed directly to the success of our investment portfolios:

1. **Manager Investment Strategies**: Increasing allocations to specialist managers (sector, country or strategy) where we believe the relevant expertise will give the manager an edge over a generalist. Additionally, with the decline in expected returns of traditional asset classes, we have increasingly allocated to "Alternative Alternatives" where the returns are not linked to the global economy, such as litigation funding and life settlements.

2. **Manager Lifecycle**: We have increased our focus on finding the next generation of talent through emerging managers. As we have grown in size, the expectation would be that we have moved into larger managers, whereas in fact the opposite is true.

3. **Terms**: Without scale, we have in our history been "passengers" to our manager's success, whereas today we are strategic partners able to influence key decisions, negotiate discounts on behalf of our clients and anchor new fund launches

4. **Investment Structure:** We will continue to reduce our reliance on the traditional co-mingled fund structure. We are making an increasing number of co-investments with our private markets managers, we are using directly held equities to invest alongside out liquid managers and establishing Separately Managed Accounts and joint ventures.

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 clients' outperformance in the years ahead.

## Conclusion

Our Chairman, Paul Dimitruk, formally closed the session by thanking all our clients for making Partners Capital the special investment firm that it has become. Paul correctly characterised our clients as among the most sophisticated assembly of investment clients that any single investment organisation could hope to have. As such clients challenge us in every interaction, and collectively they make us stronger and more effective in managing their investment portfolios.



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