Partners Capital Annual Investor Workshop Executive Summary

15th October 2019

Park Hyatt New York

"Spotlight on Geopolitics, China, Biotechnology and Impact"

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Agenda

Time	Speaker	Topic
1.00 – 1.10pm	**Stan Miranda**, Chief Executive Officer	**Introduction**
1.10 – 2.15pm	**Kamran Moghadam**, Partner, Head of Global Macro and Tactical Asset Allocation **Matthew Gertken**, Geopolitical Strategist, BCA Research	**Geopolitics' Impact on Investment Returns**
2.15 – 2.45pm	**Jason Tan**, Chief Investment Officer, Jeneration Capital	**Global Technology War: China vs. Silicon Valley**
2.45 – 3.05pm	**Break**	
3.05 – 3.40pm	**Will Fox**, Partner, Head of North America **John Collis**, Partner, Head of Europe **Elizabeth Trotta**, Managing Director **David Shushan**, Partner	**Client Portfolio Strategy Choices Going Forward**
3.40 – 4.10pm	**Behzad Aghazadeh**, Managing Partner, Avoro Capital	**Future Biotechnology Breakthroughs**
4.10 – 4.30pm	**Break**	
4.30 – 4.45pm	**Colin Pan**, Chief Investment Officer	**CIO Summary**
4.45 – 5.20pm	**Alex Band**, Managing Director, Head of Public Equities **Rich Scarinci**, Partner, Absolute Return & Credit **Suzanne Streeter**, Partner, Head of Private Markets **Emma Bewley**, Principal, Private Debt	**Asset Class Strategies Going Forward**
5.20 – 5.50pm	**Euan Finlay**, Partner **Sir Ronald Cohen**, Co-Founder Chair, Global Steering Group for Impact Investment and The Portland Trust	**Impact Investing**
5.50 – 6.00pm	**Paul Dimitruk,** Chairman and Co-Founder	**Closing Remarks**

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Introduction

Stan Miranda, Chief Executive Officer, Partners Capital

The backdrop to this year's Annual Investor Workshop was characterised by the significant headwinds to globalization, perhaps the most significant since the 1930s. Global investors are forced to consider retreating to domestic investments or staying the course with their global allocations.

The day began by examining the major macroeconomic and geopolitical forces impacting our investment portfolios, most notably, threats to globalisation. External speakers provided insights into China's growing technology sector, the secular trends that underpin the merits of investing in biotechnology and social impact investing.

Attendees also heard from the senior members of Partners Capital Asset Class and Client CIO Teams. The Asset Class teams provided an update on our "Golden Rules" for investing in each asset class and the Client CIOs addressed the most pertinent investment policy and strategy decisions that we believe will have the greatest impact on portfolios in the face of emerging macroeconomic scenarios.

There were nearly 110 clients and friends of Partners Capital in attendance, representing just over half of Partners Capital's $27 billion total asset under management. Additionally, there were 39 members of Partners Capital's senior team in attendance, including 15 Partners and Managing Directors.

Geopolitics' Impact on Investment Returns

Kamran Moghadam, Partner and Head of Macro and TAA, Partners Capital

Kamran focused on the three big macroeconomic questions that we are currently most focused on.

1. What form will the next recession take?

We periodically monitor the signals that tend to precede recessions which include the output gap, the steepness of the yield curve, valuations and wage growth. These signals are currently generally pointing towards a benign economic environment.

However, should a recession occur, we believe that the most likely triggers would be the continuation of trade wars and geopolitical uncertainty depressing business spending, eventually reducing household consumption. This would impact corporate earnings, leading to declines in employment, creating a vicious cycle of further declines. In this environment, multi-national corporations, growth equities and high yield corporate credit would be the most vulnerable sectors.

2. How to think about bonds as a safety asset in a low or even negative interest-rate world?

Currently, there are ~$14.5T of government bonds that have negative yields. With the diminishing economic utility of deeper negative rates, an increasing political backlash and potential pivot towards fiscal policy, many experts think that we have seen the bottom in yields for the foreseeable future, limiting the potential upside for these assets during a recession.

Modern Monetary Theorists speculate that central banks may continue Quantitative Easing, buying government bonds to fund fiscal deficits keeping interest rates low. Accordingly, we expect that real yields will stay low or negative even if nominal yields rise over the longer term, further propagating the problem of low returns. The investment implications for this indicate that gold may be a preferable safety net asset in the current environment.

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3. What is the outlook for the major geopolitical risks of our time?

We envision three potential long term macroeconomic / geopolitical scenarios, with different probabilities ascribed to each:

1. Parallel Universe (40% probability): China and US tensions remain high, potentially leading to two separate economic worlds, one in which the US repairs trade relationships with historic partners in Europe and another in which China reverts to trade within its own historic sphere. Global economic growth will be slower, but investment opportunities will be focused on dispersion created out of this tectonic economic shift.
2. Japanification of the West (30% probability): In this downside scenario, protectionist politics gain momentum in the US while declining demographics lead to diminished global growth and risks of a disinflationary environment.
3. Back to the Future (30% probability): In this upside scenario, populism falls, the WTO is reformed to give China more responsibilities, and trade and globalization continue, leading to consistent or increased economic growth rates and a more positive investment outlook.

Longer-term Macro / Geopolitical Scenarios

Scenario	"Japanification of the West"	"Parallel Universe"	"Back to the Future"
Probability	30%	40%	30%
Scenario Features	• Protectionist politics gain momentum causing global trade and labour flows to decline. • Declining demographics in the developed world cause economic growth to stagnate down to Japanese levels. • Ultra-low global interest rates combined with rising debt levels create a disinflationary debt trap. • Policymakers experiment with increasingly extreme measures to sustain growth	• Regardless of who wins the White House in 2020, the US maintains a hard line on trade with China. But trade relations with Japan and Europe improve. • China gradually builds a separate and alternative alliance of emerging Asian economies. • China builds its own global financial infrastructure to avoid dependency on US dollar clearing. Also expands its own semiconductor/tech industry. • Global economic growth and inflation rates are stable but moderate in this 'Cold War 2.0' environment.	• Populism falls out of favour as more centrist politicians re-take the political initiative (similar to what is happening in Greece and Italy). • The WTO is reformed so as to create a more uniform playing field. • Some level of geopolitical tension remains between the US and China, but mutual economic dependency keeps the peace. • Global trade regains its footing, boosting economic growth, employment and inflation rates.
DM Real GDP Growth	1.0%	1.6%	2.2%
DM Inflation	1.0%	1.5%	2.0%
US 10-Y Yield	1.0%	2.0%	3.0%

Source: Partners Capital

Matthew Gertken, Vice-President of Geopolitical Strategy, BCA Research

Matthew Gertken followed Kamran's opening discussing BCA's belief that there will be longer term "hegemonic instability" between the US and China along with a broader trend toward de-globalization in the coming years as both nations vie for global leadership. That said, in the short term there is likely to be a rapprochement before the 2020 US presidential election, as this is politically beneficial for both parties.

BCA believe that de-globalization is a long-term, persistent trend that is in its early stages. They charted the phases of historical globalisation using global imports as a share of GDP as the key indicator. The first secular rise of global trade came under "Pax Britannica" in which Great Britain secured global trade flows from 1840 through to the 1880s. Thereafter, Japan and Germany rose to prominence, headlined by Japan's landmark defeat of the Russian navy in 1905. Subsequently, there was an extended period of "hegemonic instability" through to the end of the World Wars. This was followed by a steep increase in global trade from 1950 through the early 2010s under Pax Americana. Recently, the long-term trend of rising global trade has reversed.

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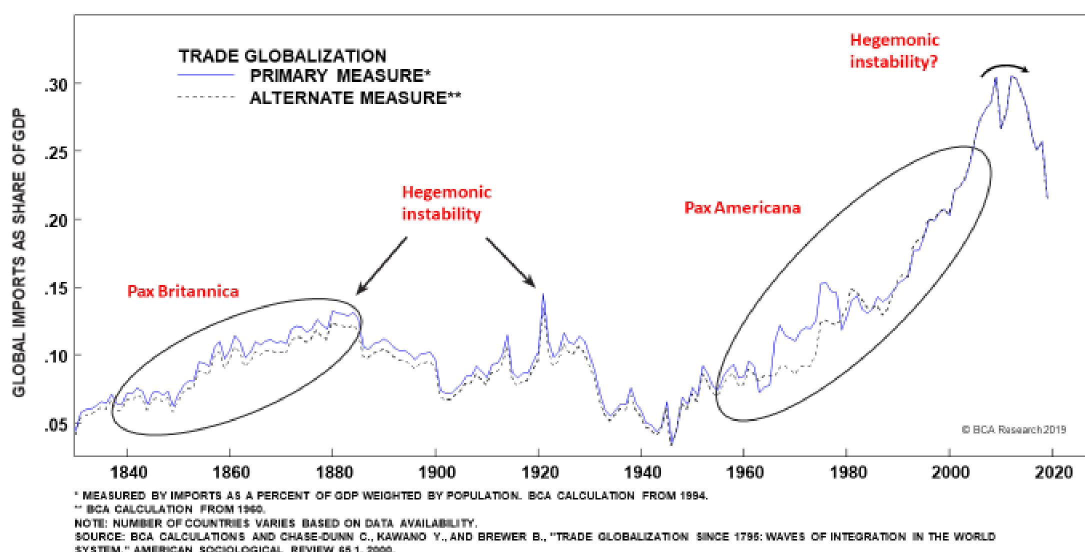

Source: BCA

The tension between China and the US is likely to be a long-term feature. BCA expects that the US and China will continue an extended period of mutual antagonism with mutually destructive tariffs, sharp rhetoric and even proxy wars. The currency exchange rate (CNY/USD) will be the clearest indicator of progress. If there is a short-term trade détente in advance of the 2020 US presidential election, China will allow the CNY to strengthen. However, they otherwise expect continued CNY weakness as China seeks to maintain its export competitiveness.

President Trump will be focused on obtaining policy victories before the 2020 election as economic health will be the primary driver of the outcome, hence the incentive to obtain a trade deal with China. In 2020, Trump's likely path to victory is to recreate the conditions that led to his victory in 2016, namely, winning the Rust Belt states. The Democrats have several paths to victory including winning over blue-collar voters or by recreating the Obama coalition. Warren's policies would be "market negative", particularly for financials, health care and energy although current polling indicates that Warren is less electable than Biden.

Global Technology War: China vs. Silicon Valley

Jason Tan, Chief Investment Officer, Jeneration Capital

While the ongoing trade war between China and the US is well-publicized, there is a quieter "innovation war" between the two countries that may be even more important. Jason envisions China and the US operating in parallel technology universes as China's Made in China 2025 strategic plan emphasizes self-sufficiency within the technology sector.

This focus on technological self-sufficiency in China along with the large potential user base, increasing disposable income and favourable regulatory environment underpins the opportunity set for technology investments in China. As shown in the chart below, relative to the US, China has 2.4x the number internet users, 3.0x the number of mobile internet users, and 9.4x the number of mobile payment users. From a product and business model perspective, the trend has shifted from "Copy to China" to "Copy from China". New services and products are now being developed in China and replicated elsewhere. Recent examples include food delivery, social e-commerce, and short form video.

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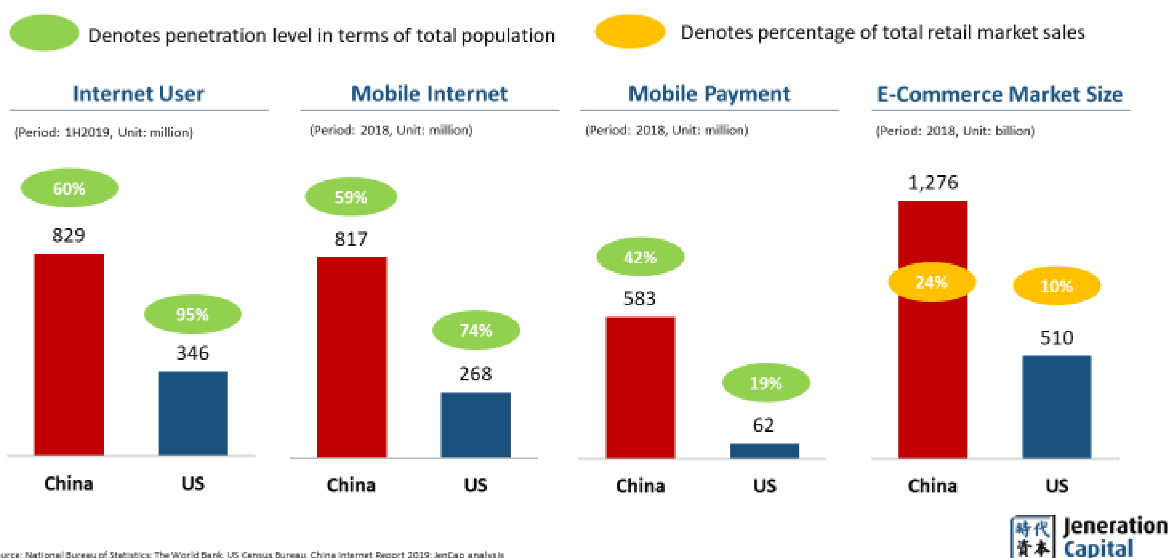

Source: Jeneration Capital

Jason went on to highlight the very different strategies Chinese tech leaders are following vs US tech leaders. These companies initially start with one online business and subsequently expand into additional segments (e.g., content & media, social & messaging, mobile payments), funding start-ups to create new innovations so they do not have to themselves. The integrated ecosystem approach is highlighted by the fact that China is home to a disproportionate number of the “super” unicorns ($15B+ valued companies).

With this backdrop, Jeneration has identified four key investment themes for its growth-stage investments:

1. **New Retail:** customers order services online and those services are fulfilled offline at the home, without a physical store. Jeneration’s portfolio company, Miss Fresh, is addressing the fresh foods ecommerce market opportunity.
2. **New Content:** mobile only content that is customized for the end-user. Jeneration portfolio company, Minicake, is a social media network targeting the elderly which it expects to reach 500M users by 2020.
3. **New Verticals:** Online service providers disrupting existing verticals.
4. **New Frontier:** Emerging technologies including electric vehicles, artificial intelligence and machine learning.

Client Portfolio Strategy Choices Going Forward

Four of our most senior client CIOs provided an overview of the key portfolio construction questions which we believe will be most impactful for portfolio performance in the coming years: 1) illiquidity budgeting; 2) tactical asset allocation; 3) recession playbook; and 4) technology exposure.

1. Illiquidity Budgeting

Our analysis suggests that private market investments will continue to offer an illiquidity premium over public market investments and greater opportunity for alpha due to the inherent inefficiencies that managers can take advantage of. Accordingly, private market investments can account for a disproportionately large proportion

US-20230927-3060701

of portfolio performance. Thus, our advice is generally to maximise illiquidity within portfolios subject to client's constraints and objectives.

Partners Capital have developed a proprietary framework to determine a client's maximum illiquidity budget. The key input is the client's liquidity requirements including expected spending needs, unexpected liquidity needs such as a one-time asset purchase, sufficient liquidity to support a portfolio rebalancing and the liquidity to fund three years of capital calls under a scenario where distributions from the private market portfolio dry up. Depending on the client's liquidity needs, this typically gives rise to a portfolio that can withstand c. 40% exposure to private markets.

The illiquidity budgets should be stress tested to ensure that liabilities can be met and the portfolio can take advantage of new opportunities in the event of a market dislocation. To stress our model, we assume that public equity markets decline by -40% and that the illiquid funds in a portfolio stop distributing but continue to call capital from investors.

2. Tactical Asset Allocation

Partners Capital seeks to generate 0.5% of gross Tactical Asset Allocation ("TAA") alpha per annum which is derived in two main ways:

a) **Tactically allocating across asset classes:** This process involves establishing over-weights and underweights to any of our 13 asset classes compared to long-term targets. An example could include an overweight to public equities and corresponding underweight to high yield bonds.

b) **Tactically allocating within asset classes:** This process involves systematically mining our extended network of asset managers, research houses, institutional peers, clients and internal investment team to source potential skews within each asset class. John Collis described our overweight allocation to Chinese internet companies, the valuation of which declined following the imposition of US tariffs despite many of these companies being almost entirely dependent on domestic usage. Accordingly, we did not believe that the imposition of trade tariffs justified their -34% decline in 2018. Partners Capital established a 3.0% position in Chinese internet companies in January 2019. The trade was exited in March 2019, adding +52bps to performance.

3. Recession Playbook

Partners Capital developed its "Recession Playbook" in early 2019 in order to position client portfolios should we enter an economic downturn. In order to determine the short-term likelihood of a recession, Partners Capital tracks nine key signals which have historically been informative of future recessions. At present, only two of these indicators are "flashing red":

1. Purchasing Managers Index (PMI): PMI measures the health of the manufacturing and services sector. A reading of 50 or above is considered a positive sign. However, the PMI is currently at 47.8.

2. Fed Model of Recession Probability: The Fed Model of Recession Probability currently sits at 34.8%. While this may not appear high on an absolute basis, each time this metric has risen above 30%, a recession has followed.

The remaining seven indicators, as shown in the table below, are not yet signalling a recession.

US-20230927-3060701

Recession Indicators – Not Signalling Trouble

9 Key Indicators of Recession	Current	Trigger?
Purchasing Managers Index (PMI)	47.8	Drops below 50
Fed Model of Recession Probability	34.8%	Above 30%
Yield Curve	+0.13% (2y10y)	2-year/10-year inverted for 18 months ahead of recession
Output Gap	+0.4%	Growth exceeds potential growth by more that 1%
Unemployment rate	+0.4%	3-month average above the 3-year average
Wage Growth	2.9%	Growth of 3.5%+
Inflation	CPI: +1.7% (US core PCE: 1.8%)	3.5%+ year-on-year
Baa - Aaa Spread	72bps	Spread above 100bps
Corporate Earnings	Q2 19 EPS growth of +3.2%	Negative for consecutive quarters

KEY: Trouble | | Normal

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Past performance is not indicative of future returns
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Source: Partners Capital

Nonetheless, we have clearly articulated our playbook for the migration of portfolios should the risk of recession become elevated. Key allocations would include:

1. **Absolute Return & Alternative Alternatives:** increase allocations to asset classes which exhibit low correlation to the economic cycle (e.g. litigation funding).

2. **Public Equities:** migration towards Hedged Equities managers at the expense of long-only strategies, particularly sector specialists. Within our remaining long-only allocations, quality and defensive equities (particularly the consumer staples and healthcare sectors) could prove defensive in a recession.

3. **Private Equity:** Maintaining dry powder is key to being able to take advantage of recessionary environments and market disruptions. We have also made commitments to managers that specialize in distressed opportunities recently including Silver Point and Elliott.

4. **Safety Net Assets (Fixed Income & Gold):** we remain underweight duration today and would recommend adding only when yields are higher such that they can respond more meaningfully in a correction. Gold has been a strong performer through historic periods of market turmoil, averaging a +19% return through the 10 worst market scenarios historically.

4. Technology Investing

The key questions in our Investment Committee meetings are 1) where are technology valuations today; and 2) what is the right allocation to technology? Our clients have a modest overweight to technology achieved through Private Equity technology specialists in combination with an allocation to publicly listed technology companies selected mostly by specialist hedged equity managers.

US-20230927-3060701

Where are valuations today?
Technology valuations for public companies are significantly lower than the Dot-Com Bubble in 1999-2000. The top 10 global technology companies today have a cash flow yield of 4.8% which compares to 1.6% for the top 10 global technology companies in 1999. Furthermore, price earnings ratios are significantly lower today at 20.5x which compares to 74.0x in 1999.

While a 20.5x PE ratio is by no means cheap, technology companies represent amongst the best growth opportunities globally which combined with lower interest rates driving down discount rates, supports current multiples. That said, cracks have appeared with companies such as Uber, Lyft, and WeWork experiencing significant declines in valuations in 2019. This suggests that investors should not blindly buy technology as a sector; stock selection will be critical.

What is the right allocation to technology?
Today, we have an overweight to the technology sector compared to a 70/30 Equities/Bonds index. The overweight is coming largely via the Private Markets and Hedged Equities allocations. Furthermore, there is significantly underweight to the largest technology stocks in the public indices. In other words, while we are overweight technology, it is not indiscriminate. Our managers are sifting through the sector to find the companies that are the most compelling opportunities, many of which are smaller, younger specialist tech companies.

Future Biotechnology Breakthroughs

Behzad Aghazadeh, PhD, Managing Partner and Founder, Avoro Capital

Behzad Aghazadeh focused his speech primarily on four secular trends that expected to be long term tailwinds for biotechnology investors.

1. **Prolific Innovation.** we are currently benefitting from the groundwork of decades of research that can now be widely applied to drug development and medical treatment resulting in dramatic strides in successful innovation. Today, there are 16,000 ongoing pipeline projects, up from 6,000 in 2001 an over 300 listed biotechnology companies (with enterprise value between $100M and $10B) which represents a compelling opportunity set for biotechnology focused managers.

2. **Supportive Regulation.** The FDA has been supportive of the industry with more approvals and a significant reduction in drug review times. This transformation has been driven by improving science and higher research quality, as well as a greater level of understanding from within the FDA.

3. **Favorable Pricing.** This is the most heavily debated pillar given the current political focus in the US. The pricing debate, which has existed in various forms for many years, will likely create volatility in the next 15 months until we have a clear picture of the political leaders and their specific plans for healthcare and drug reform. That said, over the long term, innovative therapies and in some cases, cures, will likely continue to garner high prices.

4. **Persistent M&A Environment.** Large cap pharmaceuticals companies face modest organic growth and stagnating revenue driven by expiring patents and sparse pipelines. In combination with their current cash balances ($208B), this creates an environment ripe for acquisitions of middle market companies with innovative and high growth products and intellectual property.

Stan Miranda added his own comments on investing in the public biotech sector. “There are 1200 public biotech companies today, only 5% of which have revenue and 75% have not yet reached phase III drug trials. By investing with firms like Avoro, we expect to see venture capital like returns from this liquid public sector of the public equity markets.”

US-20230927-3060701

CIO Summary

Colin Pan, Chief Investment Officer, Partners Capital

Colin Pan provided an overview of our investment program in 2019.

- We are on track to have had over 2,000 meetings with asset managers in 2019. These thousands of interactions over many years are the foundation of our investment expertise and competitive advantage.
- We have approved 28 private markets investments in 2019. This includes co-investments (9 approved) and venture capital (6 approved funds).
- In 2019, we have approved 10 liquid managers and redeemed from 12. Over the past 5 years we have approved 21 net new liquid managers or ~4 new managers a year.
- At $26B in assets under management, we believe we are in a "sweet spot"; sufficiently nimble to invest in small funds yet large enough to negotiate attractive fee discounts for our clients. The median fund size of approved managers over the past 3 years has ranged from $600M-$750M, lower than each of the previous 5 years despite asset growth.
- In 2018, we negotiated fee discounts on over $1.5B of investments or commitments for an average fee discount of ~65bps.
- We also leverage our scale to make innovative investments. Examples of this include our public equities co-investment strategies which now have greater than $1B in assets, anchoring a new merger arbitrage manager in Europe for a substantial fee discount, launching our first private markets co-investment pooled vehicle called Merlin and closing our third joint venture with IMF Bentham, one of the leading litigation funders.

These investments, along with others, are part of Partners Capital's migration from version 1.0 of our investment model to version 2.0. In version 1.0, we concentrated portfolios in the commingled funds of established and proven generalist managers and were predominantly price takers. As we have evolved our model over time, we have focused more on investing in specialist or niche managers that are focused on a particular sector, geography or strategy and next generation emerging managers. We have also focused more on finding opportunities where we can negotiate fee discounts for our clients by leveraging our size, being early and forming strategic relationships with managers.

Partners Capital Investment Model

	V1.0	V2.0
Strategy	• Generalists • Multi-Strategy • Passives	• Generalists – only the best • Specialists (sector, country, strategy) • Niche / Alternative Alternatives
Manager Lifecycle	• Established and proven managers	• Emerging managers – "next generation"
Fees / Terms	• Price-takers • Commoditized capital	• Scale discounts • Early / first close discounts • Anchor / strategic relationships
Investment Structure	• Commingled funds	• Co-investments • Directly held equities • Fund-of-one / SMAs • Special situations / JVs

Source: Partners Capital

US-20230927-3060701

Asset Class Strategies Going Forward

Prior to our senior asset class research staff providing an overview of our investment strategies in each asset class, Colin Pan, highlighted our expected annual alpha set against the context of the alpha achieved by leading endowments and foundations.

Our base case forward looking return assumptions for developed market equities and government bonds for the next 10 years are +5.5% and +2.8% per annum[1] respectively, suggesting that the 60/40 passive equities/bond portfolio will earn just 4.4%. Our hypothetical return assumption for the Partners Capital 2019 Tactical Asset Allocation is +7.6% per annum[2] which includes an alpha budget of +200bps per annum[3].

The returns of leading endowments over the past 10 years are similar. Most have generated annualized alpha of +100bps to +200bps over their benchmark, in line with our target alpha budget. The Yale Endowment has generated 180bps of average annual alpha over the 10 yeas ending June 2018 which we believe is primarily driven by their venture capital and international equities portfolio. Although it is ambitious, we think an alpha budget of 150-200bps per annum gross of Partners Capital fees is achievable over the course of a market cycle.

Public Equities

Public Equities comprise the largest and most efficiently-priced liquid risk asset in the world. Billions of dollars are invested globally in actively-managed public equities strategies, yet average alpha for all market participants is negative on a net-of-fees basis, for both traditional and alternative managers. To combat these challenges, we have developed a set of five "Golden Rules" for investing in Public Equities.

Golden Rules for Investing in Public Equities

1. **Stock selection is the only reliable source of alpha generation,** discounting the value of paying fees for market timing, sector rotation and geographic allocation.

2. **Focus on managers with deep fundamental and/or "big data" research capabilities**. We favour managers who are true experts in their sector, region or an alternative area of focus.

3. **Insist on fair fee structures and negotiate further fee discounts to add value.**

4. **Develop and evolve our robust process to source, diligence, partner and innovate within equities.** We seek to invest early in a manager's lifecycle, accessing who we believe are exceptional teams before they become capacity constrained or begin charging exorbitant fees. Over the past two years, seven of our 18 new managers investments have been in "Day 1" managers and four have been in emerging managers.

5. **Concentrate capital in strategy areas with significant alpha potential.** We believe that the opportunity set for specialists, long-duration, fee free co-investment and quantitative managers is strongest.

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[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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These estimates of performance returns should not be construed to be indicative of actual events that will occur.

US-20230927-3060701

Absolute Return

The role of Absolute Return in portfolios is to generate consistent alpha through the cycle and preserve capital in periods of market stress. The asset class also serves as a supplement to "classic" safety net assets such as government bonds, particularly given the current low interest rate environment.

Golden Rules for Investing in Absolute Return

1. **Strategies must be diversifying to market risk assets.** While this rule appears straightforward, we must closely examine how managers perform in normative and stress periods for markets.

2. **Strategy and manager diversification are required more so than in any other asset class.** Within the Absolute Return asset class, there are many strategies with disparate risk exposures. As such, it is critical to diversify allocations across a variety of underlying strategies, rather than simply diversifying across managers.

3. **Managers must have highly defensible, sustainable and improvable skills in a relatively specialized niche area.** Our managers must have a competitive edge in their space. An example is quantitative investing, where technology is boosting capabilities and creating barriers to entry for other market participants.

4. **The risk level of an Absolute Return program should be adjusted to match clients' risk and return appetite.** Fund managers are often incentivized to operate with low volatility, in order to preserve their business over the long-term. However, this profile may not be a fit for clients who hold that fund as part of a larger, more diversified portfolio. Risk profiles can be customised through managed accounts or co-investment opportunities.

Implementing these golden rules can be difficult in today's market due to two key challenges:

1. **Alpha is concentrated in fewer, more highly skilled managers.** This makes accessing the best managers a highly competitive process. The falling number of new manager launches exacerbates this issue. Morgan Stanley reported 450 new fund launches in 2007, while there have only been 80 thus far in 2019.

2. **Competition for talent is driving up costs for investors.** Platforms that pass trader compensation through to investors are driving this phenomenon. This model results in higher compensation for skilled traders, which in turn forces non-platform managers to raise their fees in order to compete for talent.

To address these challenges, we are focused on investing with managers earlier in their lifecycle. This facilitates access and negotiation of fee deals. Of the 15 new Absolute Return & Credit investments we have made since 2018, eight have been in "Day 1" funds.

Private Equity

While Private Equity has produced strong results historically, there are market dynamics which could act as a headwind to performance going forward. Assets under management and dry powder in Private Equity continue to grow. We estimate that dry powder in the asset class will grow to $1.5T over the next five years. The inflow of capital drives increased competition which in turn leads to higher purchase multiples and lower expected future returns. The current average purchase prices are at peak historical levels, supported by a generous financing market. Debt levels are also near peaks, at over 6.0x net debt / EBITDA on average. Given this backdrop, we rely on our five Golden Rules for investing in Private Equity to filter down to the best opportunities in today's market.

US-20230927-3060701

Golden Rules for Investing in Private Equity

1. **Allocate to managers with developed post acquisition operating value added (PAOVA). S**killed managers can drive significant operational changes at companies, away from public market scrutiny.

2. **Invest "off the beaten path" in specialist strategies where there are pockets of inefficiency.** Marry operational expertise with sector specialization. Specialist managers have the ability to evaluate opportunities quicker and add-value in more specific ways.

3. **Source and support the next generation of venture capital talent and invest in innovation.** We target a 15% allocation to early stage venture capital managers within private equity portfolios to capture the alpha from VC investors skilled at attracting, selecting and coaching successful business founders.

4. **Track spin-outs from great firms to back new emerging manager teams.** This year, we were an anchor commitment to a $200M first-time software specialist manager called Vertica which spun-out of a more established software specialist, Insight Partners.

5. **Co-invest and seek fee discounts to benefit from our overall scale.** Co-investments will enable us to reduce the fee burden in Private Equity and generate further alpha through deal selection.

Private Debt and Alternative Alternatives

Since the global financial crisis, Private Debt has been one of the fastest-growing asset classes and is now a core part of institutional portfolios. Dry powder in Private Debt is on track to exceed $300B by 2020, with a third of this capital earmarked for direct corporate lending strategies. As demand for Private Debt has increased, the yield has contracted. For example, we estimate that unlevered corporate direct lending offers a yield premium of 2.5% to liquid high yield bonds down from greater than 3.5% in 2012. Increased demand has also permitted companies to secure loans with weaker covenant protections and to borrow at higher loan-to-value ("LTV") ratios than in prior years. This serves to degrade the risk reward characteristics of the asset class leading us to focus our Private Debt sourcing efforts away from traditional corporate lending.

We have developed four Golden Rules to guide our investments in Private Debt and Alternative Alternatives:

1. **Target sector specialists in niche strategies.** Sector specialist (e.g. in healthcare and technology) can command a higher premium in their target markets due to the lower levels of competition.

2. **Focus on downside protection.** At the portfolio level, strategy and manager diversification offers downside risk mitigation. At the asset level, we are focused on managers who 1) take senior positions in the capital structure at low LTVs and 2) demand tighter covenants than their peer lenders.

3. **Allocate to Alternative Alternatives.** Uncorrelated "Alternative Alternatives" strategies often pose a unique diligence challenge and it is therefore critical to align with best-in-class managers. We continue to be active in litigation finance and have committed $1.1B to this asset class over the past four years creating a highly diversified portfolio.

4. **Generate alpha via customization and bespoke structures.** We target structures which afford us enhanced discretion, lower fees and/or customized risk exposures. By 2019, nearly half of our commitments in our flagship private debt vehicle will be via separately managed accounts, funds-of-one and co-investments. This degree of customization has not only provided us with more discretion but also generated meaningful fee savings (45bps annually).

US-20230927-3060701

Responsible Investing

Sir Ronald Cohen, Co-Founder Chair, Global Steering Group for Impact Investment and The Portland Trust

Historically, investors optimised for risk and return. However, in the future, investors will need to optimise for risk, return and impact. Optimizing across each of the three dimensions could result in even more attractive returns.

If investors do not look at companies through an impact lens, they ignore the risks that these companies face. The risks include regulation (e.g. governments increase taxation on emissions), human capital leaving companies whose values are inconsistent with their own or consumers avoiding companies whose products are produced in an unsustainable way. Academics continue to work on impact measurement systems which could become a common metric in the coming years.

Euan Finlay, Partner and Chair of Responsible Investment Committee, Partners Capital

Partners Capital created a framework to assist clients draft their responsible investment strategies. This framework includes four main responsible investment policies and should be viewed as a menu from which clients can choose.

1. **Exclusionary Screening**: The systematic exclusion of certain sectors or companies from the portfolio. Excluded sectors or companies may be contrary to an institution’s mission or ethics or may be viewed as harmful to society or the environment.

2. **ESG Scoring**: A policy where companies are scored across various ESG factors. Investors can set a threshold score against which the portfolio is measured and exclude any companies that fail to meet the threshold.

3. **ESG Integration**: A policy where ESG factors are incorporated into the investment decision making process. As many of our clients invest predominantly in third party managers, an ESG integration policy focuses on the degree to which the managers are integrating ESG into their process.

4. **Impact Investing**: investments made with a dual objective of social impact and financial return. The specific impact that any investor wishes to achieve is highly personal. However, most impact investments tend to target one or more of the United Nations 17 sustainable development goals.

Closing Remarks

Paul Dimitruk, Chairman and Co-Founder, Partners Capital

One of the essential purposes of our annual investor workshop is to enable you to know us better - to judge us against your objectives for an investment partner - and to judge us against our aspirations for distinctively valuable investment and operational service to you as our clients.

You probably think of Partners Capital as essentially an investment adviser, supporting you with asset allocation, portfolio construction and manager selection. You probably see that we combine this with an intense focus on risk management and operational support. This would all be true. But we believe that our mission is more than this. Far more than this.

US-20230927-3060701

Let me draw an analogy to the US Space program. One of the observations made by the early astronauts was what came to be called the "overview effect". This is what happened when the human brain was able to view the earth as a whole and from a distance. Returning astronauts said it actually changed the way they thought. It caused a shift in awareness and clarity of perspective. It added an additional margin of cognition that they never experienced when they were on the surface of the earth. They were able to recognize how deeply integrated all of the planet's geographies, forces and systems were - and how inter-dependent.

We see our role at Partners Capital as providing in our world what the astronauts saw: both a very deep array of insights on how the world of investing works and how it is changing - and most importantly, access to the very best of human skill applied to harvesting excess returns. But we aspire to go beyond that. We aspire to integrate the dimensions of macro, geo-political, social and environmental forces that impact investing, that allow us to discern where risk and reward are and will be, and where value will be created or destroyed.

Partners Capital is more than your adviser. We are your partner in providing the intellectual capital that enables competitive advantage in growing the financial resources for your institution or wealth for your families and philanthropies. This room is filled with clients and friends. You are very, very gifted people. But alone even the most gifted cannot discern, evaluate and make decisions against the full array of forces that move the investment markets. Neither can we, not entirely. But we do recognize it as our vital purpose and the way we must be designed to serve you.

So our wish is that you continue to challenge us, be hard on us, expect much of us, and that we in turn will meet your highest expectations to support you in your endeavors and aspirations for the good of your families, your businesses and your philanthropies and - for our distinguished institutional clients - your purpose and your mission.

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US-20230927-3060701

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