

Investment Strategy Group Alternative Investments

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Prepared by the Alternative Investments Team

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Alternative Investment Classifications

Alternative Investments, or “Alternatives”, is a wide ranging and diverse asset class, including both:

- investment strategies that primarily invest in traditional asset classes (such as Equities and Bonds), delivered in a non-traditional format that are more Hedge-Fund like investments; and
- non-traditional assets such as Private Equity, Private Debt, Infrastructure, Real Estate, and Natural Resources (including Renewables).

In line with industry standard and internationally recognised classifications, JBWere defines Alternatives as five main categories, or “Sleeves” as follows:

1. **Private Equity** – consists of capital not listed on a public exchange, including investing in the equity of private companies. Segments can include Buyout, Growth, Start Up/Venture Capital (VC), and Secondaries which reflect the lifecycle stage of the target investment and structure of the investments.
2. **Private Debt** – comprises forms of debt financing, not available on a public exchange, originating mainly from institutional (non-Bank) investors such as fund managers and insurance companies. Segments can include Direct Lending, Mezzanine, Distressed Debt, Special Situations, and Venture Debt.
3. **Real Assets: Infrastructure/Real Estate** – physical assets that have an intrinsic worth due to their substance and properties. Within Real Assets, JBWere focuses primarily on Infrastructure (primarily utilities, energy, transportation and communications), and Real Estate.
4. **Renewables/Natural Resources** – Natural Resources include, but are not limited to, Agriculture, Renewables, Energy, Metals, Mining, Timberland and Water. Renewables are a focus, including renewable resources and energies.
5. **Hedge Funds** – an investment fund that trades in relatively liquid assets and can make extensive use of more complex trading, portfolio-construction and risk management techniques to improve performance, such as short selling, leverage and derivatives. Examples can include Long Short, Market Neutral, Macro and Commodity Trading Advisers (CTAs)

The above five sleeves fit across JBWere’s Strategic Asset Allocation (SAA) as outlined in Table 1 below.

Alternatives Characteristics

In addition to critical elements of the risk/return profile, Alternatives can vary by a variety of characteristics. Some examples include:

- *Liquidity profile*: ranging from liquid to illiquid. Less liquid investments may deliver higher returns as compensation for illiquidity, referred to as the Illiquidity Risk Premium. Long term investors willing to forego liquidity may potentially access enhanced returns.
- *Market focus*: can be public and/or private. Private markets can provide access to a range of investment opportunities that, when compared with public markets, can possibly be more nimble, innovative, niche and may be associated with less transparent information flow driving the requirement for access through specialised Managers.
- *Listing*: can be listed and/or unlisted. Listed Funds (e.g. Listed Investment Companies (LICs) and Listed Investment Trusts (LITs)) are listed or quoted on a registered exchange, issue investors with securities, and are more easily traded. Unlisted funds are not quoted on an exchange, and cannot necessarily be traded at any time. Unlisted funds can provide an opportunity to access Alternatives that cannot easily be listed, and can deliver reduced volatility as compared to listed funds due to less frequent valuation, and being less exposed to market driven price fluctuations. Unlisted funds are JBWere’s preferred avenue to access Alternative Investments.
- *Role in a portfolio*: can be Growth or Defensive. Adding Alternatives to a portfolio provides diversification benefits and can increase portfolio efficiency. This can result in higher returns and higher income for a given level of portfolio volatility due to low correlation with other asset classes.
- *Access format*: are accessed by non-institutional clients in a number of fund formats (such as partnerships, or unit trusts). Exposure may also be gained through co-investments and (more rarely) direct investments.

The above is not an exhaustive list but does highlight some of the main characteristics of Alternatives. Each Alternative sleeve has different characteristics and therefore plays a different role in a well-diversified portfolio. The table below provides an overview of generic or stereotypical “primary” characteristics exhibited by the five Alternative sleeves:

Table 1: Generic summary of Alternatives characteristics

5 Alternatives Sleeves	Market Focus		Liquidity	JBWere's SAA Sleeve
	Public	Private		
1. Private Equity		✓	Low-Med	Equity
2. Private Debt		✓	Low-Med	Credit
3. Real Assets	✓	✓	Low-High	Real Assets
4. Renewables/Natural Resources	✓	✓	Low-High	Real Assets/Uncorrelated Strategies
5. Hedge Funds	✓		Med-High	Equity/Uncorrelated Strategies

Alternatives Beliefs

1. Alternatives include both traditional asset classes delivered in a non-traditional format, in addition to non-traditional assets, private equity and private debt. Alternatives form a key part of our portfolio management and construction approach.
2. The principle objective of Alternatives in JBWere is to provide enhanced return opportunities, and/or improved risk adjusted returns through further diversification and reduced correlation to traditional asset classes. This is achieved through broadening opportunities across Alternatives sleeves, by geography, delivery mechanism (direct and indirect) and by partnering with third party managers for expertise and insights.
3. Alternatives are best sourced through an open architecture approach to ensure best of breed products, insights and access are delivered for our clients.
4. Good governance is core to portfolio outcomes and our accountability to our clients. This means clear research both in-house, and where appropriate, in partnership with external research and asset consultants. Disciplined, regular and detailed reviews involving consideration of qualitative and quantitative factors, in addition to regular portfolio reviews and monitoring of our external partners are undertaken. Robust discussion and questioning of the status quo is core to our governance environment.
5. Responsible Investment (RI) factors, including Environmental, Social and Governance (ESG) can have a substantial impact on the risk and return characteristics of Alternatives. These factors are carefully considered within our Alternatives strategy and are integrated into our portfolio construction and management, aligned to JBWere's Responsible Investment Policy.
6. To enhance thinking, improve robustness of the investment process, and align to our continuous commitment to best practice, it is useful to form strategic partnerships with external consultants, advisers and managers where appropriate, so that they are an extension of our internal team.

Alternatives Investment Process

JBWere's Alternatives investment process has eight key steps aimed at sourcing and selecting best of breed Alternatives.

Step 1

The starting point must be agnostic and representative of the global investment universe. **JBWere's Alternatives Universe (1)** aligns to the *Alternative Beliefs*, is unconstrained, global, multi-currency and multi-format.

Step 2

JBWere filters the investment universe utilising guiding **Beliefs (2)** for each of the five sleeves of Alternatives, which exist to provide direction and key input for sourcing, assist in expectation management to reduce unnecessary meetings, and form the foundation for adviser and client education and insight.

Step 3

When **Sourcing (3)**, it is critical we have an approach aimed at realising the goal of identifying and delivering best of breed investments for our clients. To ensure all angles are covered for potential idea generation, sourcing of Alternative ideas occurs through three main channels: (1) direct pitching opportunities, (2) proactive sourcing and (3) external partnerships. We focus on proactive sourcing, encompassing domestic and overseas investment opportunities.

Step 4

By this stage, we have established basic information about the potential Alternative for **First Filter Due Diligence (4)** and shortlist consideration. This basic information spans relevant quantitative and qualitative data collated from meetings, data room collateral and investment analysis tools such as Bloomberg and Preqin, overall assessment for relevance for client base, and alignment to ESG, impact and ethical criteria.

Step 5

Shortlisted investments are then tabled to our **Alternative Investment Committee (AIC) (5)**, which provides a forum to challenge the investment on a technical level and focus on the investment specifics of the presented shortlist, including the characteristics and risks of the proposed investments, and risk mitigation scheme. Investments that are successful through the AIC then progress to the full due diligence stage.

Step 6

Full Due Diligence (6) encompasses the ten factors outlined in the *Alternatives Due Diligence Framework*, and includes due diligence factors specific to Alternatives, including the key characteristics and guidelines. This stage involves extensive analysis, use of global databases and external research input where relevant.

Step 7

Our Head of Alternatives and/or Alternatives team members are responsible for making recommendations related to Alternatives to our **Product Governance Committee (PGC)**. The PGC has oversight and final approval for all changes to the JBWere Approved Product List (APL). The PGC meets at least once per quarter to review the existing investments on the JBWere APL, as well as consider any recommendation changes, either additions or removals, related to the APL. Investments approved by the PGC are added to the APL and, where appropriate, the High Conviction List (HCL).

Step 8

Throughout the process we focus on continuous risk mitigation and consistently review investments through **Monitoring / Feedback Loops (8)**. Monitoring of liquid investments, defined as those investments that can be liquidated within a quarter, include quarterly or semi-annual reviews, with relevant research and reporting made available to advisers.

A three step Sell Discipline process in line with Manager Research will be adopted to: (1) identify trigger, (2) evaluate broader impact of trigger, and (3) outcome.

1. Identify trigger	2. Evaluate broader impact of trigger	3. Outcome
<ul style="list-style-type: none"> • Performance outside of expectations • Portfolio deviates from expectations <ul style="list-style-type: none"> – Risk targets – Fundamentals – Style drift • Change in investment personnel/ team dynamic • Disruption in organisational environment • Better ideas in manager universe 	<ul style="list-style-type: none"> • Is the manager delivering on our expectations (performance and risk)? • Have team or organisational changes adversely impacted the manager's ability to deliver on expectations? • Is the manager still playing the role we expected them to in a broader portfolio construct? • Have we identified a higher confidence manager to fill the role? 	<ul style="list-style-type: none"> • Conviction reaffirmed • On watch • Terminate

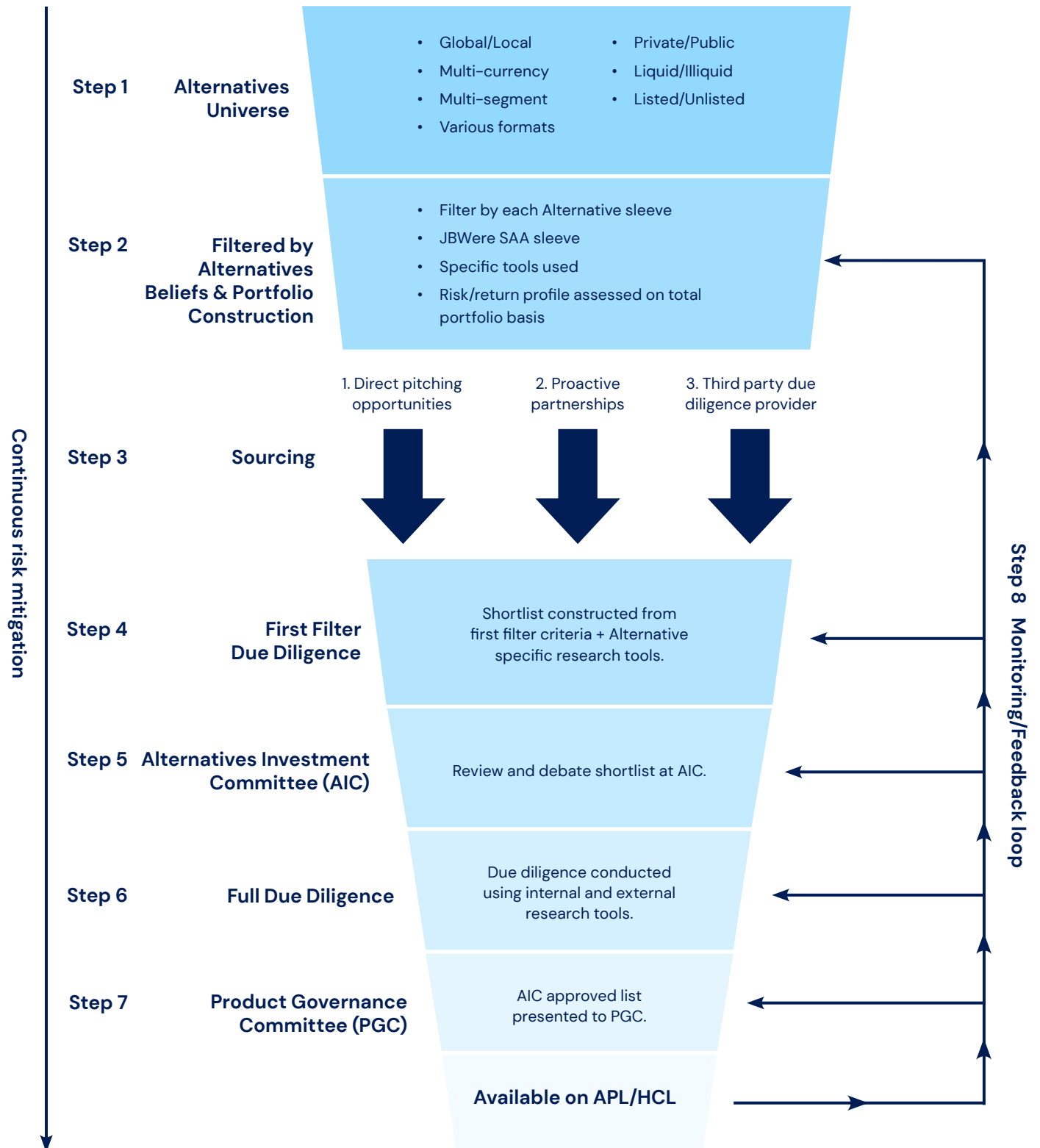
Source: JBWere

For more illiquid investments, as defined as those that cannot be liquidated within a quarter, a review will occur bi-annually, with relevant research and reporting also made available to advisers. Sell discipline, given liquidity constraints, will not apply, however assessment will still consider the next possible window of liquidity, and if required, secondary market liquidity avenues.

For all Alternatives, regular Manager presentations and contact with advisers will be encouraged, particularly to bolster education and understanding.

Alternatives Investment Process

The eight key selection and sourcing steps are illustrated below:



Alternatives Due Diligence Process

In order to consistently and comprehensively review such a wide-ranging asset class, the JBWere Alternatives Due Diligence process comprises a total of ten factors. These factors and process provide a relevant and robust framework fit to review the full range of Alternatives, including investments across all five sleeves. Within each of the ten factors both qualitative and quantitative factors are carefully considered. This framework is used for PGC submissions, as outlined in the Alternatives Investment Process. Completed due diligence submissions to PGC are detailed and comprehensive documents. For successfully approved PGC investments, a summary is created for advisers and clients, called the “JBWere House View” to outline our view of the investment, risks and opportunities against each of the ten factors. This forms the foundation for communication with, and education of, clients.

Alternatives Due Diligence Framework

Factor	Key points
Key risks	Investment specific review of risks, such as operational, legal, reputational, currency, market, credit, liquidity and valuation.
Product structure	Review of legal structure, target sizes, appropriateness and suitability criteria, tax and legal opinions, regulatory environment and other structuring considerations.
Performance	Analysis of factors such as risk adjusted returns, performance track record, asset class correlation, volatility, market sensitivity and drawdown analysis, benchmark and quartile analysis, public vs. private comparison, liquidity, distribution, valuation and performance monitoring.
Pricing & taxation	Analysis of fees, fee types, comparison of fees to market and schedule. Review of taxation treatment and consideration of impact on clients.
Market & competition	Review of market segmentation, relevant trends, competitor review and comparison, differentiation characteristics and existing investor review (if applicable).
Manager/GP	Review of history, relevant market and client feedback, stability, service and communication.
People	Analysis of key people, qualifications, experience, leadership, research input, deal attribution, and remuneration alignment.
Strategy & process	Analysis of investment strategy, sourcing strategy, investment process, due diligence approach, risk alignment, governance structure, committees and advisory boards, control approach, deal types, sector and geographic focus, deal size, sources of competitive advantage, ongoing monitoring and exit/liquidity strategies.
Portfolio & pipeline	Analysis of current portfolio, pipeline and risk management alignment.
Responsible Investing (RI)	Environmental, Social and Governance (ESG) integration, through opportunity and risk analysis, has been incorporated throughout both the Alternative Investments and Managed Research due diligence process, and is aligned to JBWere’s RI policy and investment beliefs. ESG analysis is underpinned by an internally developed and detailed ESG questionnaire looking at factors such as, but not limited to, ESG policy integration, advocacy, ethical screens/exclusions, and gender diversity. In addition, we identify funds that meet JBWere’s relevant “impact” funds criteria.

Alternative Investments Team

Resources

JBWere has a dedicated and experienced Alternative Investments team, reflecting the important role Alternatives play within a well-constructed and diversified portfolio.

Name	Role	Responsibilities	Years in Industry	Years in Team (JBWere)
Gillian Gordon	Head of Alternative Investments and Responsible Investing	Alternatives strategy, portfolio construction, investment research, manager selection	16	2
Lizzie Smith, CFA	Senior Analyst, Alternative Investments	Investment research, manager selection	7	1

About JBWere Investment Strategy Group

Our Investment Strategy Group (ISG) is a team of highly experienced investment strategists and analysts; the driving-force behind our investment recommendations and asset allocation strategies. The ISG group undertakes in-house research across a diversified suite of asset classes, including international and domestic equities, international and domestic fixed income, and alternative investments. Supporting the team's research is a wide range of views including those from our domestic and global research partners and other well-respected external industry research bodies.

Drawing on these insights, the ISG provides the intellectual property, insights and tools for JBWere's Advisory Team to manage clients' portfolios including:

- The economic outlook;
- Analysis of global investment trends, opportunities, challenges and investment markets;
- Strategic asset allocation and the identification of tactical portfolio tilts;
- Direct model portfolio and advice; and
- In-depth managed strategies research.

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