



MANAGING DOWNSIDE RISK: DIVERSIFICATION INTO ALTERNATIVE ASSETS

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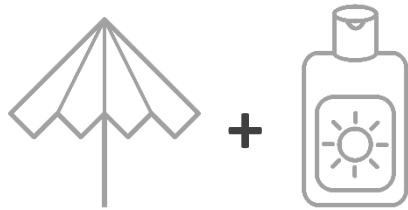


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DIVERSIFICATION BENEFITS



Expected return (Umbrella) = 7%

Expected return (Sun Protection) = 7%

Both risk levels are 12%

Correlation = 0

Risk adjusted return of each in isolation = 0.58



Expected return on a 50/50 portfolio of these 2 stocks = 7%

Expected risk is 8.5%

Portfolio risk adjusted return = 0.82

(i.e. more than a 40% increase)

ALTERNATIVE ASSETS AND STRATEGIES



LONG TERM CORRELATION



Source: Bloomberg, Datastream, Standard Life Investments and Edgehaven (Q1 2016)

STRUCTURAL ADVANTAGES



Eliminates
market timing



No asset liability
mismatch



No forced
exits



Performance
fees on sales

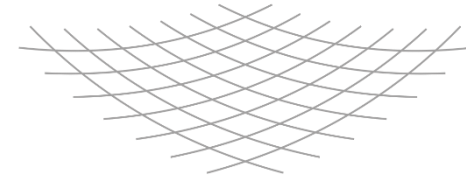


Alignment of
interest

STRUCTURAL ADVANTAGES (2)



Uses money weighted returns to measure success which is what the investor actually achieves



Possible to build capital preservation into the portfolio by design

CHALLENGES OF ALTERNATIVES DIVERSIFICATION



Identify
strategies
and funds



Currency
management



Rebalancing
& cash flow
management



Operational
due diligence



Negotiation &
implementation



Avoid
crowds



SUMMARY



Start with a **free lunch**...



Be **opportunistic** and **diverse**



Move the **odds your way**



Skilled **implementation** and **management**

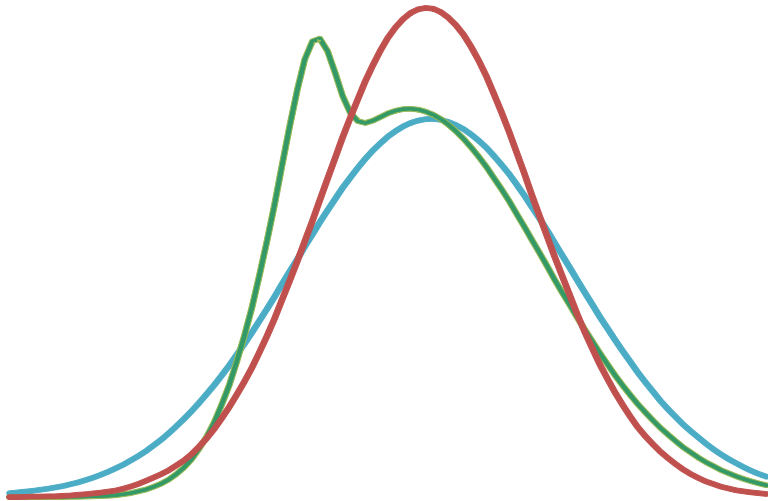


Protect downside risk in pre and post retirement



ANY QUESTIONS?

DOWNSIDE PROTECTION



	100% Equity	100% Equity + 45% Put (1Yr)	75% Equity + 25% Macro HF
Return	5.65%	4.17%	5.13%
Costs		2.78%	0.83%
Standard Deviation	18.2%	15.6%	14.0%
95% VAR	-24.5%	-18.3%	-18.2%

Source: Gillespie Quant, US monthly data 1997-2013