welcome to brighter

Mercer Diversifying Alternatives Strategies

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What are alternative assets?
Strategies

Private Equity

Potential to achieve higher returns relative to public equity markets by accessing idiosyncratic sources of alpha.

Private Debt

Generate current income with downside risk mitigation and upside potential.

Generate 200-200 bps premium to public fixed income.

Real Estate

Generate income with a degree of inflation protection with core strategies.

Potential for alpha generation and specific exposures within value-add or opportunistic.

Other Real Assets

Increase diversification, generate income, provide some inflation-sensitive exposure.

Hedge Funds

Opportunity to generate alpha with less volatility than public equity markets, improve diversification, access strategies likely to assist in tail-risk hedging.

Sustainable Opportunities Exist in Multiple Asset Classes

Please see Important Notices for further information on Return Expectations.

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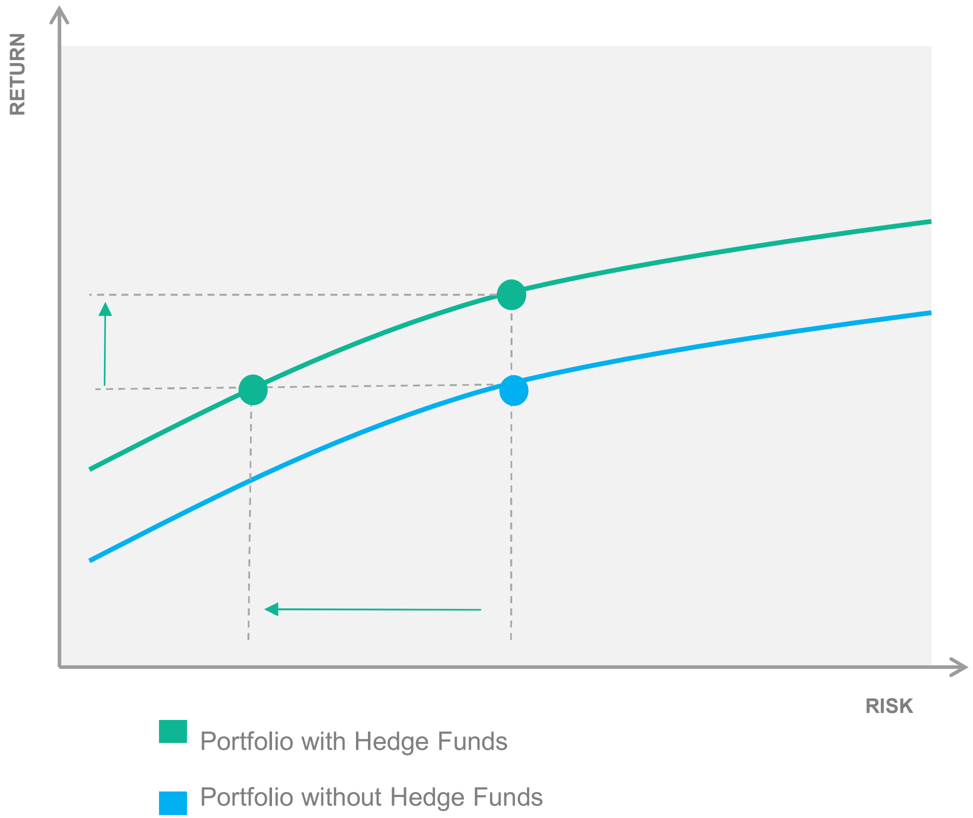
What are Hedge Funds?

An Alternative asset class with an Asymmetric risk and return profile

- **Hedge funds are privately organised investment vehicles** with unique investment processes and less constrained strategies that can be used for risk diversification and deliver asymmetric return profiles.
- They have a **wider investible universe** of asset classes and pursue **absolute returns with reduced volatility**, generating alpha in various market conditions.
- Hedge funds **performance is highly dependent on manager skill**, execution efficiency, and utilising superior portfolio management tools.
- They employ **complex strategies** that make their risk and return profile **less correlated to traditional asset classes.**
- Hedge fund strategies are **typically used in a diversified portfolios to increase diversification** for downside protection, and for capital efficiency purposes.
- This added diversification should theoretically **stretch the efficient frontier and improve risk-adjusted performance** and so should be considered by investors when constructing portfolios and reviewing SAAs.



What are Hedge Funds?

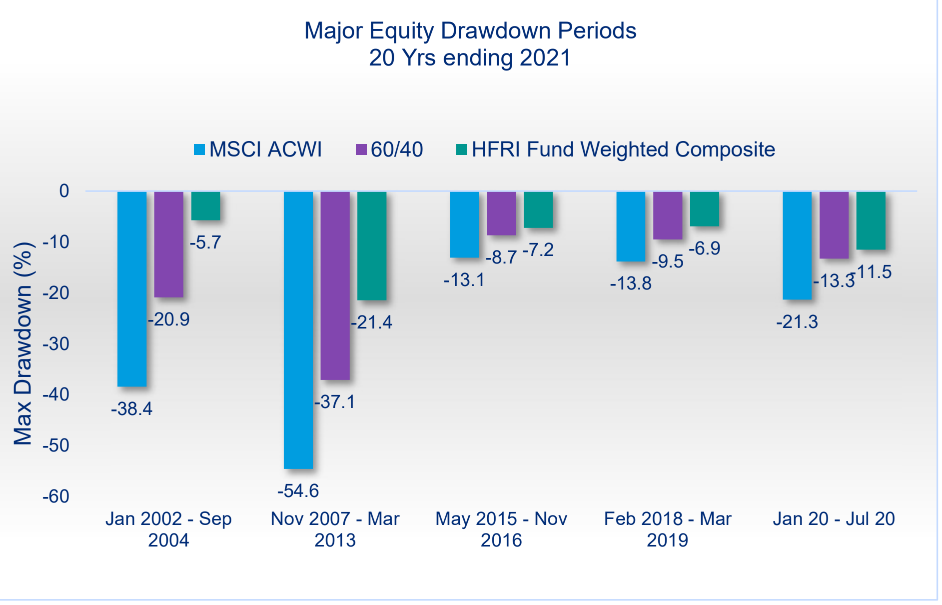
Comparison against other asset classes

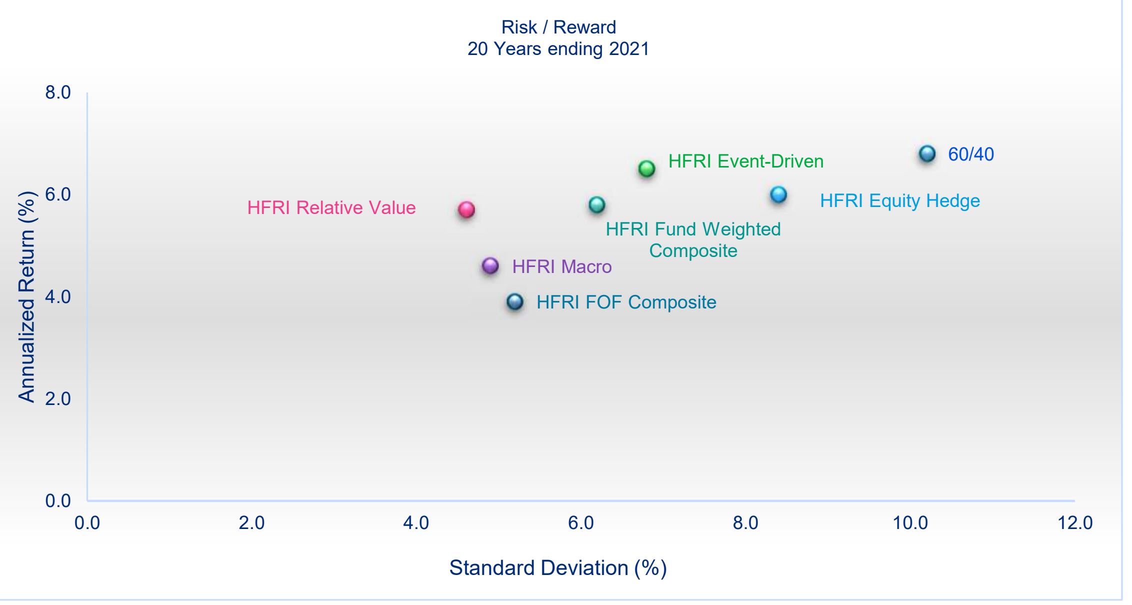
	Public Markets		Hedge Funds	Private Markets	
	Cash Equity Gov't Debt Corporate Debt	Consumer Debt REITs Real Assets Commodities	Agnostic strategies that serve to diversify traditional systemic risk exposures	Private Equity Private Debt Direct Real Estate	Infrastructure Direct Hard Assets
Constraints	Moderate to High		Low …are benchmark agnostic and generally unbound relative to traditional defined mandates	Moderate	
Toolkit	Low		High …hedge funds can access an expanded framework and implement strategies to enhance alpha and manage risks. Non-traditional risks are sourced through an alternative lens - change dynamics, inefficiencies, dislocations, illiquidity, trends/patterns and arbitrage to name a few	Low	
Alpha Potential	Low		High …hedge funds access non-traditional risk and return streams with the potential to offer asymmetry in returns with results that favour the upside with enhanced downside risk controls	High	
Risk Diversification	Low		High …offering a collection of risk exposures that are less dependent on the traditional risk factors	Moderate	
Fees	Low to Moderate		Moderate to High …but with a return that compensates for the risks taken, net of fees	High	
Liquidity	Moderate to High		Semi-Liquid …sitting between traditional public and private investing	Illiquid	

The Case for Hedge Funds

Providing Diversification to a Portfolio

- Hedge funds offer the ability to **diversify** the traditional equity, credit and interest rate risks that dominate a typical asset allocation.
- The current market environment presents opportunities for Hedge Funds to provide strong diversification and additional **flexibility** to capitalise on opportunities in dispersed markets and mispriced of risk.





Hedge Fund Opportunities in 2023

Elevated macroeconomic uncertainty is expected to continue…

- **Weak Growth**
- **Inflation Pressures**
- **Policy Tightening**

Hedge funds' access to **differentiated sources of return**, teamed with their **dynamic mandates**, make them uniquely positioned to take advantage of the resulting **market volatility** and **dispersion**…

Potential Differentiated Return Opportunities

- Capturing **trends** in macroeconomic transitions
- Flexing **variable beta** to limit sensitivities to volatile equity markets
- Capturing **spread risk premium** as credit markets' risk levels react to technical and fundamental factors
- Being a **provider of liquidity** in stressed or dislocated situations
- Employing **bi-directional security selection** to both deliver alpha and reduce directionality

Note: Actual results could differ materially, and returns cannot be guaranteed. Past performance is no guarantee of future results. Investing in securities products involves risk, including possible loss of principal as the value of investments fluctuates.

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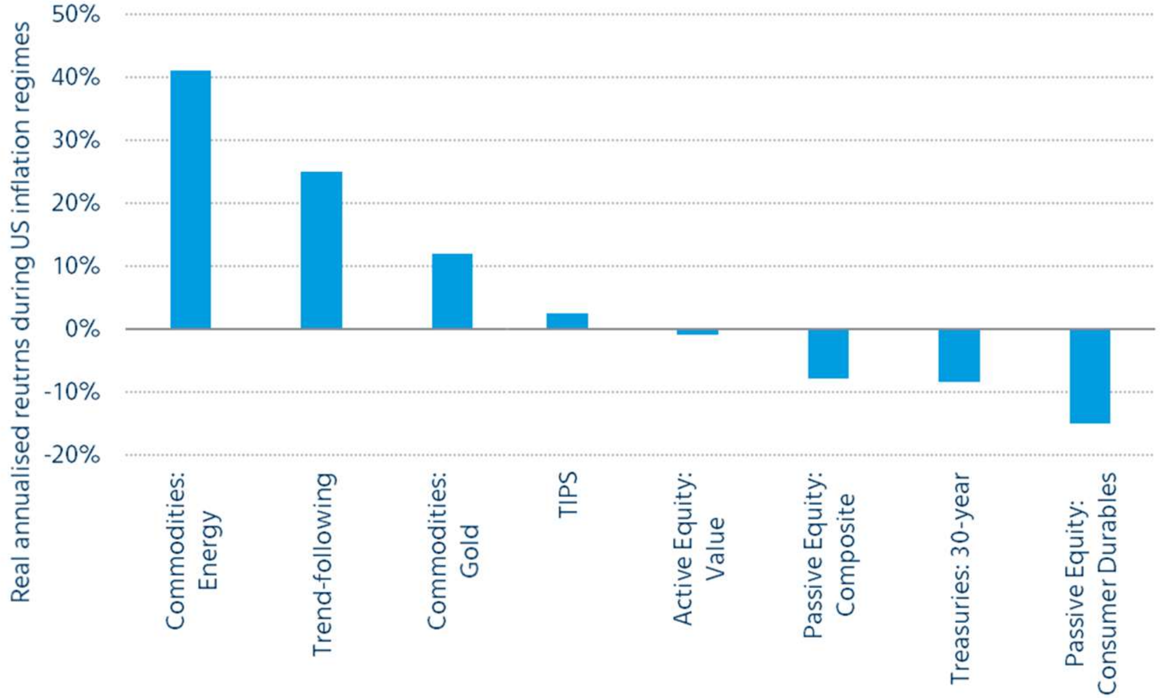
Hedge Fund strategies in an inflationary environment

Trend following or macro?

- Trend-following strategies are designed to capture trends across **commodity markets.**
- Discretionary **macro strategies are well positioned to manage through transitionary periods**, by anticipating inflationary shifts.
- As is always the case with hedge funds, **manager selection is critical** to successfully pursuing one's objectives.

Inflation Winners and Losers



Source: MAN. Data as of June 2021.

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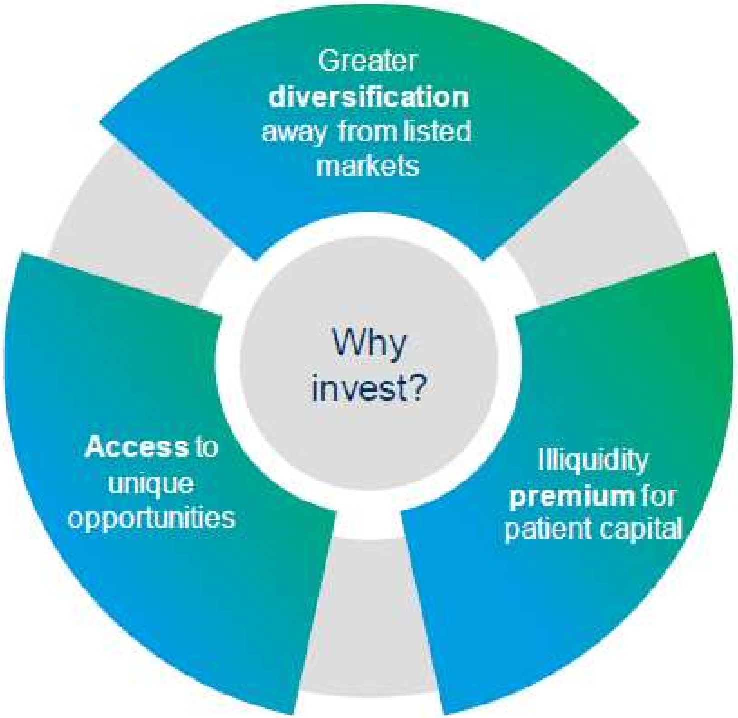
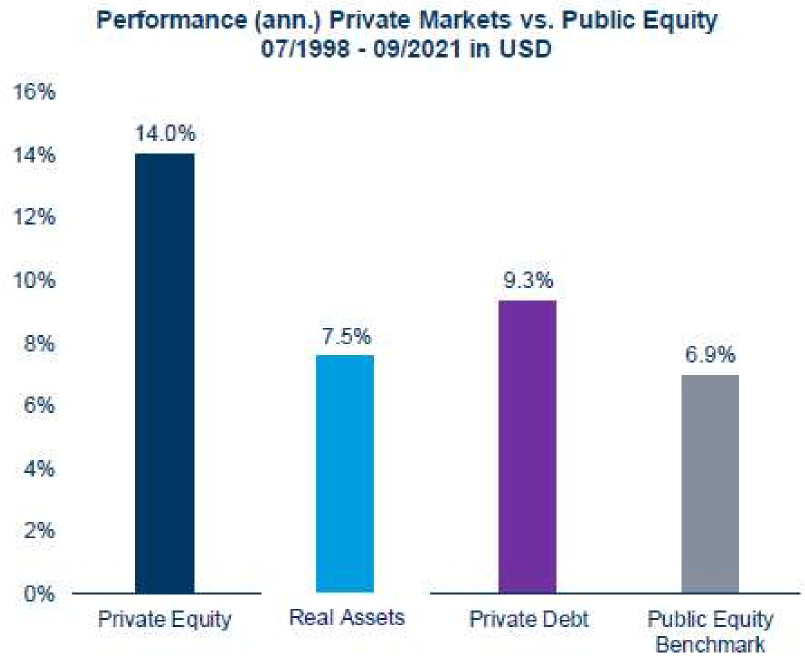
Why invest in Private Markets?





Past performance is no guarantee of future results.
Sources:
- Private Equity and Private Debt: Burgiss Private iQ (buyouts & VC, respectively mezzanine)
- Real Assets: Cambridge Associated (all infrastructure, respectively real estate incl. core)
- Public Equity Benchmark: MSCI World Net TR

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Why incorporate Alternatives into Portfolios?

Changing of the guard

Policy pathways
Planning for the potential future paths of fiscal and monetary policy is more critical than ever to investing

Asian century
With Asia expected to grow to half of world GDP, what is the right way to invest

The future of finance
Keeping on top of the confluence of finance and technology is important to investors of all stripes

Inequality street
Inequality and the policy responses to it could become an increasing headwind to capital in the coming decade

Position for transition

The gray, the green and the in-between
Climate transition is about more than reducing portfolio carbon,…

Resource code
…a broader resource transition is needed to support investments in clean technologies

The age of engagement & … …Implement with intent
Impact and engagement are needed not just for climate goals, but also for social goals such diversity and inclusion

Modern Diversification

Beyond beta
High equity multiples and low yields require us to look beyond traditional asset classes and benchmarks

The protection conundrum
Low yields limit bonds defensiveness, a more dynamic approach is needed

Accessing innovation
Private markets offer opportunities to access nascent megatrends

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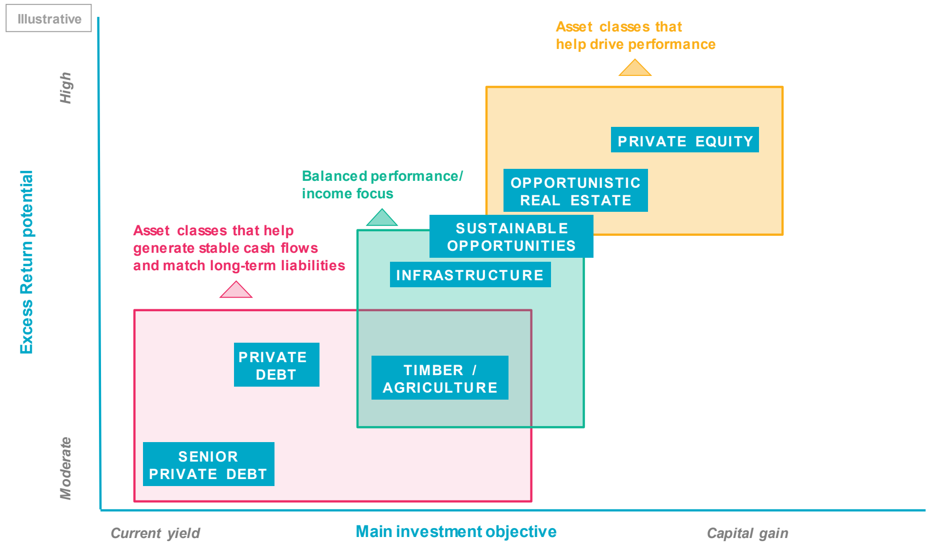
Factor diversification and complexity
Spending the illiquidity budget

- The chart on the right highlights the spectrum of unlisted assets, and suggests how different portfolios with different risk characteristics should allocate the liquidity budget.
  - Higher growth strategies allocate more to private equity and core plus real asset strategies
  - Core real asset allocations and private debt allocations are more stable across the portfolios, on grounds of their strong risk-adjusted returns and diversification benefit.
  - Note that all unconstrained portfolios are assumed to invest in sustainable assets.

PRIVATE MARKET ASSETS – RISK/RETURN SPECTRUM



- Note that we refer here to tertiary liquidity (greater than one year), and assume constrained portfolios can invest in some secondary liquidity (up to 90 days)

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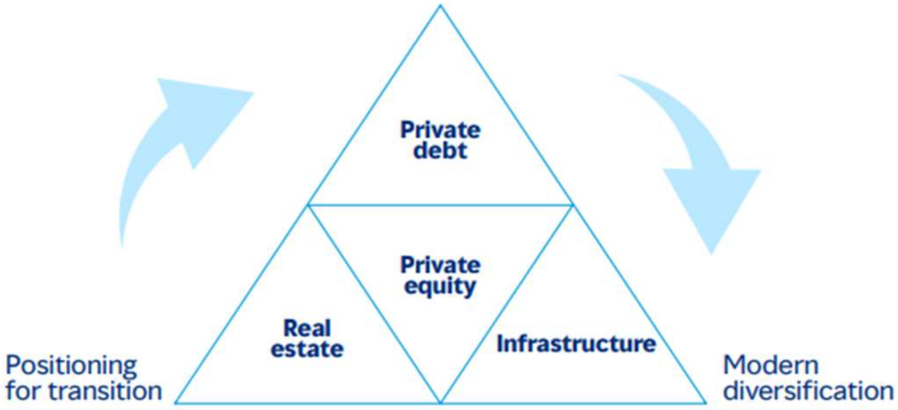
Private Markets in an inflationary environment

Private market asset are expected to be positively correlated to inflation in the long term

- The long term nature of private markets means **any positive inflation relationship is evident only over the long term.**
- Private markets are typically **less exposed to inflation than public markets**, as many private investments, such as **real estate, and infrastructure**, use **inflation-linked** agreements and contracts that provide a natural hedge against inflation.
- **Private debt** transactions **typically incorporate inflation protection mechanisms**, such as floating interest rates or shorter maturity periods, to mitigate the risks associated with inflation.
- The performance of **private equity funds** in an inflationary environment is **contingent on the pricing power of the portfolio companies**.

Inflation Playbook



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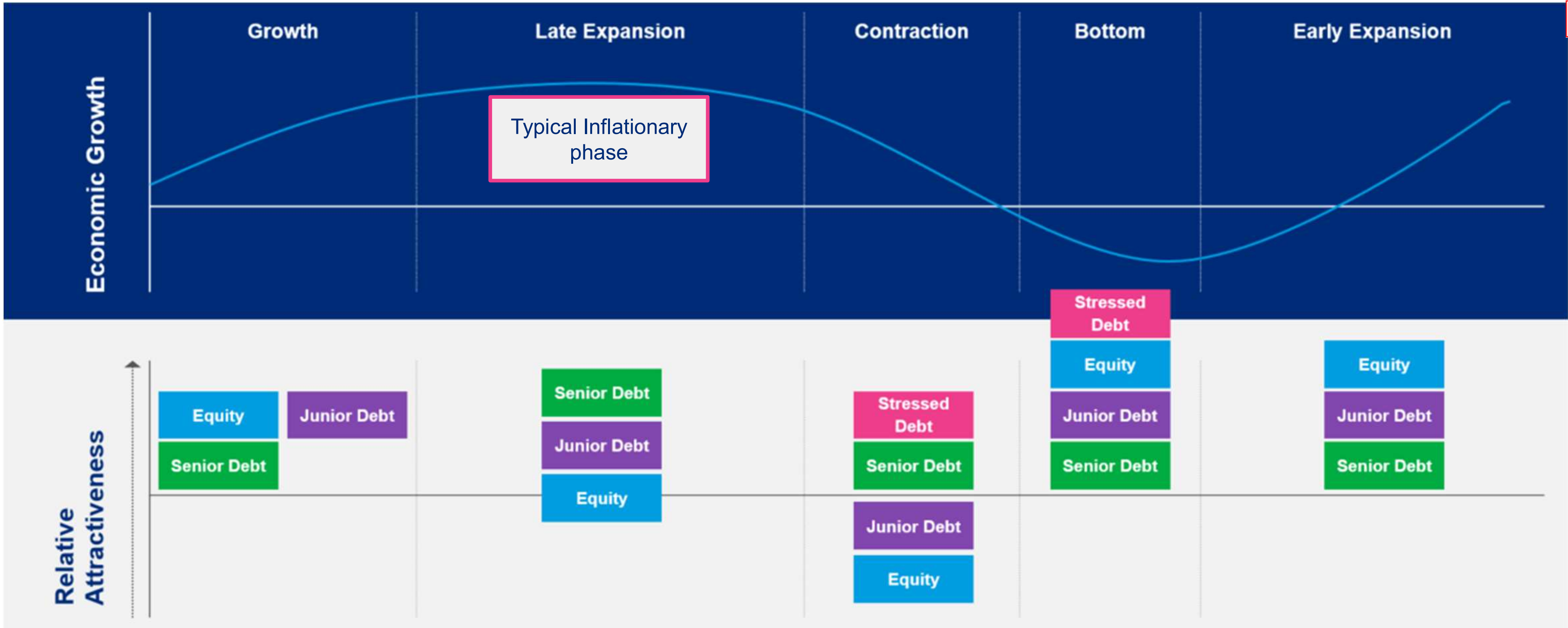
Private Debt in an inflationary environment

Attractiveness of the different capital tranches across the economic cycle:



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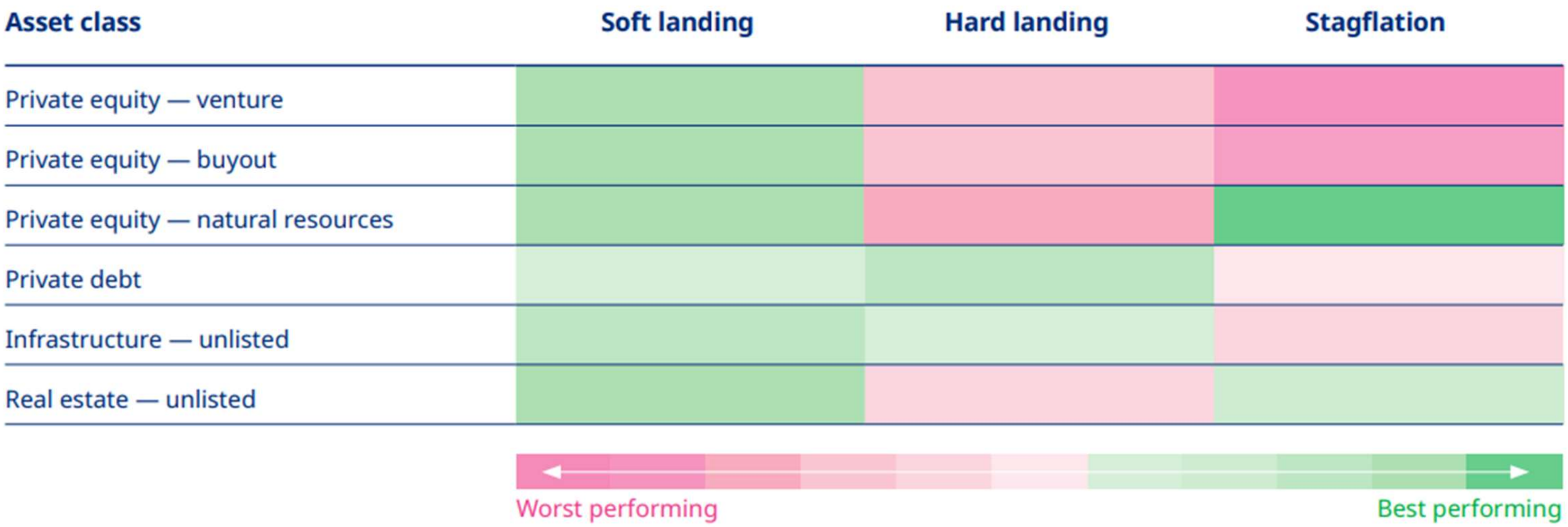
Slide 12

NH1 Netser, Hagai, 12/03/2023

How will Inflation Impact Private Markets

- The heat map below analyses how we expect different strategies to perform across these different scenarios based on expected returns over a five-year time horizon.
- Most GPs and companies have not lived through a period of high inflation, making manager selection critical.



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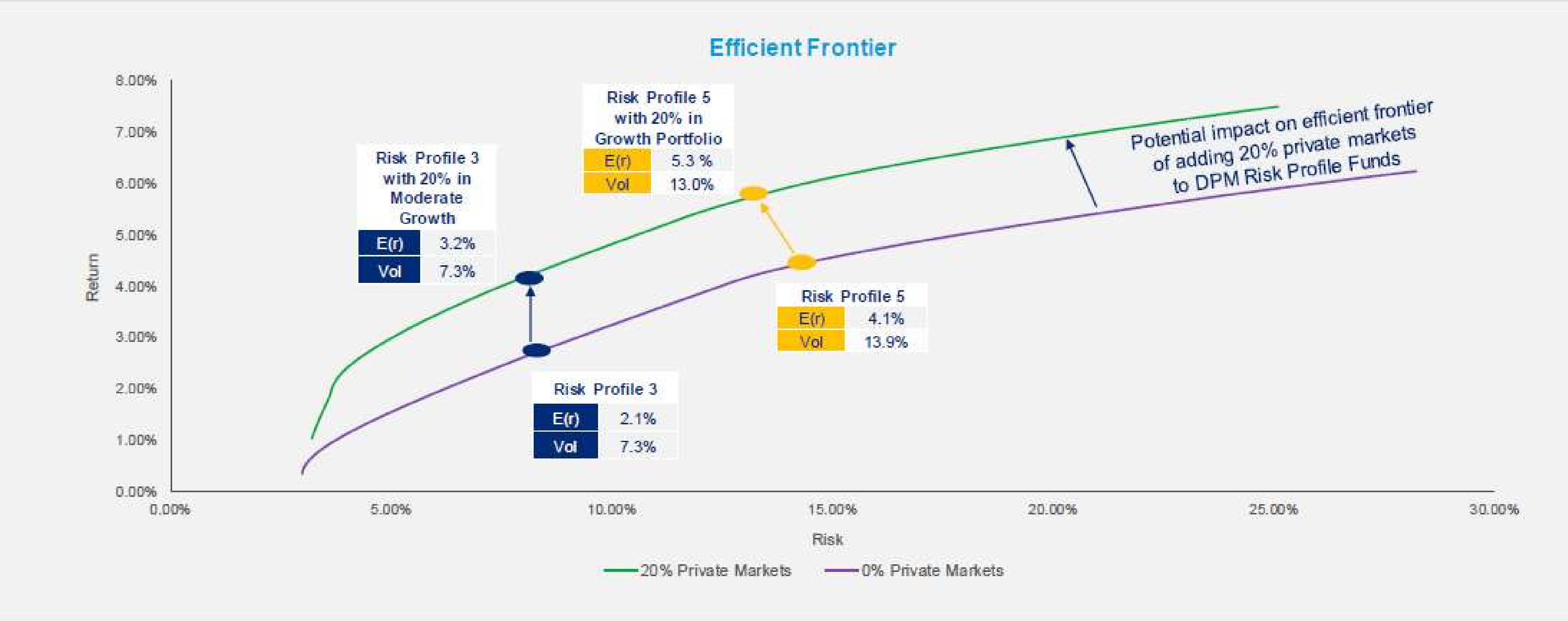
Demonstrating value add of an allocation to clients



For illustration purposes only. There is no guarantee that return expectations will be met.

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Please see the following link for information on indexes: https://www.mercer.com/content/dam/mercer/attachments/private/nurture-cycle/gl-2020-investment-management-index-definitions-mercer.pdf

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Private Debt in an inflationary environment

- Private Debt during an inflationary environment creates attractive opportunities.
- Overview of Debt during an inflationary period:

Financing the Real Global Economy

- Businesses need capital to grow and operate
- Banks globally have retreated from lending

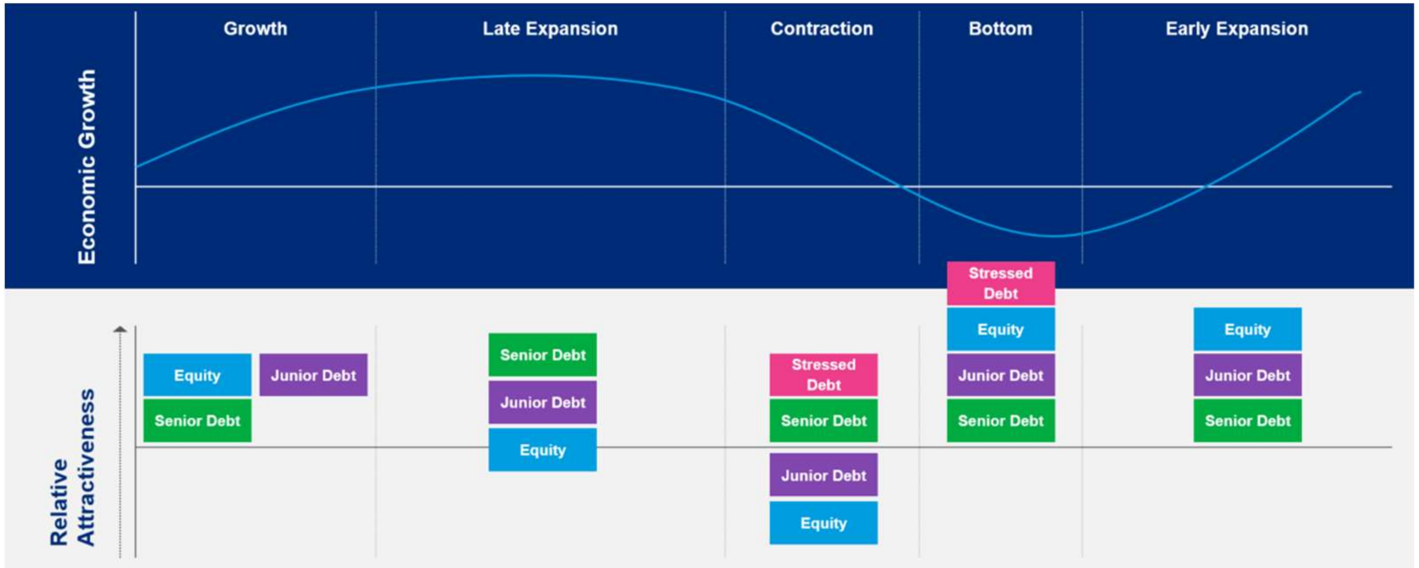
Potential Return Enhancement

- Material outperformance vs. fixed income historically
- Higher spreads and income versus the liquid credit markets
- Historical attractive total returns

Diversifying Risk

- Diversifier and therefore potential risk reducer
- A broad and differentiated opportunity set
- Low correlation with other asset classes with low/moderate volatility
- Protection in recessionary and inflationary periods

Attractiveness across the economic cycle



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