Allocating to Alternatives

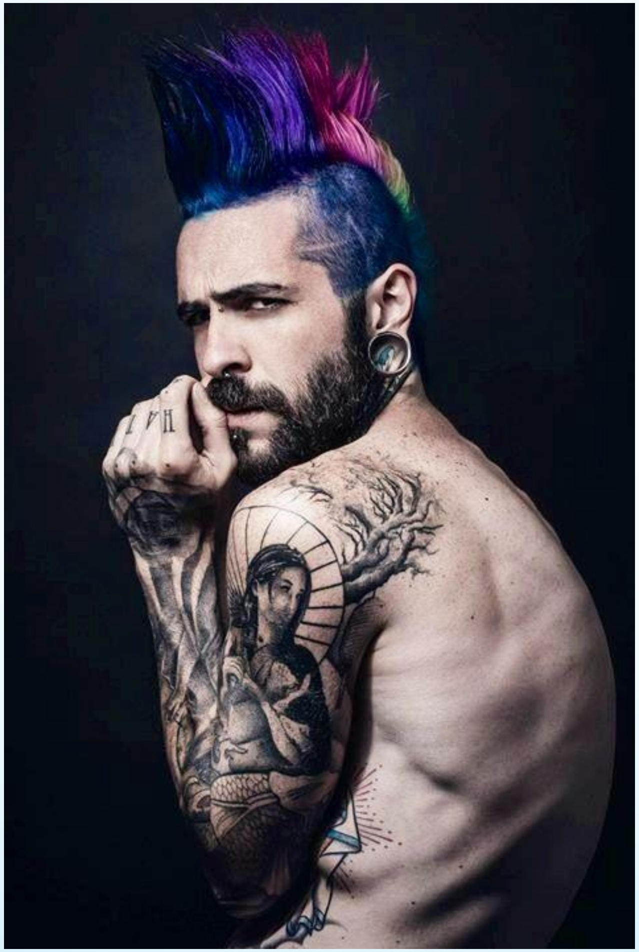
Andrew Fisher

make your dreams
more than dreams

sunsuper

What is an alternative?

- Hedge Funds
- Private Equity
- Frontier Markets
- Commodities
- Property



- Emerging Markets
- Infrastructure
- Bank Loans
- Private Debt
- Cat Bonds

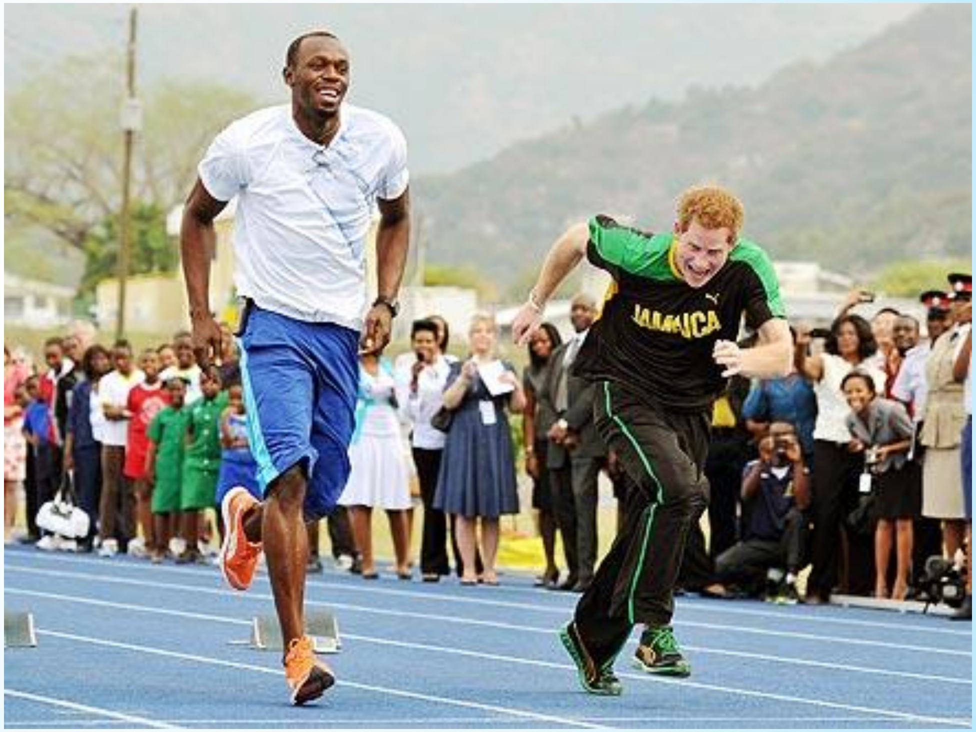
Alternative "rewarded" risks

- Illiquidity
- Equity
- Complexity
- Credit

- EM vs DM
- Bonds
- Size
- Insurance

Competitive Advantages

- Information
- Skill
- Size
- Structural
- Jurisdictional/political



Our Advantages

Scale

Profit for Members

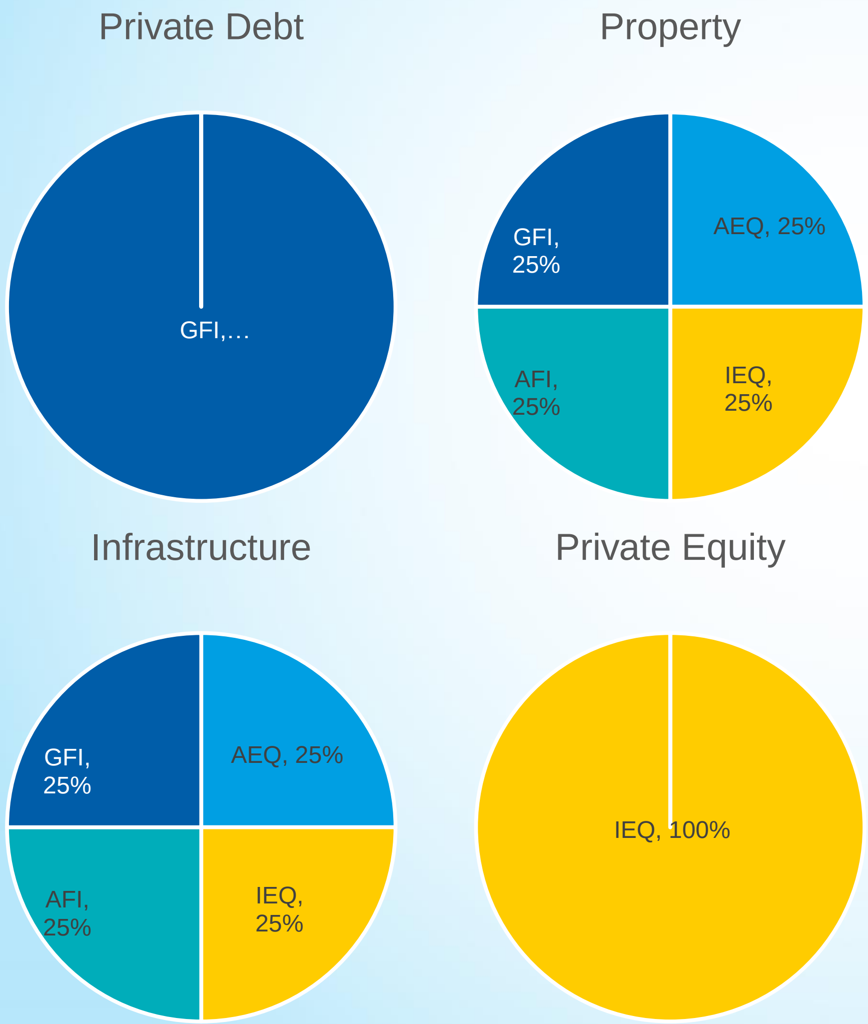
Patience

Positive Cashflow

Illiquid Assets

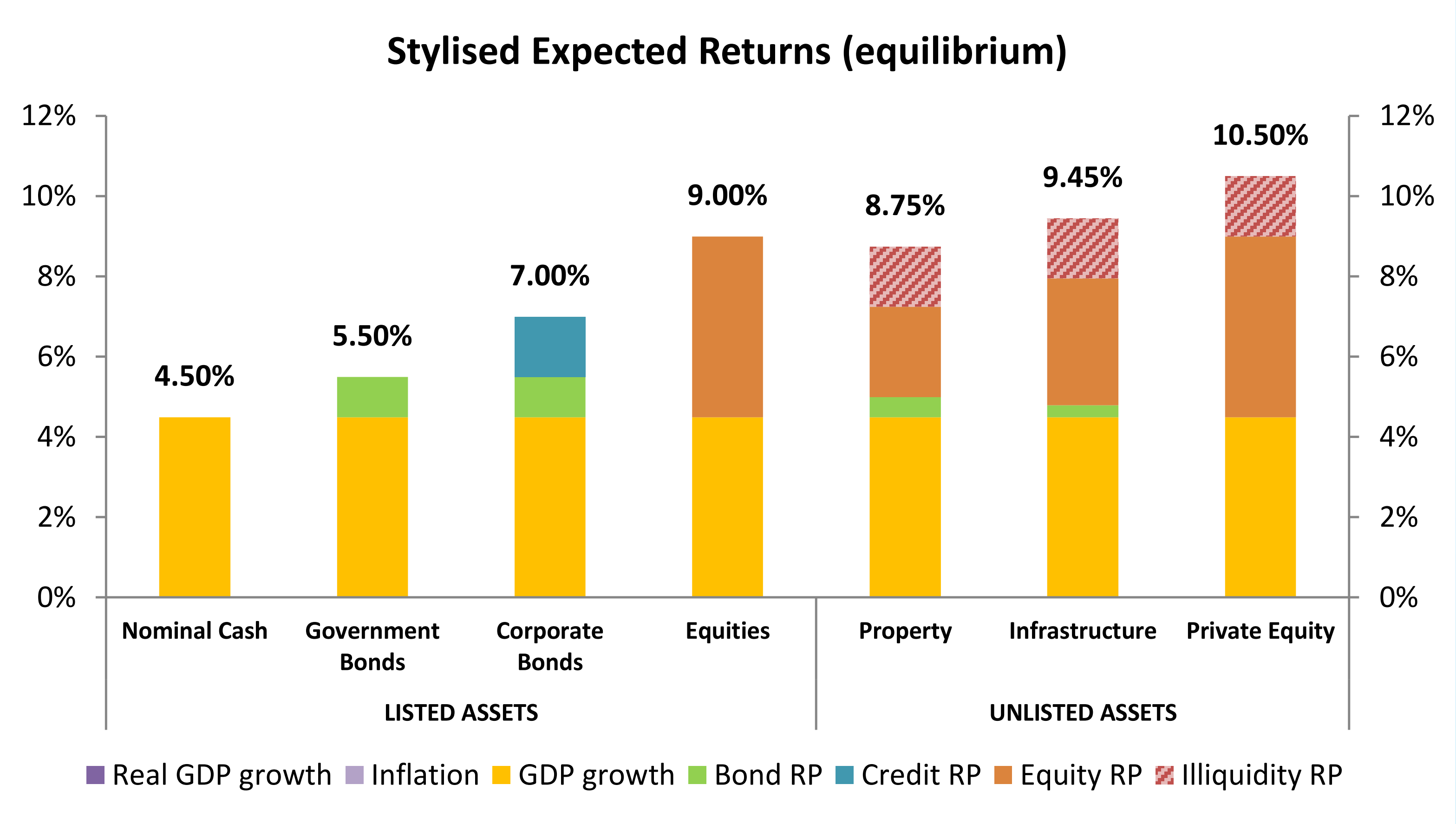
- Given our competitive advantages we believe that we can generate excess returns by allocating to illiquid assets
- The illiquidity risk premium is a different (and diversifying) risk premium
- Illiquid assets generate idiosyncratic and sector concentration risks
- Different underlying risk profiles
  - Direct Lending / Private Debt
  - Property
  - Infrastructure
  - Private Equity

Cost of Capital

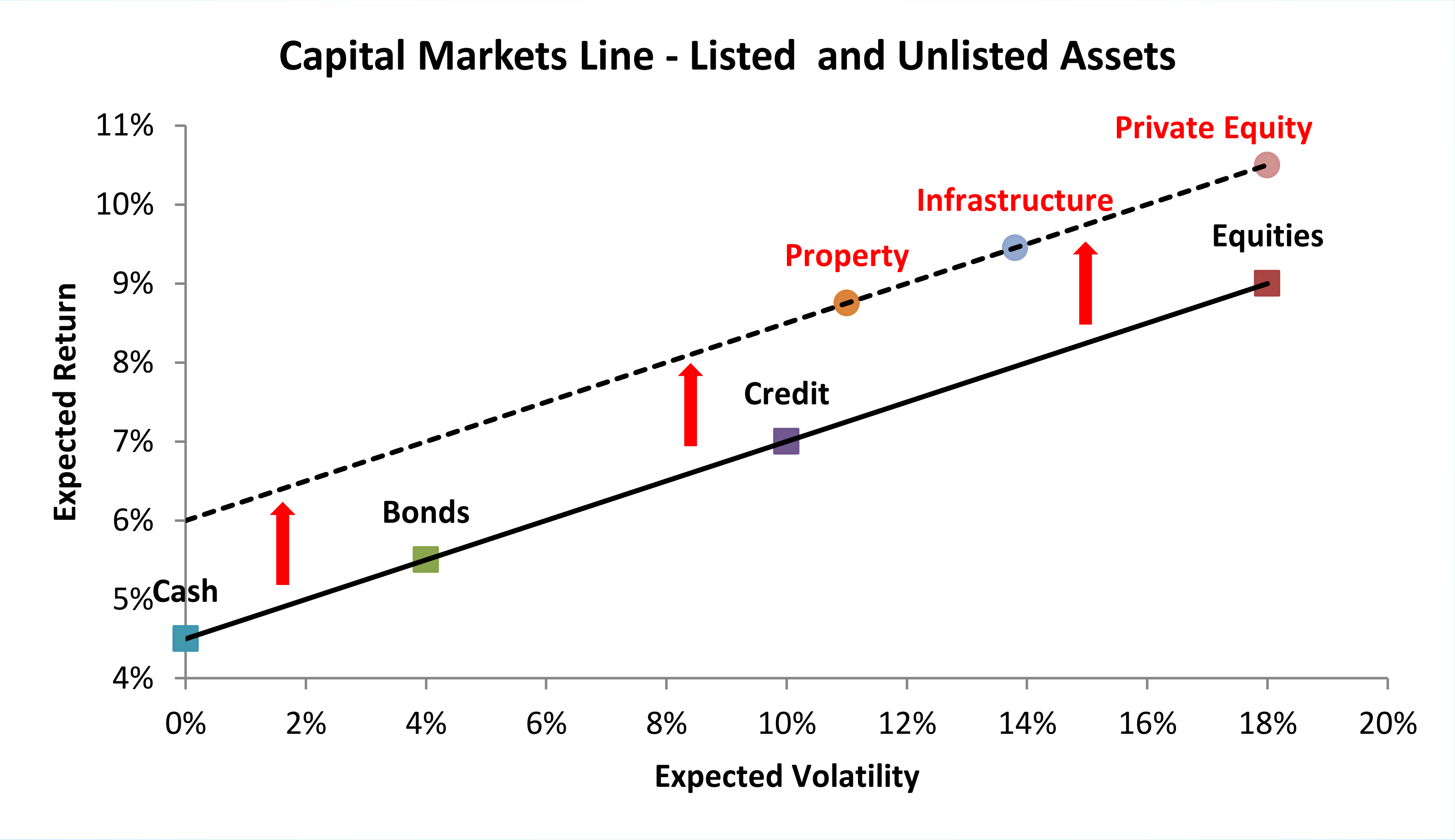


- To isolate the illiquidity risk premium, it is necessary to understand the other risks inherent in the asset class
- The difference between the illiquid asset and the listed equivalent cost of capital is the realised illiquidity risk premium

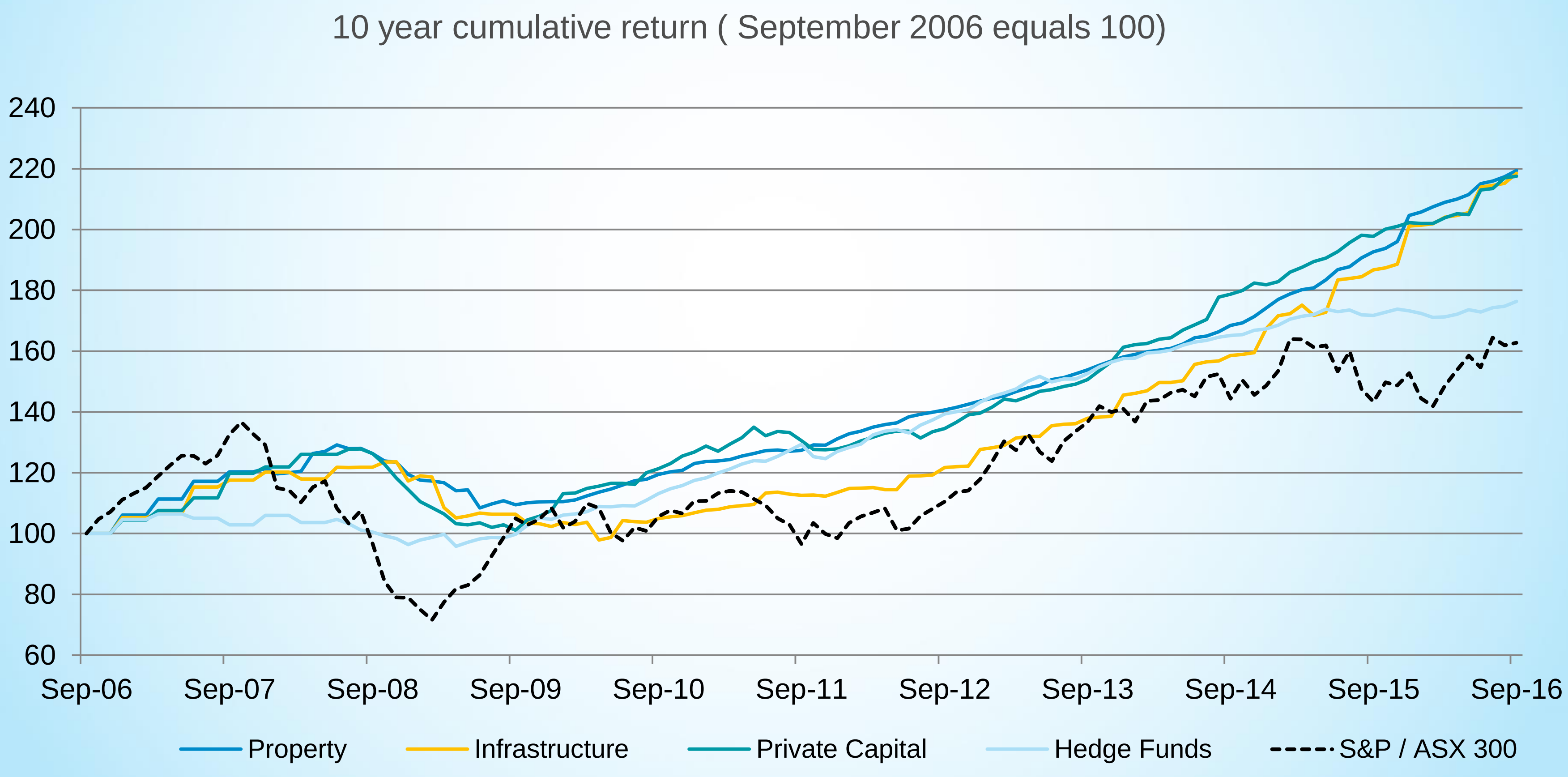
Illiquidity Risk Premium



A good problem to have…

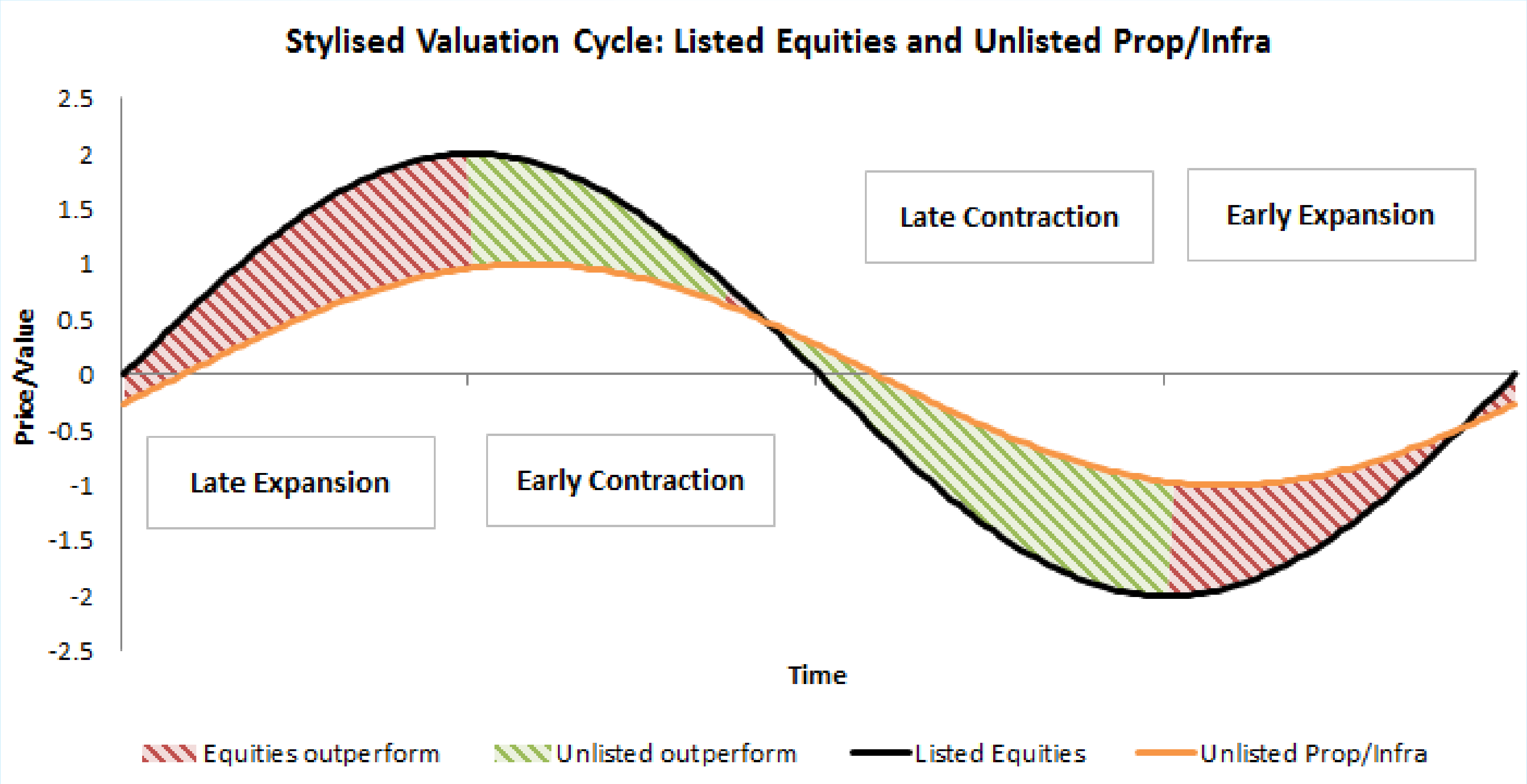


…higher returns with lower "risk"

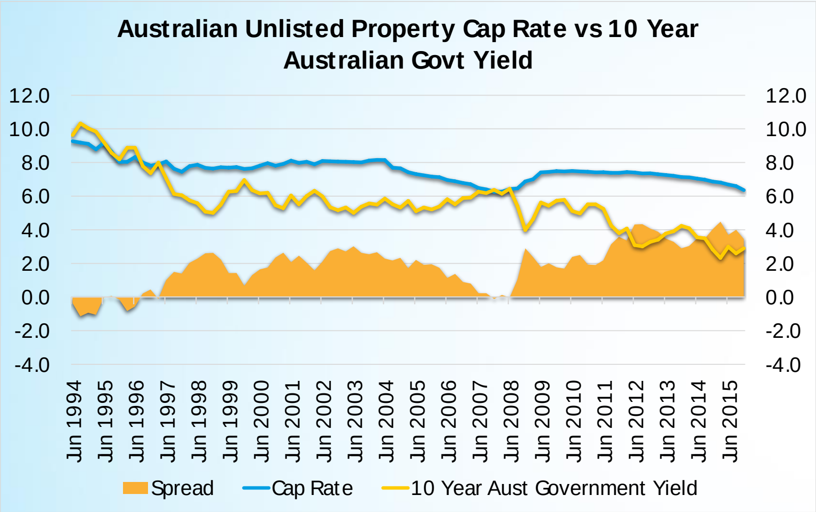


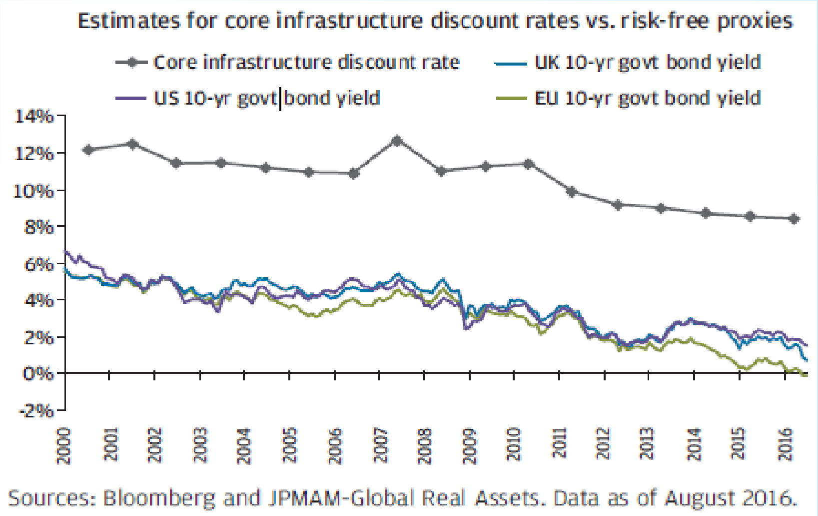
Source: Sunsuper

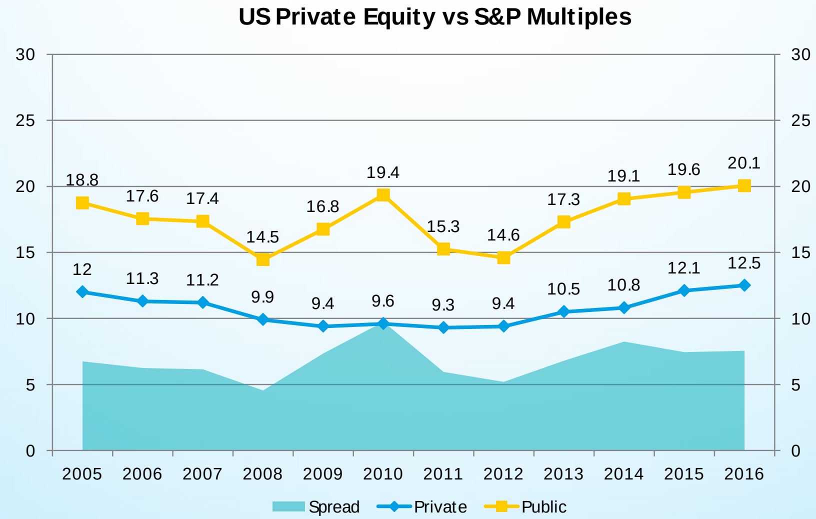
Timing the illiquidity risk premium?



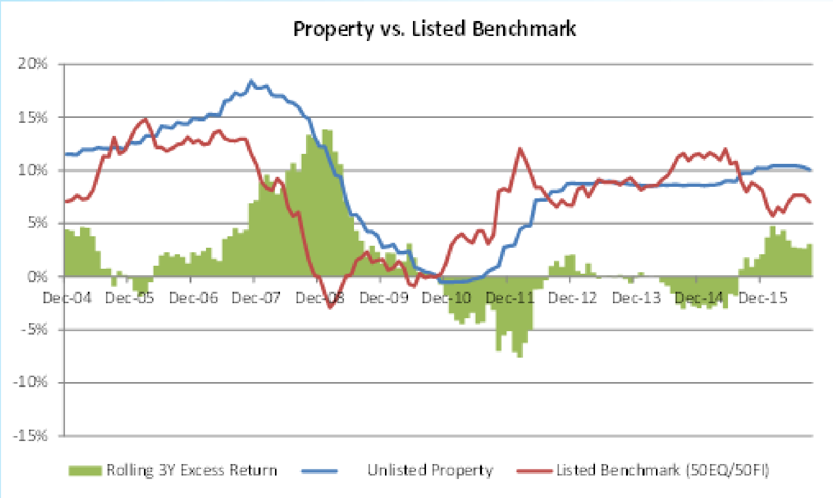
Deciding where/how to access illiquidity risk premium?

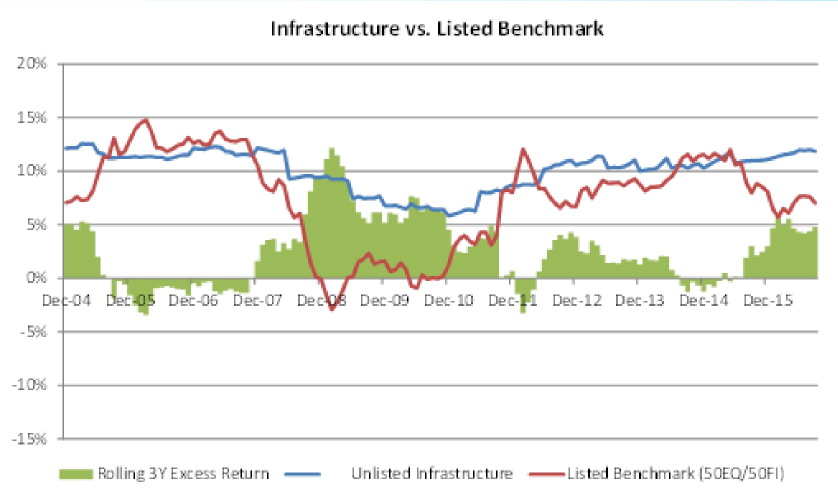


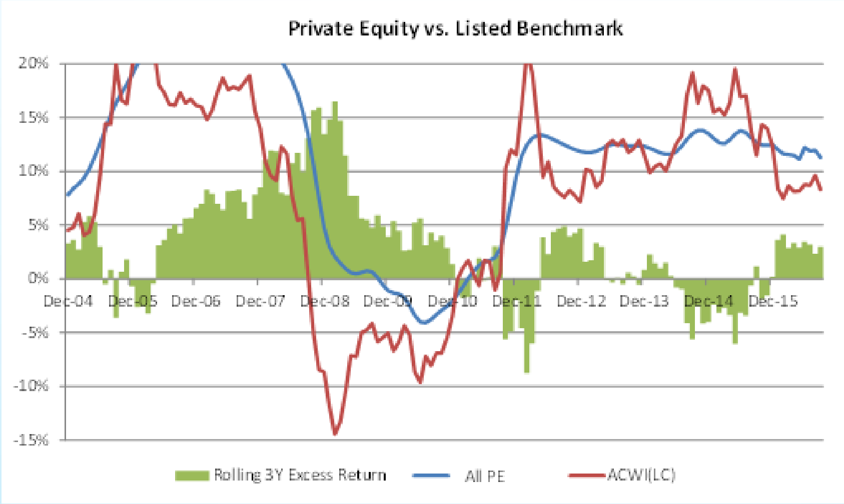




Measuring Outcomes







Success with alternatives

- Alternative assets mean different things to different people
- Every active asset allocation decision / position is an alternative to the benchmark
- Use alternative assets to exploit your competitive advantages where you have them
- Set clear expectations up front for alternative assets
- Regularly test and measure your outcomes against those expectations