AIF

ALTERNATIVE INVESTMENTS FORUM

2017 Southwest Investors' Forum

March 28, 2017

<u>Venue:</u>
Four Seasons Hotel Austin
98 San Jacinto Blvd.
Austin, Texas 78701

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AGENDA AT A GLANCE

Tuesday, March 28

8:30 – 9:30 am	**Portfolio Construction Session** *(**INVESTORS ONLY**, i.e., investment officers, investment consultants, trustees and academics; other attendees may not observe)* *Leader:* Rhett Humphreys, Partner, ***NEPC***
9:30 – 10:00 am	**Break** *(END OF INVESTOR-ONLY SESSION; THE BALANCE OF THE DAY IS OPEN TO INVESTORS AND MANAGERS)*
10:00 – 11:00 am	**Private Equity Session** *Leader:* William Charlton, Managing Director, ***Pavilion Alternatives Group***
11:00 – 11:30 am	**Break**
11:30 am – 12:30 pm	**Private Credit Session** *Leader:* Sylvia Owens, Senior Portfolio Advisor, ***Aksia***
12:30 – 1:30 pm	**Lunch**
1:30 - 2:30 pm	**Hedge Fund Session** *Leader:* Lincoln Smith, Partner, ***Albourne***
2:30 – 3:00 pm	**Break**
3:00 – 4:00 pm	**Real Estate/Real Assets Session** *Leader:* Gila Cohen, Senior Consultant, ***Courtland Partners***
4:00 – 4:30 pm	**Break**
4:30 – 6:30 pm	**Women Investors' Session and Reception *(WOMEN ONLY)*** Session Leaders: Marianne Scott Dwight, Investment Committee Member, ***Texas Treasury Safekeeping Trust Company*** Melissa Waller, Former Deputy Treasurer, ***State of North Carolina***

COMPREHENSIVE AGENDA

March 28, 2017

8:30 – 9:30 am - Portfolio Construction Session
(INVESTOR ONLY - Open only to invited investment officers, trustees, consultants, and academics.)

Session Leader:
Rhett Humphries, Partner, ***NEPC***

The post-financial crisis recovery is now behind us with unemployment in the U.S. at pre-crisis levels and the Dow Jones Industrial Average reaching the 20,000 level. At the start of 2017 a big cause of uncertainty is the potential impact of the incoming Trump administration and its effects on tax policy, regulation and efforts to spur economic growth and job creation. So far capital markets are anticipating an upswing in economic growth in the U.S., commensurate with higher interest rates, leading to a bull market in equities, a bear market in bonds, and a stronger U.S. dollar.
Outside the U.S., economic growth remains tepid with ZIRP and NIRP remaining prevalent in most of the developed world. Many emerging countries are experiencing political and economic turbulence along with net capital outflows. The Energy sector stabilized during 2016 after the dislocation of 2014-15, as crude oil prices have rebounded to the mid-$50s.
Pressure on alternative investment manager fees, particularly by public fund investors, continues to grow along with a desire for more transparency.
What are the challenges and opportunities?

1. Asset allocation
    a. Has the market's reaction to the election results affected your outlook?
    b. What new asset allocation approaches or technologies are you considering?
    c. Have you made any changes to your overall asset mix return assumptions?
    d. Are you favoring traditional or alternative investments?
    e. How do you model illiquid investments, particularly with respect to rebalancing?

2. Implementation
    a. What is your outlook for private equity considering today's valuation and leverage multiples?
    b. Where are we in the credit cycle? Is the Energy distress trade already over?
    c. What is the role of hedge funds in your portfolio, and has the recent underperformance caused this to change?
    d. Is the "2/20" hedge fund fee model broken? What will be the standard fee structure in 5 years?
    e. How can investors optimize a real assets portfolio, particularly if inflation protection is one of the primary objectives?
    f. Will we see a reversal in the switch from fossil fuels to renewables that was encouraged by the outgoing Obama administration?
    g. What will be the impact of changes to tax rates on corporations and carried interest?

3. Fees and Reporting
    a. Is pressure on fees justified, or should investors only focus on net returns?
    b. What are the implications of improved transparency in reporting and fees?

4. Governance
    a. What will be the implications of regulatory changes under President Trump?
    b. What is the proper role of the fiduciary board with respect to overseeing a program's investment strategy?

c. What are investors seeing with respect to ESG related issues? Has ESG become mainstream?

(END OF INVESTOR-ONLY PORTION OF THE DAY; THE BALANCE OF THE DAY IS OPEN TO INVESTORS AND MANAGERS)

9:30 – 10:00 am - Break

10:00 – 11:00 am – Private Equity Session

Session Leader:
William Charlton, Managing Director, ***Pavilion Alternatives Group***

Public markets cooled in 2015, but deal activity and pricing in private markets remained at record levels. While most participants agree that we are "late in the cycle," fundraising remained very strong for GPs. How should investors position themselves in 2016 and beyond? Some of the topics our panel of practitioners will address include:
Private Equity:

- Equity return expectations are lower across the board. Is private equity more or less attractive today given where we are in the cycle? Which is more important, the reduced liquidity, or the inability to be tempted to sell at the bottom in a volatile market?

- Academics have found reduced evidence of persistence in outperformance in private equity, but a recent study found stronger evidence of outperformance relative to public markets: Harris, Jenkinson, and Kaplan found buyout funds outperformed public markets by 20% to 27% over the life of the average fund. Is manager selection less important today than historically? What are the key factors for building a successful (i.e., outperforming) private equity portfolio?

- While Emerging Markets such as Brazil, India and China are still expected to lead global economic growth in the future, many investors are pulling capital out of these markets as the economic recovery takes hold in more developed markets.

    1. Are Emerging Markets still dependent on global markets for fundamental returns, or will switch to consumption-led growth reduce correlation to developed markets?
    2. Is private equity in Emerging Markets riskier than public equities, due to illiquidity, or is it safer, due to the influence of GPs?
    3. How do CIOs think about currency risk in international private equity investing?

- Energy markets have seen dramatic dislocation. Is this an opportunity for private equity or an area to steer clear of?

- Co-investment has increasingly become a topic of conversation between GPs and LPs. More LPs say they want it, and more GPs are offering it.

    1. Academic studies have shown mixed results on co-investment at best, yet more LPs seem to express interest. Why?
    2. Why do GPs offer co-invest? Is there adverse selection in co-investments? Are they selling down risk in their more questionable deals? Does access to co-investment capital push GPs to invest outside their area of expertise?
    3. From the GP's perspective, what are the issues LPs need to consider when establishing a co-invest program?

11:00 - 11:30 am – Break

11:30 am – 12:30 pm – Private Credit Session
Session Leader:
Sylvia Owens, Senior Portfolio Advisor, ***Aksia***

Private or illiquid credit investments into performing securities have become an area of increased focus for many institutional investors.

- How do investors think about the role private credit will play in their portfolio? What returns does it need to deliver? What duration? Interest rate and inflation sensitivity?
- Is private credit about alpha, or beta? If both, to what degrees?
- Who manages the private credit exposure? Is it part of fixed income, or illiquid investments? To what extent do you/would you like to co-invest in private credit?
- Is the "choppiness" in credit markets from high yield and energy affecting investment opportunities or existing portfolios? Should credit investors be concerned about the prevalence of covenant-lite financing and overall credit quality?
- What differentiates different managers in private credit? What do investors look for? How do GPs differentiate themselves?
- Given that private credit managers have arisen during a seven-year period of historically low rates and volatility, how do you evaluate historical performance, given the current market volatility and expectation of rising rates?
- What trends are driving interest/avoidance of the US versus Europe? Bank loans versus high yield? BDCs versus CLOs?

12:30 – 1:30 pm - Lunch

1:30 – 2:30 pm – Hedge Fund Session

Session Leader:
Lincoln Smith, Partner, ***Albourne***

2016 saw overall sub-par returns for the hedge fund industry but also pockets of attractive non-correlated returns. 2017 could represent a break from an environment plagued by low volatility, low dispersion and elevated governmental involvement in market outcomes both on a macro and micro level. 2016 also saw the continued evolution of GP/LP relationships as LPs continued to move towards fewer but larger manager relationships and better alignment of interest via funds-of-one, strategic partnerships and evolved commingled structures. Also broad changes in the financial services industry and technology continue to impact how GPs source talent and intertwine technology into their investment methods. Many GPs also have, or will soon, navigate leadership succession. How should LPs and GPs position themselves for 2017 and beyond?

- One thing most participants in the hedge fund industry can agree on is that markets going forward will not feel like the past few years. Possible reflation, rising interest rates, fiscal stimulus, central bank policy dispersion etc. How are GPs and LPs thinking about positioning for 2017 and beyond?
- Where might the next big trend, short or long, be? In the past many hedge fund managers benefited from shorting telecom (2001/02), shorting mortgages (2007/08), shorting energy (2014/15), going long structured credit (2010/14), and long bonds (2008/15). What might the next "big one" be?
- The talent and technology game evolves. Given diminished bank trading activity, where are the next generation of PMs and analysts coming from? How are the data explosion and electronic trading affecting how managers implement their strategies?
- Will emerging markets continue to work for hedge funds? Volatility and dispersion, while notably absent in developed markets, has been available in developing markets and many GPs have profited either via sub allocations of larger strategies or more focused funds. But there are considerable liquidity risks, how are managers addressing these?

- Academic studies of institutional investor behavior typically illustrate momentum behavior to the detriment of investors. The hedge fund has seen positive strategy returns correlated with subsequent inflows which are correlated with trailing 2 year strategy underperformance. How are LPs and GPs affected by these flows and how should they resist them.
- Alignment of interest - how is the GP/LP relationship evolving? What types of structures do LPs find attractive? What types of structures better offer alignment, transparency and stability? Will funds-of-one, managed accounts and strategic partnerships continue to grow?
- What has been the impact of broad financial industry regulations on the hedge fund industry and what kinds of returns created by bank regulations are likely to persist? As LP's increasingly allocate to less liquid credit opportunities how are GP's evolving their businesses models to address this?

2:30 – 3:00 pm – Break

3:00 – 4:00 pm - Real Estate/Real Assets Session

Session Leader:
Gila Cohen, Senior Consultant, ***Courtland Associates***

How can real estate and infrastructure help investors achieve their objectives in a challenging investment landscape? Can real estate/real assets deliver return in a low yield and low growth environment? Can they provide a safe harbor in the context of a challenging political landscape and unexpected election results? The Real Estate and Real Assets panel will explore investment strategies and trends in light of current challenging market conditions.

- Return expectations. Are real estate/real assets overheating, or can they still deliver an attractive return? And how should investors define "attractive" (i.e., on an absolute basis or relative to other investment sectors)? What component of return is most important to investors today, current cash flow or long term capital appreciation?
- Changing political landscape. First Brexit, then Donald Trump. No matter your political stripes, election results will change government policies. Will these changes unleash and stimulate economies, or sink us into recession? How will either scenario impact real estate or real assets? How should you invest to capitalize on change while mitigating risk?
- Property fundamentals. Many markets appear to have too many construction cranes. Which markets would you avoid as an investor today? Which sectors are most attractive? Office? Retail? Industrial? Residential? Where is demand outstripping the supply of space? Can landlords still push rents to increase return on investment?
- Changing spaces. Perhaps more than at any time in history, macro factors are changing the type of space that users need: open office concepts and creative office space, "sticks and bricks" retail versus e-tailing, urban living versus suburban commutes, rental housing for special demographics (seniors, workforce, students). Do traditional investment managers have the expertise to navigate these changing dynamics? What investment strategies capitalize on the increasing pace of obsolescence?
- ESG. What are investors and managers doing to capitalize on opportunities created by the environmental, social and governance movements? What makes a building "Green" . . . and does Green make for higher returns? What are investors and managers doing to make their buildings more sustainable? How are investors incorporating social policies into their investment mandates?
- Global investing. How will Brexit impact demand for space in the UK and the European Union? Will China turn its economy around? Is Latin America doomed by political uncertainty? Where can investors look overseas for attractive risk adjusted returns in real estate and other real assets? What can investors realistically do to minimize the impact of currency on their overseas investments?
- Debt and financial leverage. Debt is still attractively priced . . . if you can get it. What sources of lending are truly available for most real assets investors today? Are banks a viable source of capital, or will private lenders need to fill the void. Owners of hard assets have benefitted from a

record low cost of capital—is the tide finally turning? What will the next buyer do when they have to borrow at higher rates in the future?

- Governance rights. Investors in real estate have options when it comes to investment structures: direct separate accounts, open-end funds, closed-end funds and real estate securities. How much liquidity do these structures really offer when you need it? Are any of them truly "investor friendly?" What are the key issues to address to make commingled funds work better for GPs and LPs alike?

4:00 – 4:30 pm – Break

4:30 – 6:30 pm – Women Investors' Session and Reception (WOMEN ONLY)

Session Leaders:
Marianne Scott Dwight, Investment Committee Member,
Texas Treasury Safekeeping Trust Company
Melissa Waller, Former Deputy Treasurer, ***State of North Carolina***

Note: Participation may qualify for CPE Credits. Please see below.

Learning Objectives – at this Forum, institutional investor participants will:

- *Discuss and identify solutions for overall portfolio construction with an emphasis on asset allocation and risk management; and*
- *Apply those solutions to individual asset class construction, in particular, to alternative asset classes and strategies such as private equity, hedge funds, and real estate and real assets.*

Registration – please contact Brant Maller at bmaller@aifglobal.org to register.

Forum Policies – there is no fee charged to institutional investor participants. For more information regarding concerns or cancellation policies, please contact our offices at (212) 294-3308.

Conference participants can earn up to 7.5 CPE credits in Finance and Management Advisory Services fields of study. Program Level: overview (no prerequisites or advance preparation required)

Delivery Method: Group-Live

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