Alternatives

Our view of non-traditional asset classes

Alternatives portfolios

Due to their distinct characteristics, we take a differentiated look at selected liquid and illiquid alternative investments.[1]

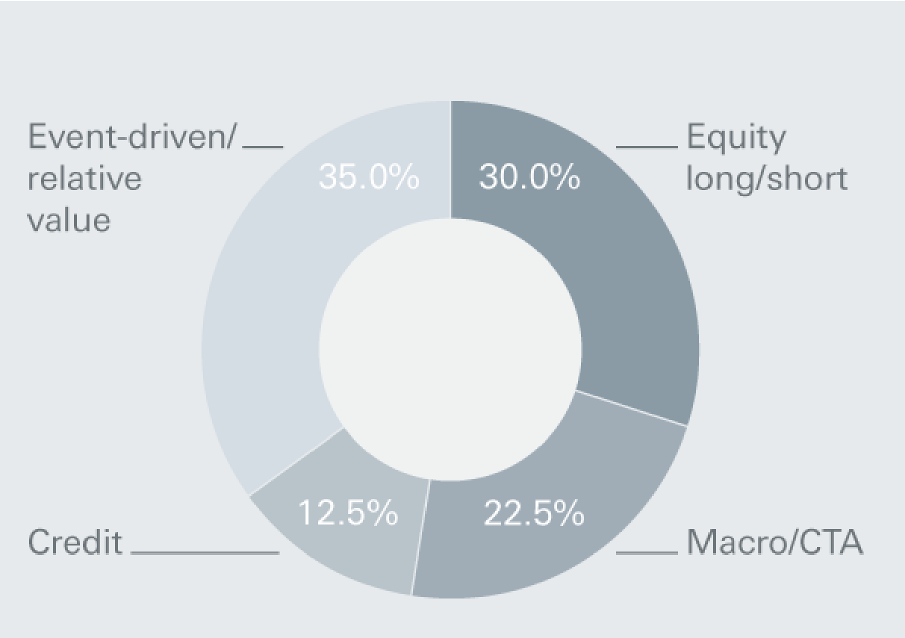
Liquid alternatives

Macro/ commodity trading advisor (CTA)

We continue to assess the current environment as fertile for Discretionary Global Macro and even more so for Systematic/ CTA managers. Divergent dynamics in emerging-market rates and credit, pronounced weakness or technical bear markets in most regions for equities and new, strong trends in a number of currency pairs are creating opportunities. Most importantly, we feel that as volatility expands, overall risk-adjusted returns can clearly benefit, by devoting a significant allocation to strategies which are at large agnostic to bottom-up fundamentals and can take increasing short positions in risky assets.

Merger arbitrage

Pure mergers and acquisitions (M&A) arbitrage-focused managers have generally been weathering the recent challenging conditions relatively well. The environment for M&A continues to be conducive with still a healthy number of deals and supportive credit conditions for balance sheets. In the midst of higher market volatility, relatively safe deals trade at multiyear-wide spreads and present an interesting opportunity for managers with a provemun track record in the space and the ability to hedge out overall market risks appropriately. Recent market volatility and macroeconomic headlines could however impact the appetite for future corporate activity and the level of current spreads.



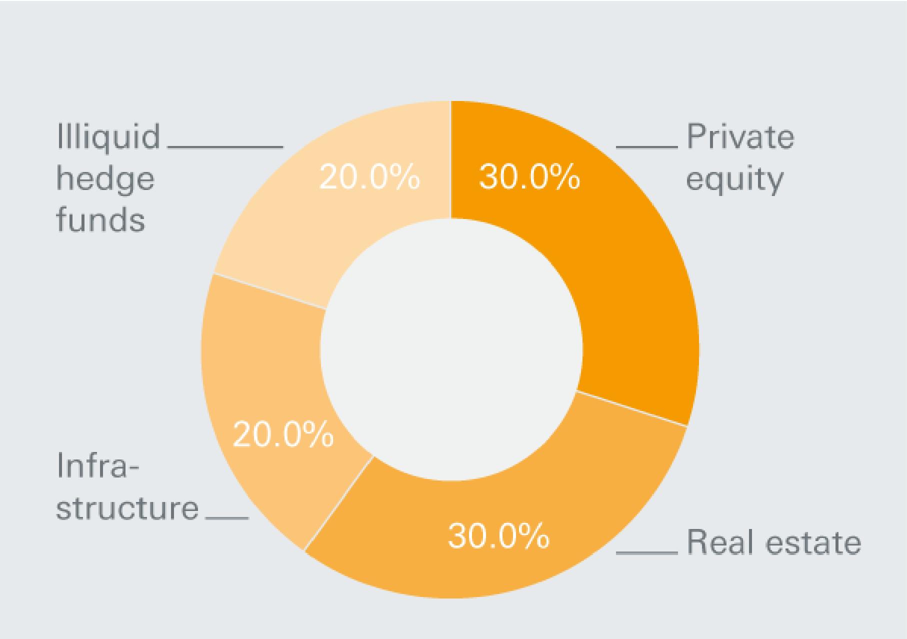
Liquid alternatives

Illiquid alternatives[2]

Real estate

Asia continues to be a key driver of real estate, with improving credit-market conditions and accommodative monetary policy in a number of regions. This is especially pertinent for Japan, with the BOJ's decision to enter negative interest-rate territory providing a boost for the country's real-estate-investment-trust (REITs) market. Japan, along with Australia, appears to provide the strongest rental-growth potential for the Asian office sector.

Europe may also provide interesting growth prospects for 2016, with constrained supply improving the outlook for rental growth. Spain in particular is leading the way, with improving sentiment and wider credit availability as key drivers for its steadily recovering housing market. In the U.K., however, a possible Brexit could present risks for the domestic property market. A survey conducted by Property Market Analysis suggests that, compared to remaining in the EU, a Brexit could cause a 15% average reduction in property values by 2019, and as much as 25% for London office space.[3]



Illiquid alternatives

Glossary

Arbitrage

Arbitrage is the practice of exploiting a price differential between two (or more) markets.

Balance sheet

A **balance sheet** summarizes a company's assets, liabilities and shareholder equity.

Commodity trading advisor (CTA)

A **commodity trading advisor (CTA)** is an individual or organization providing advice and services related to trading in futures contracts, commodity options and/or swaps.

Discretionary macro strategy

Discretionary macro strategies are investment strategies that aim at exploiting macroeconomic, policy or political changes.

Fundamentals

Fundamentals are data giving information about the general well-being of companies, securities or currencies and serving for the subsequent valuation of these as an investment opportunity.

Mergers and acquisitions (M&A)

Mergers and acquisitions (M&A) are the two key methods of corporate consolidation. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

Real Estate Investment Trust (REIT)

Real Estate Investment Trusts (REITs) are companies, mostly listed, that own and often operate various types of real estate. They are obliged to pay out a minimum of 90% of earnings.

Short

Short, in a financial-markets context, refers to approaches that seek to gain from a fall in the price of the underlying asset.

Spread

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

Volatility

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.