

Alternatives

Our view of non-traditional asset classes

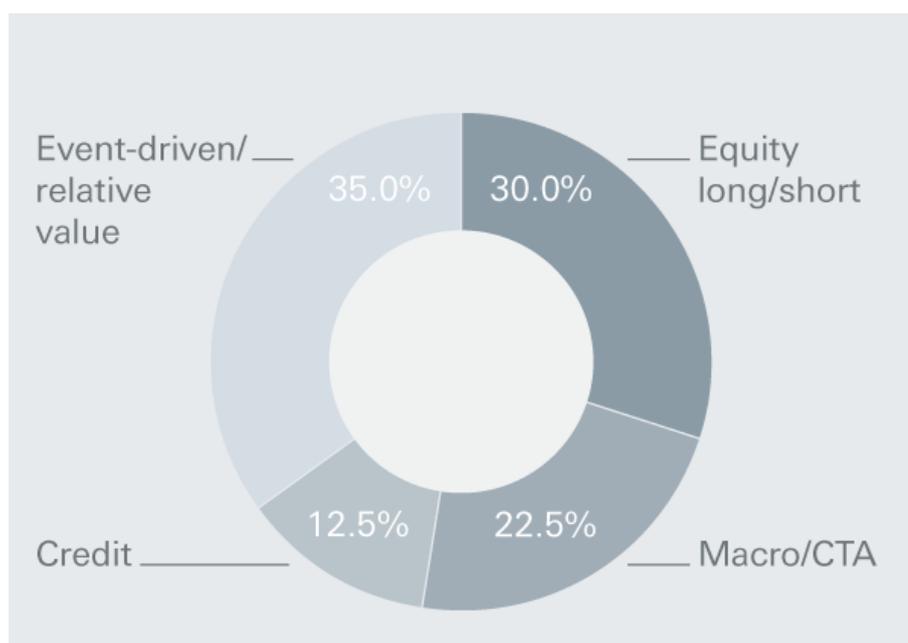
Alternatives portfolios

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

Liquid alternatives

Discretionary macro and CTAs

We think that both discretionary global macro and systematic/commodity trading advisor (CTA) strategies can bring to a portfolio a useful, idiosyncratic and diversifying risk-return profile. As equity markets have rebounded, the correlation of these types of strategies to the MSCI World Index has remained firmly negative, which suggests they could prove to be an effective source of diversification, should equity-market sentiment deteriorate again. In regard to global macro strategies, those focused on inter-asset-class relationships and geographic dispersion look particularly interesting. Commodities, equity indices, bonds and credit indices all offer distinct sets of opportunities. The United States, Europe and emerging markets have been exhibiting different patterns since the indiscriminate sell-off at the beginning of the year. CTAs could well profit from any renewed weakness in equity markets, while also capitalizing on another wave of flight to quality through long positions in U.S. Treasuries.



Liquid alternatives¹

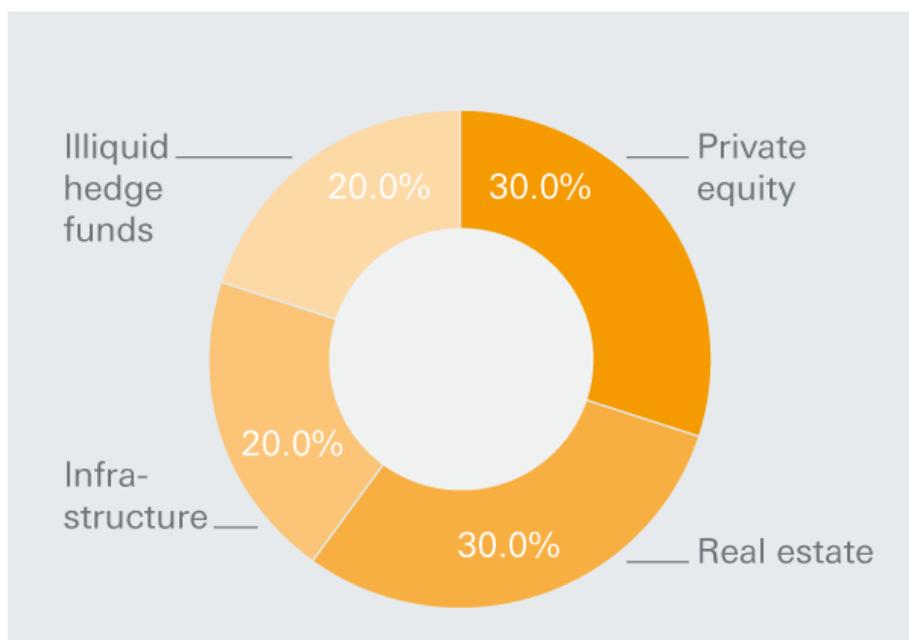
Illiquid alternatives

Private equity

Total capital raised followed the usual seasonal slowdown in the first quarter of 2016, dropping back to \$66 billion. However, the proportion attributable to buyouts rose to its highest in any first quarter of this decade, with \$39 billion aggregate capital raised. Dry powder remains high with \$775 billion in capital available as of March. This is contributing to stubbornly high valuations, with private-equity acquisition multiples remaining above the 10-year average for all deal sizes in Europe and for medium and large deal sizes in the United States. Fundraising is expected to remain generally healthy in Europe for the remainder of the year, despite political risks, but private-equity deals in the U.K. have fallen to levels not seen since 2008.

Infrastructure

Investor demand is still healthy for unlisted infrastructure, helping valuations for the asset class to remain broadly above their long-term average. Deal flows have continued to grow in the first quarter of 2016 with 224 deals completed. Asia's share rose to 37% of the global reported deal value. However, the inherent commodity exposure of many sectors in the region still presents risks, as could China. Economic fundamentals are also a headwind for unlisted infrastructure in the United States, though pockets of opportunities remain. Utilities can provide long-term, stable cash flows, that when coupled with fair valuations make this sector look interesting amidst continued global uncertainty.



Illiquid alternatives¹

Glossary

Buyout

A **buyout** is a purchase of shares in order to gain controlling interest in another company.

Cash flow

A company's **cash flow** is comprised of its inflows and outflows which arise from financing, operational or investing activities.

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.

Correlation

Correlation is a measure of how closely two variables move together over time.

Dry powder

Dry powder, in a private-equity context, refers to cash or other very liquid reserves that can easily be deployed for investment.

MSCI World Index

The **MSCI World Index** tracks the performance of mid- and large-cap stocks in 23 developed countries around the world.

Private-equity acquisition multiple

For private-equity acquisition multiple see "multiple".

Treasuries

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

Unlisted

A business which is not listed (traded) on a stock exchange but can have multiple shareholders.

Valuation

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm's stock price in relation to its earnings.

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