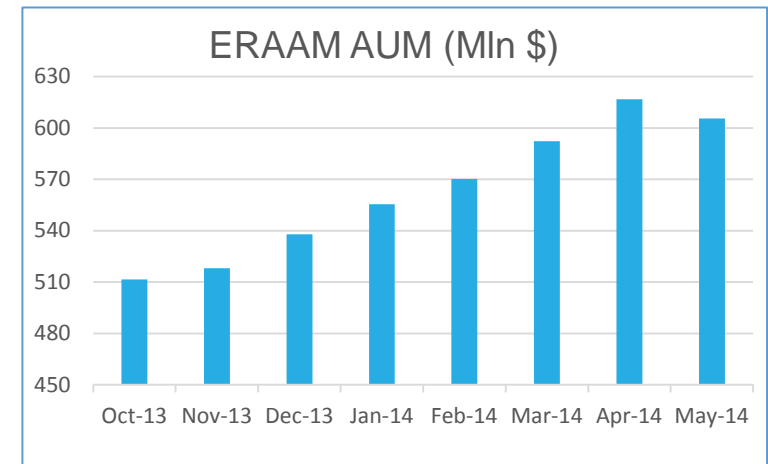
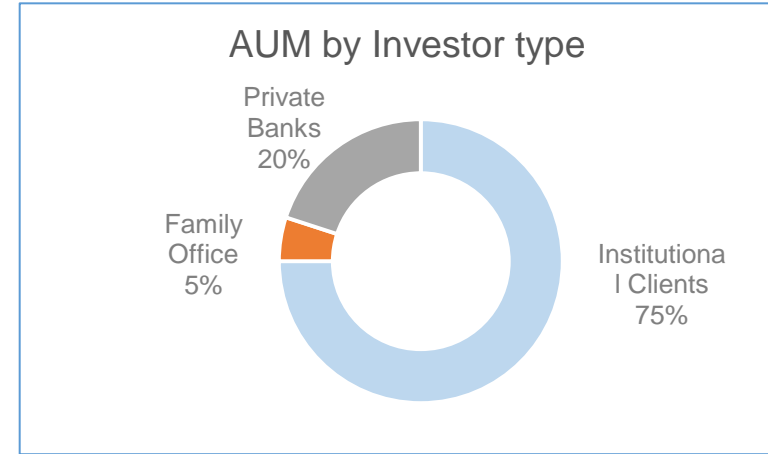


The Role of Alternative Investments In the Asset Allocation process

September 2014

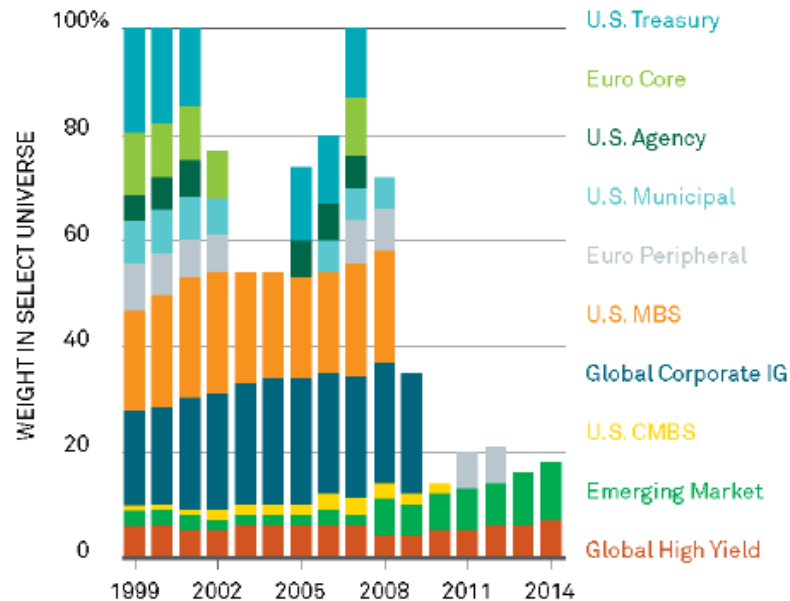
ERAAM: European Alternative Investment Specialist

- An independent fund management company set up in 1998, owned by its Partners
- ERAAM focuses exclusively on Alternative European-Based managers
- Stable, complementary and highly skilled team
- ERAAM leverages on the network it has developed over the last 16 years in Europe to identify the best talents
- ERAAM is the European Investment partner:
 - Of a major **US public pension fund** since 2006, in a multi-manager LP, with a strong bias toward smaller Hedge Funds Managers
 - Of a large **University Endowment since 2013**, to build an opportunistic portfolio of niche managers in the European credit space



Scarcity of safe havens will drive the search for alternatives

- 81% of fixed income market is yielding LESS than 4% (versus 30% in 2004), and half of them are long-term bonds, maturing in more than 12Y



- The forward looking of this stock is not reinsuring:
 - At a time when deficit control is paramount to most fiscal policies and central banks competing with investors to buy the same assets,
 - At a time of financial repression putting pressure to regulated entities like banks to post best collateral and comply with LCR and large asset managers like Insurance companies complying to Solvency ratio

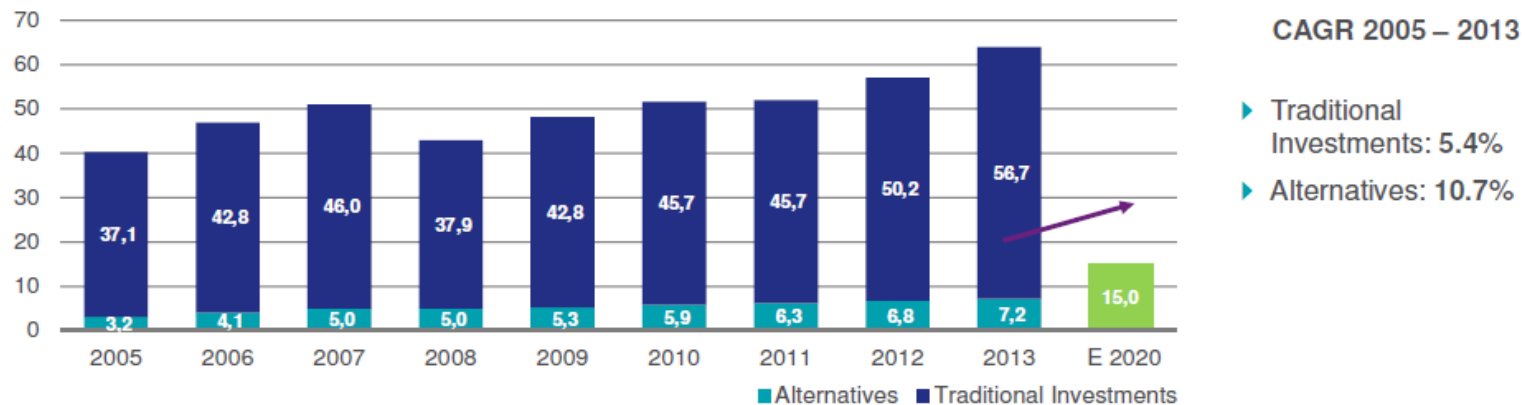
Source: BlackRock. * Not market-value weighted

So What are the alternatives ?

Whatever your organization can manage - the search for genuine diversifiers will drive you to the following themes

- Lock in term structure through long lease projects
- Unrelated in mark to market to equity valuation
- Stable long term cash flows
- Appropriate compensation for illiquidity
- Market neutral strategies

Rising appetite for alternatives (\$tn)



Summary

- I. The challenges and the evolving process of incorporating alternative investments to the asset allocation process
- II. How do alternative investments fit into a portfolio ?
- III. Examining risks involved when investing in alternatives
- IV. What alternative asset classes will have the greatest returns in the upcoming year ?

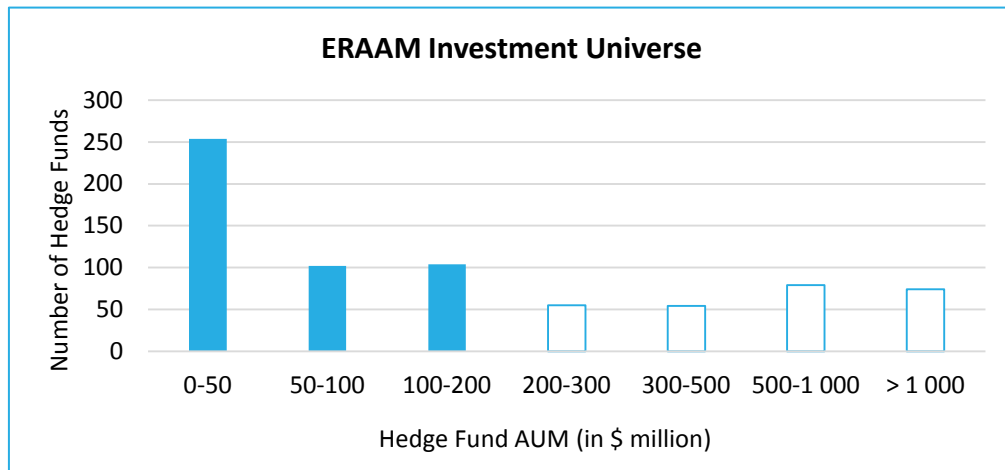
I. The challenges and the evolving process of incorporating alternative investments to the asset allocation process (1/3)

- A challenging environment managing risk on risk off deflation risk scarcity of safe havens
- If you are looking for active management it's because the direction of passive long only exposure is uncomfortable (Long risky assets in 2007, Long IG bonds today, etc.)
- Depending on your balance sheet structure (equity or fixed income driven) you will have a totally different need for alternatives or no need at all
- But if you consider going forward and wish to enhance your diversification you have to carefully pick your partner

I. The challenges and the evolving process of incorporating alternative investments to the asset allocation process (2/3)

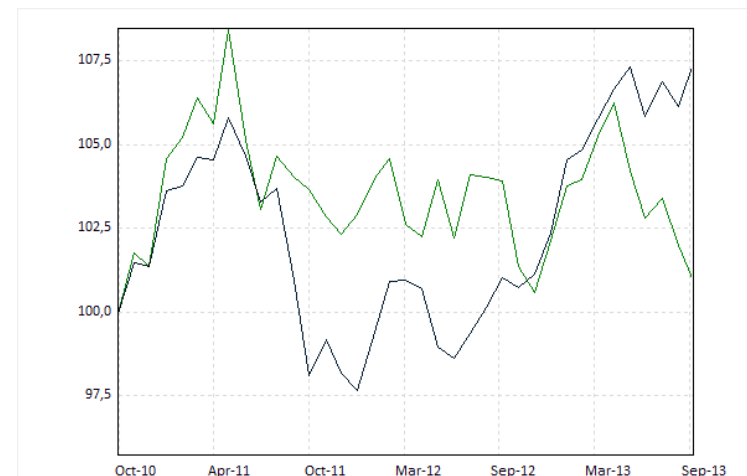
Challenges for investors

- Barrier to entry, going down with “new-CITS”
- Finding the right risk/reward, need to understand the input in a portfolio
- Sourcing: Finding the best players for the best market environment
- Monitoring of investments and redemption timing is key



Source: Eurohedge 722 European based hedge funds (excluding share class overlap)

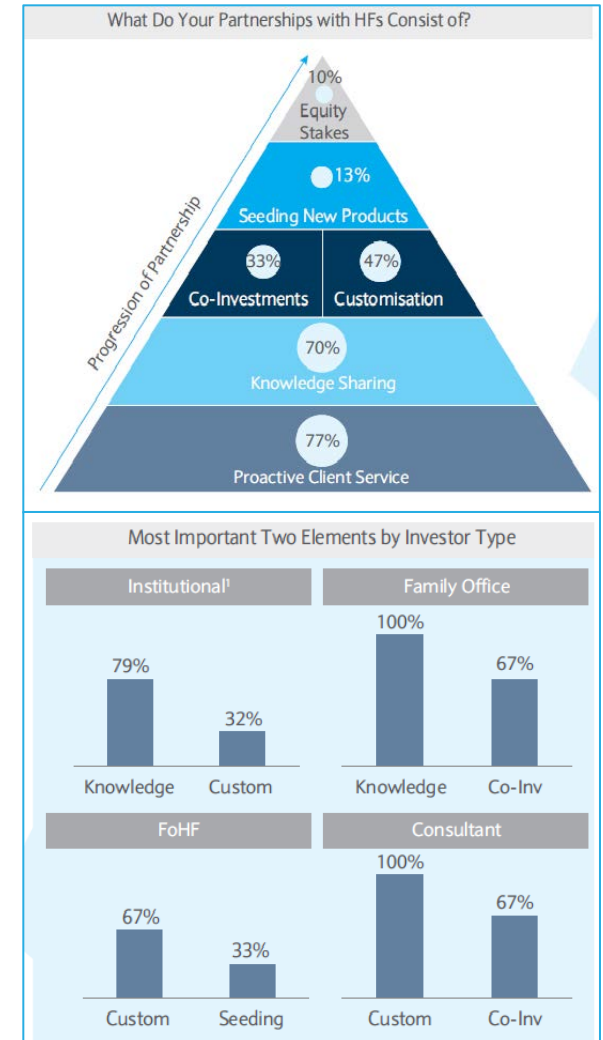
The fate of TITANS since 2009



I. The challenges and the evolving process of incorporating alternative investments to the asset allocation process (3/3)

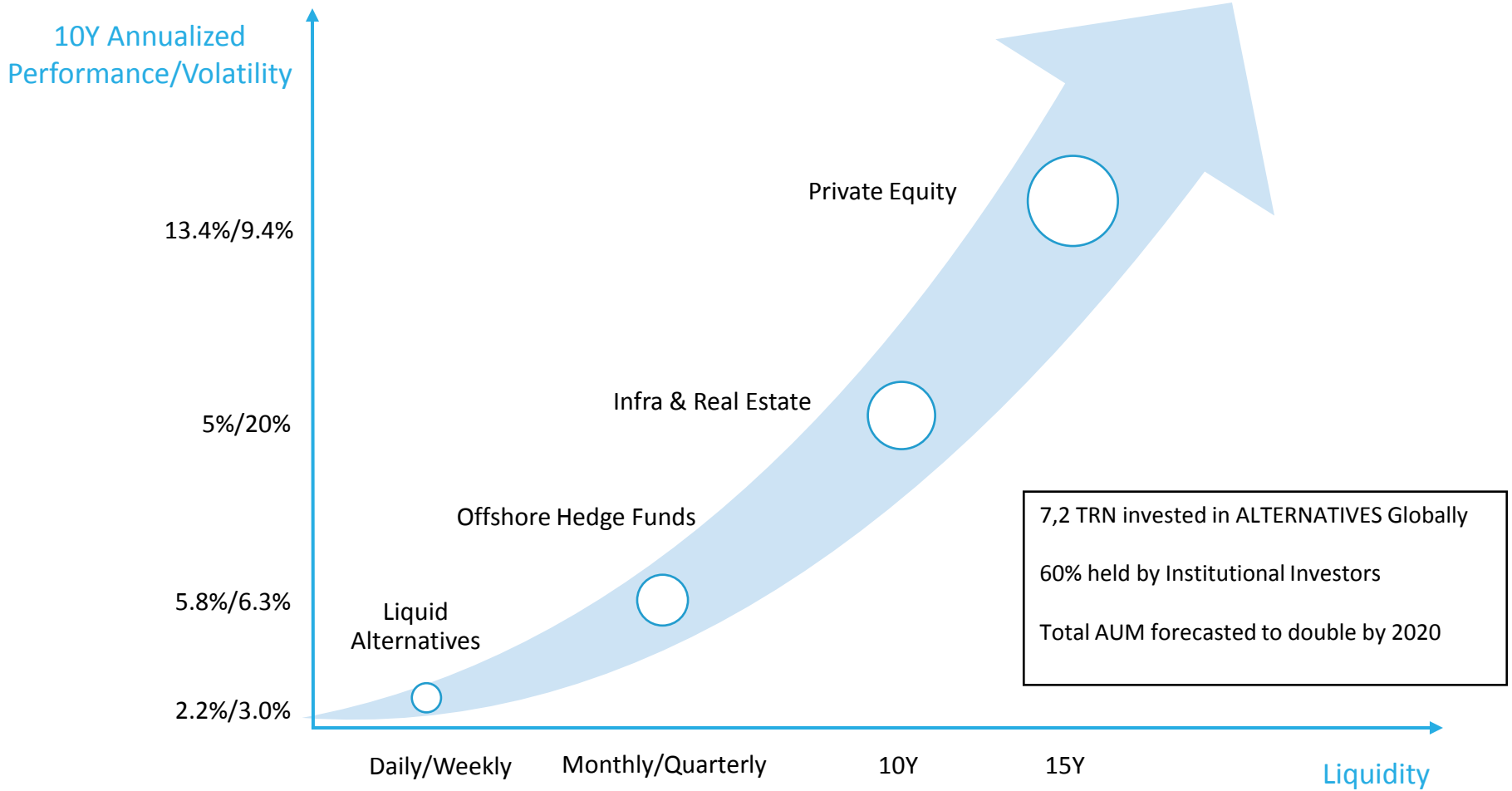
In a constantly evolving world the need to set-up a Partnership with a specialist provider in order to:

- Clearly defined objectives and set-up a solution-based rather than a product-based model
- Identify and access specific idiosyncratic opportunities
 - Access to niche markets with a tailor-made product
 - Knowledge transfer
- Favor strong alignment of interests
 - Delegation to the partner to negotiate the right price and with co-investment from the partner
 - Help pay the right price for Alpha
- To Allow profiling of the portfolio construction



Source: Barclays Strategic Consulting Analysis

II. How do alternative investments fit into a portfolio ?



Source: HFRU Hedge Fund Composite (starting in Feb 2008), HFRI Fund Weighted, US Pension Fund Benchmark for PE; DJ REITS & US Pension Fund benchmark

II. How do alternative investments fit into a portfolio ?

Allocation of strategies according to internal asset management model

- Diversified model
 - Multistrategy Fund of Hedge Funds will bring control volatility and must have tactical asset allocation skills
 - Multistrategy single manager will bring an access to sophisticated transactions
 - CTA for overlay and trends in a systematic risk management framework
- Segmentation by asset class blocks, strategy overlay
 - Long Short Equity and Event Driven with the equity bucket
 - Fixed Income and Distress specialists within the bonds and interest rates allocation

II. How do alternative investments fit into a portfolio ?

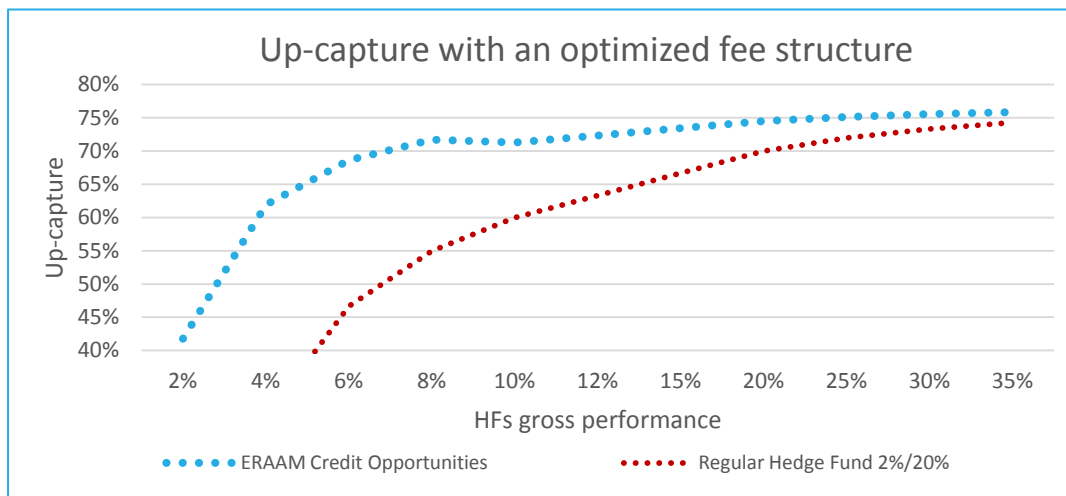
Client Theme	Asset Characteristic	HFs / Liquid	Private Equity	Illiquid Credit	Real Estate	Infra-structure
Income	Contracted cash flows			✓	✓	✓
Growth	High target returns	✓	✓	✓	✓	
Inflation Protection	Inflation-linked cash flows		✓		✓	✓
Diversify	Low correlation	✓	✓	✓	✓	✓
Reduce vol / tail risk	Low volatility	✓		✓	✓	✓

Source: BlackRock, from Towers Watson survey, DB survey, Citibank survey

II. How do alternative investments fit into a portfolio ?

Example of a partnership with an Endowment:

- ERAAM Credit Opportunities fund is a selection of European managers capitalizing on dislocation and recovery of the European debt market
 - Hybrid vehicle tailor-made for the investor needs
 - Co-investment in securities with underlying managers
 - Optimized fee structure
 - Knowledge sharing, and investment committee participation



Management fees: Min [0.5% ; 1.5% - underlying HF fees]

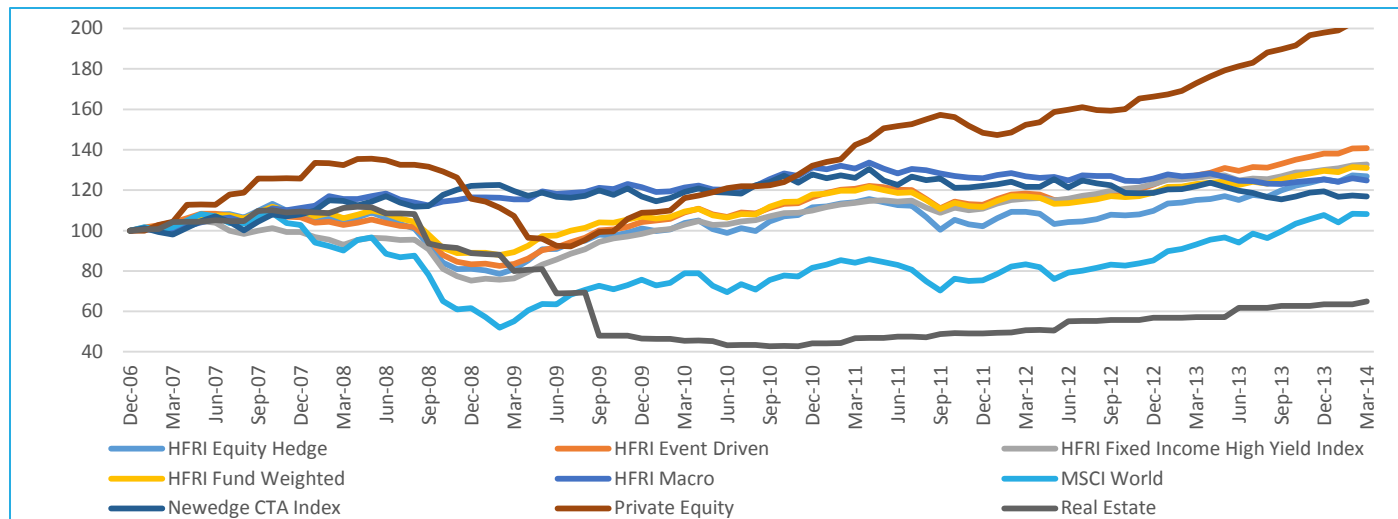
Performance fees: 10% above a 8% hurdle

III. Examining risks involved when investing in alternatives (1/2)

- Achieving Performance
 - Investing in liquid vehicles ('40 Act, UCITS...) limits the full exposure to Alpha components
 - On the opposite, with illiquid strategies Sharpe ratio is higher which compensate the lock-ups and the potential fat-tails
 - Vehicle from a monthly up to three year lock-up liquidity are the perfect match to get an attractive Sharpe ratio
- Capital preservation
 - High correlation of some strategies during market turmoil (equity, credit, macro...)
 - Liquidity crisis will exhibit same patterns with systemic stop losses and absence of marking to market of securities even more going forward
- ERAAM's risk point of view
 - Operational: Unjustified changes in service providers, location, etc.
 - Investment: Style drift and changes in key personnel
 - Risk budget driven by shareholders structure
 - Underperformance in absolute and relative terms

III. Examining risks involved when investing in alternatives (2/2)

Alternative Strategies From January 2007 to March 2014	Maximum drawdown	Time to recovery
HFRI Equity Hedge	-31%	24 m
HFRI Event Driven	-25%	14 m
HFRI Fixed Income High Yield Index	-28%	20 m
HFRI Fund Weighted	-21%	20 m
HFRI Macro	-8%	>=7 m
MSCI World	-52%	>=62 m
Newedge CTA Index	-12%	>=7 m
Private Equity	-32%	20 m
Real Estate	-62%	>=41 m



IV. What alternative asset classes will have the greatest returns in the upcoming year ? (2/2)

Strategy	ERAAM's Selection H1 YTD	Eurohedge Indices H1 YTD	Expected 2014 Scenario 1	Expected 2014 Scenario 2	Expected 2014 Scenario 3
Event Driven	4.6%	3.3%	7.2%	13.4%	-4.8%
Fixed Income	7.1%	3.6%	12.1%	15.1%	1.9%
Global Macro	7.6%	-0.7%	9.0%	12.5%	6.3%
Long Short Equity	4.3%	1.9%	7.2%	11.6%	0.5%
Long Only	8.4%	2.9%	8%	13.8%	-10%

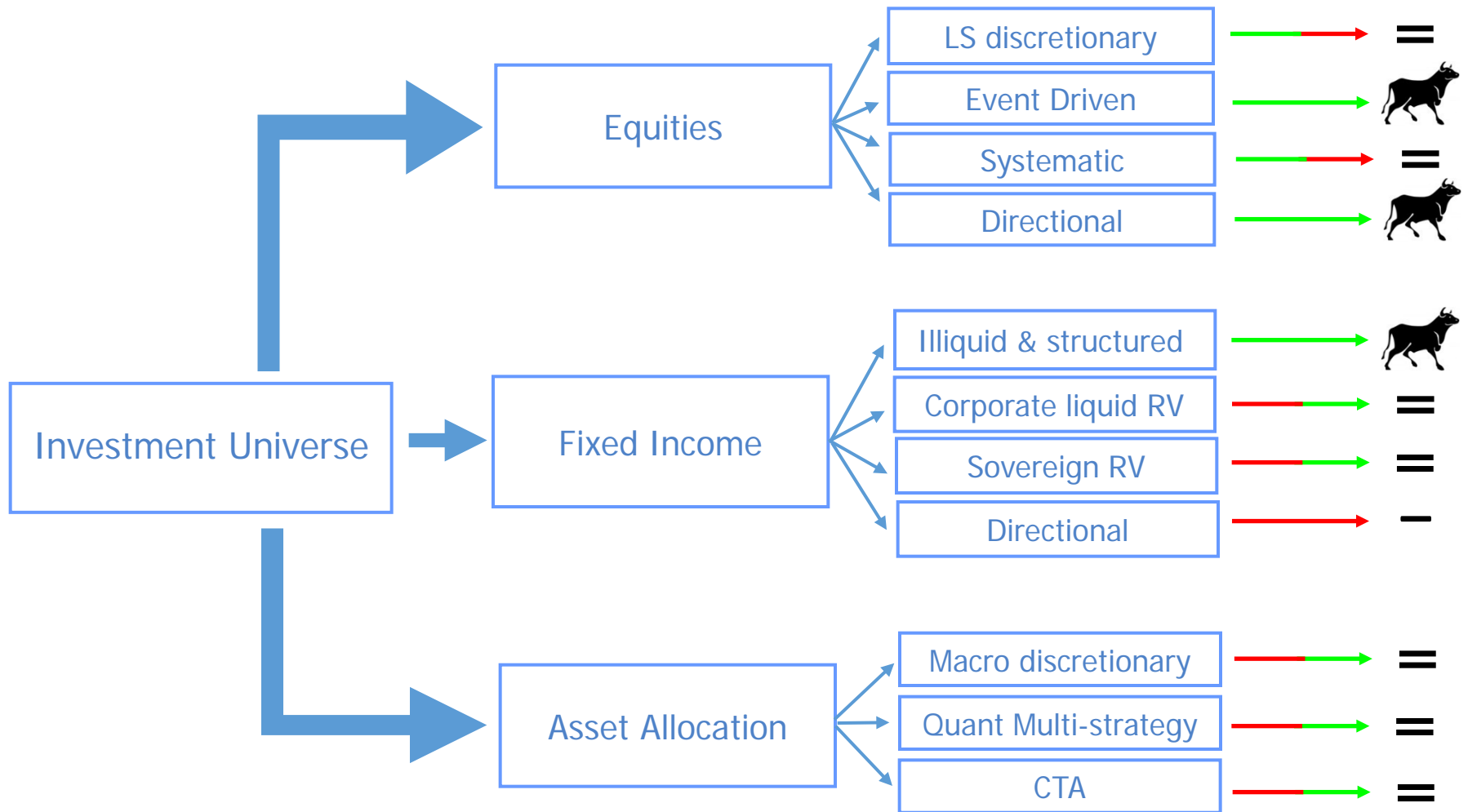
ERAAM Macro Scenarios for 2014 / 2015

- 1. Base case (80%*):** Modest growth and low inflation (but no deflation), stimulative monetary policy, Europe is bottoming out, ECB starting a QE program
- 2. Best case (10%*):** Global growth surprises on the upside, Periphery accelerates recovery and overshoots market expectations, EU coordinates a budgetary stimulus
- 3. Worst case (10%*):** Financial stability threatened by Central Banks policies, particularly the FED's hiking, Leading to a massive sell-off in rates, with negative impact on EM, slowing down growth recovery especially in the US and triggering a sell-off in risky assets

Event Driven Index: Average of EuroHedge Event Driven EUR / USD; Long Only Index: MSCI Europe; LS Equity Index: Average of EuroHedge European Equity EUR/USD Index; Global Macro Index: Average of EuroHedge Macro EUR/USD; Fixed Income Index: Average of EuroHedge Fixed Income EUR Index and EuroHedge Credit EUR Index

** Updated in sept 2014*

IV. What alternative asset classes will have the greatest returns in the coming year ? (1/2)



Contacts & Disclaimer

ERAAM

6 rue Paul Baudry 75008 Paris, France

www.eraam.com contact@eraam.com

Tel.: +33 (0) 1 53 43 20 80

- This document is intended solely for publication and distribution to the recipient and may not be passed on or disclosed to any other person. This document is for information only and is not an offer to sell or an invitation to buy shares in ERAAM or in any funds presented herein. In particular, it does not constitute an offer or solicitation in any jurisdiction where it is unlawful or where the person making the offer or solicitation is not qualified to do so or the recipient may not lawfully receive any such offer or solicitation. It is the responsibility of any person in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of relevant jurisdictions.
- The information and any opinions contained herein have been obtained from or are based on sources which are believed to be reliable, but the accuracy cannot be guaranteed. No responsibility can be accepted for any consequential loss from this information. Prospective investors should review the ERAAM's prospectus before making an investment decision and should rely only on the information contained in the prospectus. Prospective investors should also inform themselves, and should take appropriate advice, on the legal requirements and as to the possible tax consequences, foreign exchange restrictions or exchange control requirements that they may encounter under the laws of the countries of their citizenship, residence or domicile and that may be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments.
- The value of investments and income derived there from can decrease as well as increase (this may be partly due to exchange rate fluctuations in investments that have an exposure to currencies other than the base currency of the fund). Performance numbers shown are records of past performance and as such do not guarantee future performance.