

What does investing in alternatives mean for living annuitants?

By Suvira Bodha, Co-head of Alternatives Capability

Alternatives add some very beneficial characteristics to a portfolio, making them valuable assets in portfolio construction. One such characteristic is the ability to act as a source of uncorrelated returns, thereby improving on diversification. The Glacier Invest Real Income Solutions provide exposure to alternatives through investment in hedge funds as well as private market funds.

Listed alternatives: Hedge funds

The philosophy behind hedge fund investing is essentially to minimise capital loss and maximise investor returns. In practice, we identify skillful hedge fund managers whose return signature aims to protect capital when the market performs poorly and grow capital as much as possible when the market performs strongly. This *asymmetric* return profile of hedge funds is what benefits the Glacier Invest Real Income Solutions, as it acts as a return stabiliser.

Unlisted alternatives: Private markets

Sanlam Multi Manager International has had exposure to private markets for years and has come to understand the nuances of investing in them. Although these funds can offer very attractive returns, skill is rare and therefore we apply caution and in-depth research to identify the right opportunities at the right time.

Private investment funds aim to produce superior returns by:

- Investing along the capital structure of a private company, thus allowing them to access opportunities that listed investment managers cannot;
- Taking advantage of informational gaps that exist in certain industries since they get to actively improve the processes of the companies they invest in;
- Offering a means of monetising the growth of the private sector;
- Commanding favourable investment terms;
- Being able to act more rapidly when problems arise in the company that may put their

investment at risk, while listed managers don't usually have limited influence over the management teams of listed entities;

- Not being hampered by the need to meet targeted returns on a year-on-year basis as traditional collective investment scheme (CIS) funds do - they aim to maximise the final return and manage the investment to meet that target over the long term.

Defining the universe

When considering the universe of funds available for investment, a rigorous process is followed to identify skill. As on the long-only side, we search for managers with a well-defined investment philosophy, a thorough valuation process, as well as a strong track record demonstrating their skill.

Good private market fund managers tend to be highly specialised and experienced individuals who have spent many years in capital structuring before becoming fund managers. Unlike in the long-only world where skilful managers sometimes produce low returns if their style is not being rewarded, in the private market space, managers who have outperformed in the past tend to outperform in the future as well. They have the opportunity to learn quickly which behaviours and decisions lead to good outcomes, and repeat those. Furthermore, funds that have outperformed in the past tend to attract good investment opportunities going forward, which strengthens their deal pipeline.

Conclusion

The aim of the Glacier Invest Real Income Solutions remains finding the best investment strategies to ensure that a living annuitant can confidently draw an income throughout retirement without having to be concerned about running out of money. Exposure to private markets can provide superior, inflation-protected returns that are uncorrelated to the listed markets, rendering them of great benefit to investors in these solutions.

Our investment strategy is specifically aimed at providing attractive, consistent returns over time. Our portfolio of private market funds will therefore continue to evolve to ensure we take full advantage of the unique characteristics of private market investing, such as access to diversified sources of alpha, the potential for consistent and asymmetric returns, and the deliberate unlocking of illiquidity premium.

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Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 |
Web www.glacier.co.za | Reg No 1999/025360/07
Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services
Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07
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Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
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