bfinance

Quarterly Analysis

Manager Intelligence and Market Trends

February 2021

Contents

bfinance is an award-winning specialist consultant that provides investment implementation advice to pension funds and other institutional investors around the globe. Founded in 1999, the London-headquartered firm has conducted engagements for more than 370 clients in 38 countries and now has eight offices in seven countries. Services include manager search and selection, fee analysis, performance monitoring, risk analytics and other portfolio solutions. With customised processes tailored to each individual client, the firm seeks to empower investors with the resources and information to take key decisions. The team is drawn from portfolio management, research, consultancy and academia, combining deep sector-specific expertise with global perspective.

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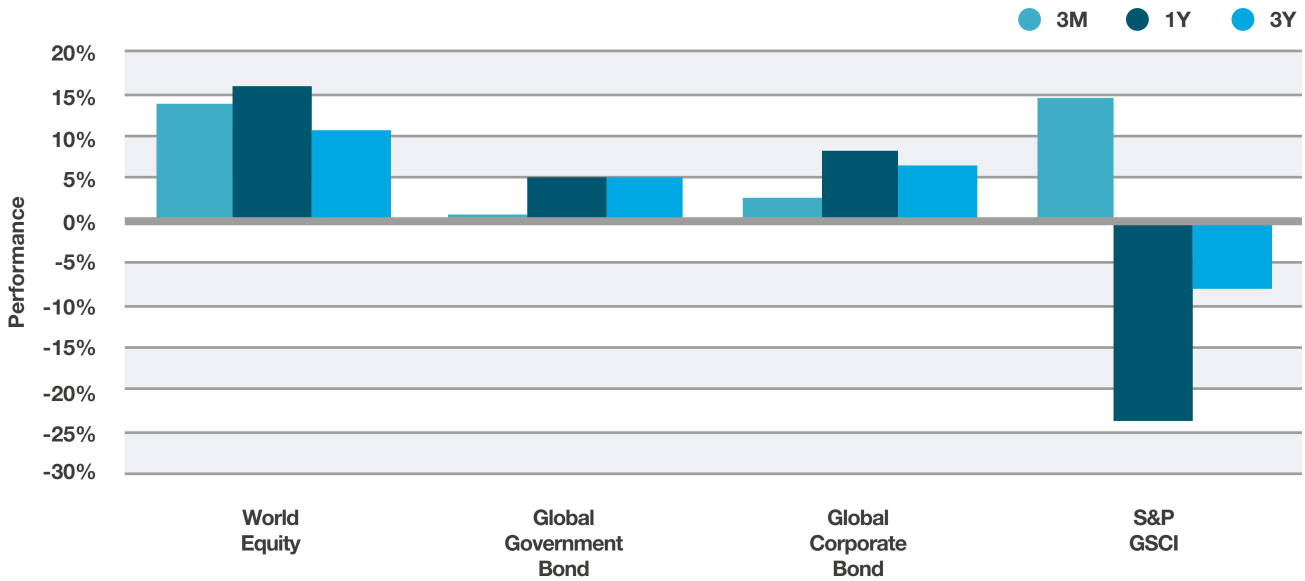
At a glance...

- As vaccine announcements lifted global markets, multi-asset managers increased their risk-asset positioning substantially. At the end of Q4, average equity exposure sat more than 4% above the long-term average.
- With investors reorienting their portfolios to adapt to pandemic disruption and the lower-for-even-longer rate environment, the number of new manager searches for bfinance clients rose by 34% versus 2019, while the volume of searches rose by 61%.
- The increase in private markets search activity was particularly significant – rising from 41% to 51% of all new manager selection engagements. Yet industry-wide fundraising statistics for private markets told a different story, with a 20% year-on-year decline in capital entering closed-end funds.
- The positive news of late-2020 catalysed a major factor rotation, including a long-overdue spell of outperformance for Value Equities. In Global Equities, asset managers with this style clawed back some of their relative underperformance through the year. Low-Volatility strategies ended the year with the weakest results in this asset class, trailing the MSCI World Index by 14% on average.
- The upturn in sentiment left high-yield bond managers struggling to keep pace with index returns due to their strategies' relatively low (opportunistic) exposure to CCC and lower-rated bonds. The same dynamics, however, boosted relative returns for investment-grade credit strategies.

PERFORMANCE OF PUBLIC MARKETS TO DECEMBER 31, 2020



Source: bfinance/Bloomberg

Risk snapshots

Managers load up on risk assets amid vaccine fervour

Source: bfinance (see page 5)

Risk snapshots continued

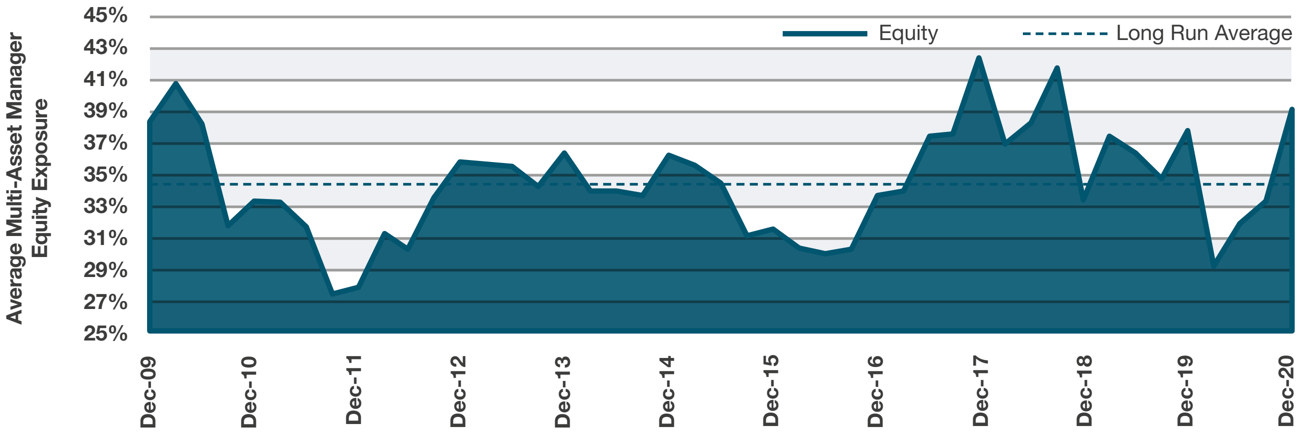
Risk aversion

The fourth quarter of 2020 will be remembered for the array of Covid-19 vaccine announcements that boosted market sentiment, rewarding risk-on positioning through November and early December.

The shift is evident in the bfinance Risk Aversion Index, which is driven by a range of indicators, including implied volatilities, gold prices, CDX and others. This index dropped substantially to end the quarter below 0.6 – still higher than the ten-year average.

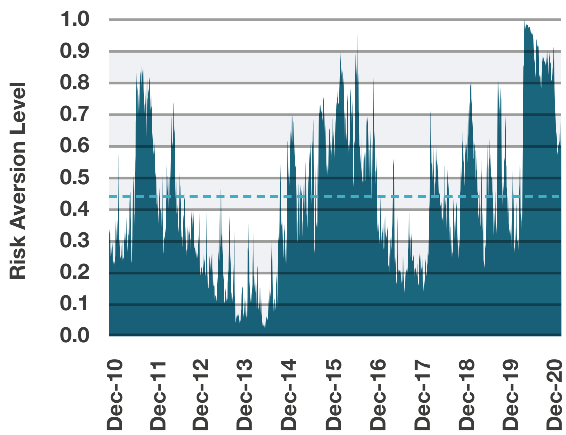
Multi-asset managers moved to increase their risk-asset positioning still further, continuing the trend of Q2-3 when massive fiscal spending and yield-curve-controlling monetary policy encouraged larger equity holdings. At the end of Q4, average equity exposure of multi-asset managers tracked by this barometer sat at 39% – more than 4% above the long-term average.

MARKET POSITIONING OF MULTI-ASSET FUNDS



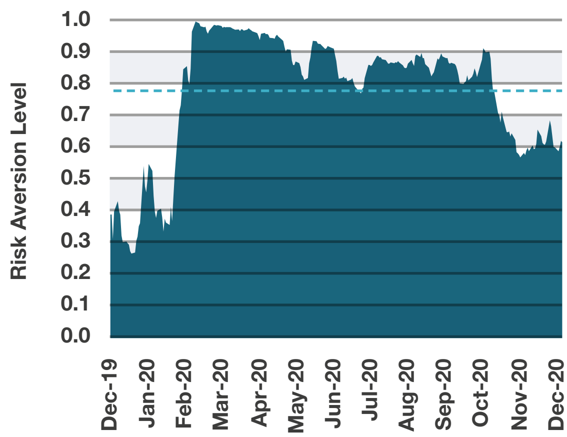
Source: bfinance. This graph shows the current and average exposure to equities held by a range of multi-asset managers. This is based on proprietary analysis performed by bfinance. The managers analysed vary in strategy from macro and GTAA through to bottom-up allocation strategies.

THE BFINANCE RISK AVERSION INDEX: 10-YEAR VIEW



Source: bfinance/Bloomberg

THE BFINANCE RISK AVERSION INDEX: 1 YEAR VIEW



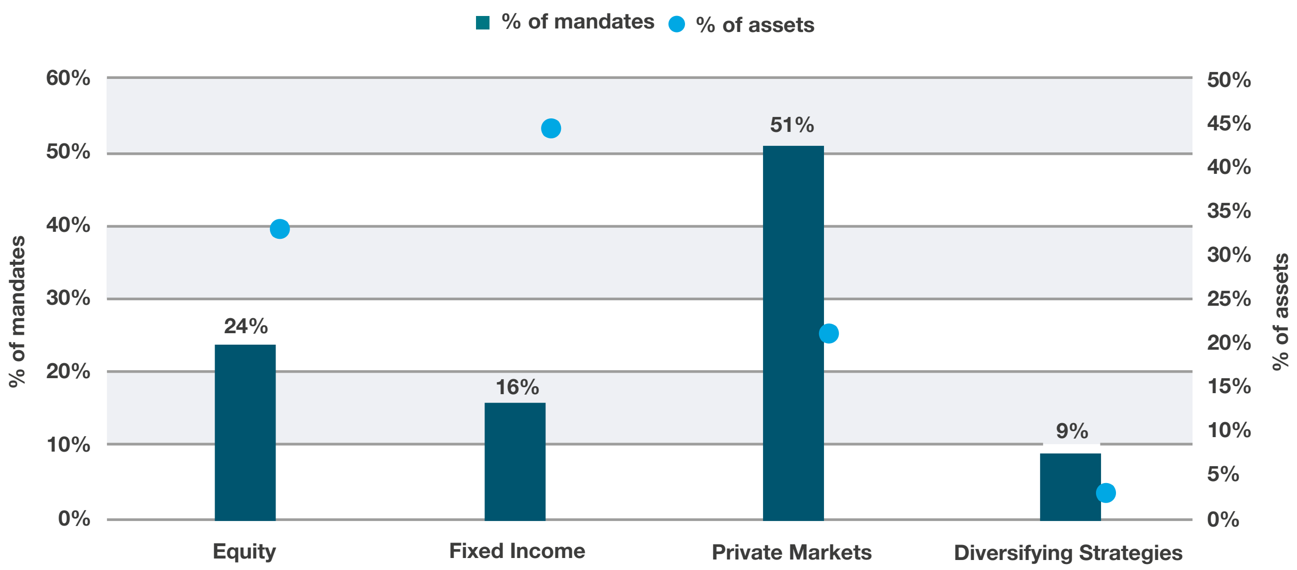
Source: bfinance/Bloomberg

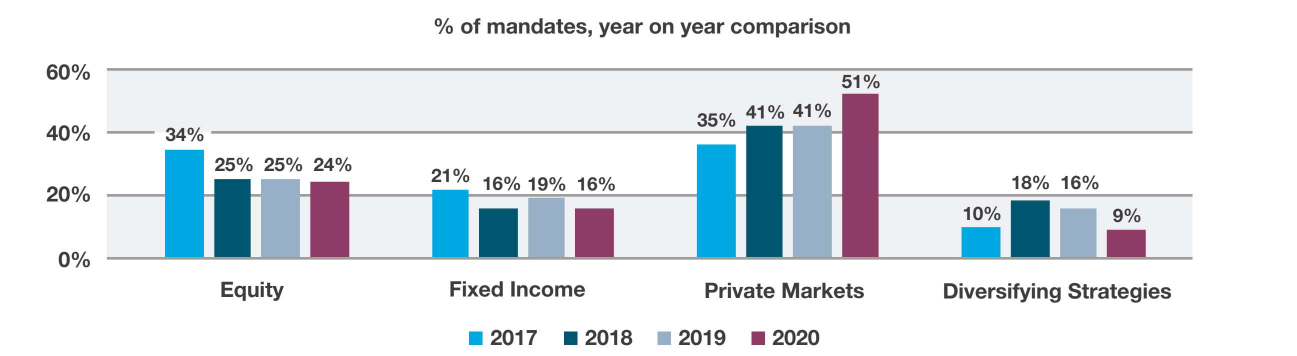
The bfinance risk aversion index is a proprietary measure we use to calculate how risk seeking (nearer zero) or risk averse (nearer 1) the market consensus is. It ranges between 0 and 1. The internal algorithms used incorporate indicators of market expectations of future volatility (e.g. implied volatilities in equities and FX), the level of classic safe haven investments (gold) and market expectations of corporate default (e.g. CDX).

Investor activity

Asset owners reposition portfolios, driving 34% YoY rise in search activity

NEW MANAGER SEARCHES, 12 MONTHS TO DECEMBER 31, 2020 (BY ASSET CLASS)





Note: these figures only represent projects initiated within the specified periods and do not include pre-existing client engagements that continued during the year.

Investor activity continued

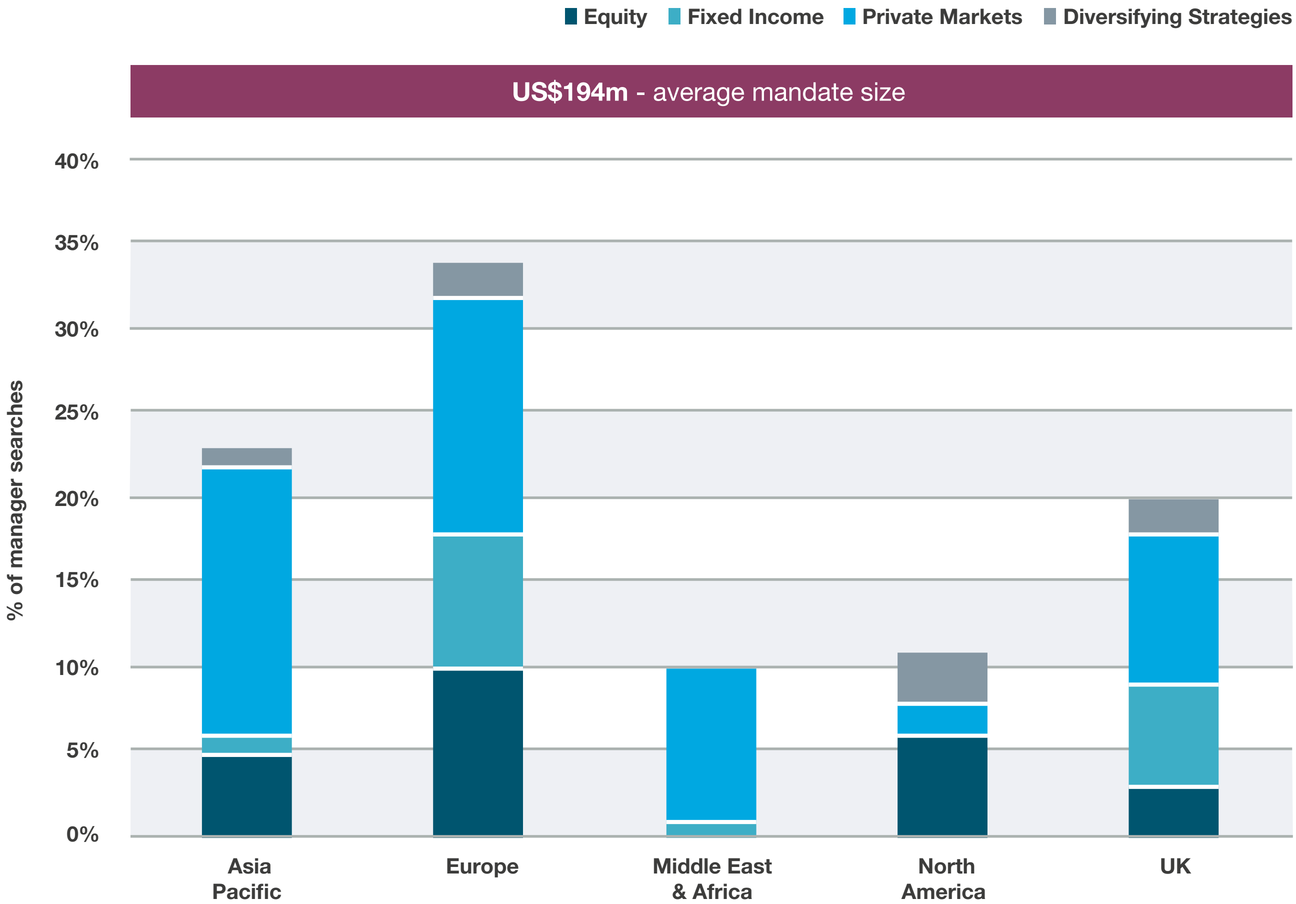
While 2020 brought some notable year-on-year shifts in the distribution of new mandates from bfinance clients (illustrated on the previous page), these percentages should be viewed in the context of a significant increase in manager selection activity. The number of new searches rose by 34% versus 2019, while the volume of searches rose by 61% and the average mandate size increased by 18%. Pension funds and other investors have reoriented their portfolios to adapt to pandemic disruption and a lower-for-even-longer interest rate climate.

The increase in private markets search activity was particularly significant – rising from 41% to 51% of all new manager selection engagements.

This surge was offset by a modest decline in the proportion of searches targeting public markets and a more substantial fall the proportion seeking diversifying strategies.

Within these high-level asset class groupings we see reduced appetite for strategies such as Investment Grade Credit, Emerging Market Equities, Real Estate and Multi Asset, offset by higher demand for High-Yield Debt, Multi-Sector Fixed Income, China Equities, Global Equities, and Private Debt. Looking ahead we now see investors questioning exposure in areas such as Low Volatility Equities – a popular segment ahead of recent performance disappointment.

NEW MANAGER SEARCHES (BY INVESTOR LOCATION)

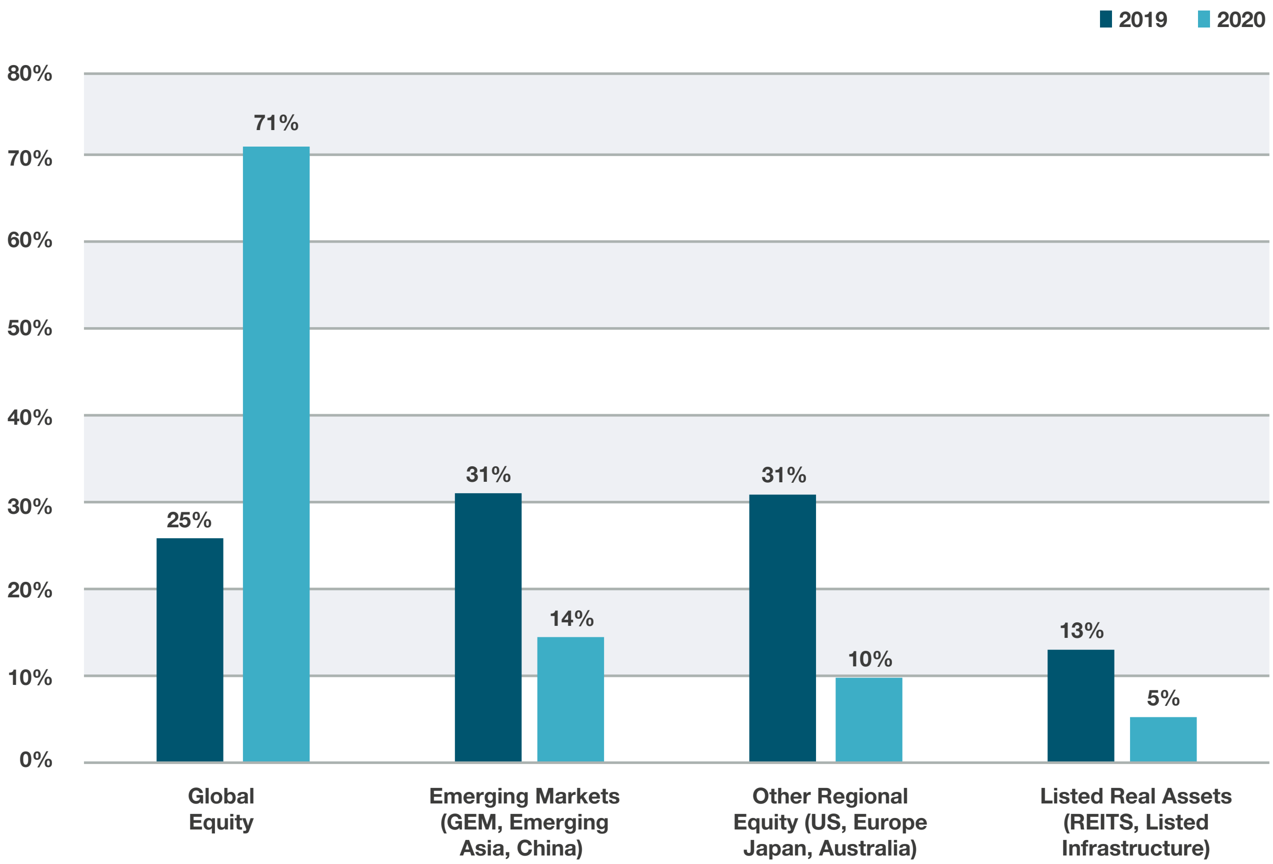


Note: these figures only represent projects initiated during the 2020 calendar year and do not include pre-existing client engagements that continued during the year.

Equity

Value managers receive some respite while investors re-evaluate low-vol exposure

NEW EQUITY MANAGER SEARCHES, YEAR ON YEAR



Note: these figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Equity continued

Investor trends

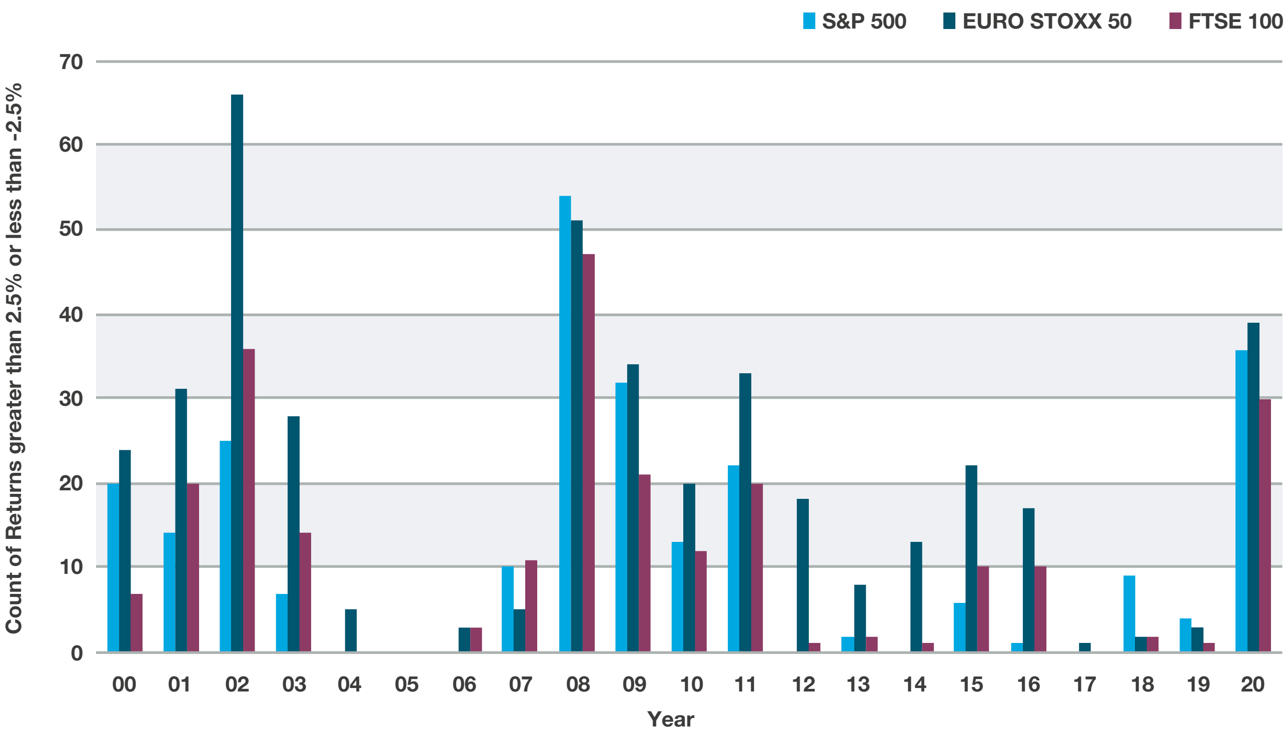
2020 saw investors reevaluating and reshaping global equity portfolios. A decline in regional/country-specific mandates was offset by a substantial rise in global equity manager searches – this group comprised 71% of new equity searches handled for bfinance clients in 2020, up from 24% in 2019.

Within global equities, search activity in 2020 was primarily focused on mandates offering a core or defensive undertone, with the quality style proving particularly popular. The second half of the year brought about some renewed demand for value, although we observed a focus on what could be described as quality value rather than deep value. In a clear sign of the growing importance of ESG to asset owners, every search we conducted in the global equity space during the year included specific ESG-related requirements.

Demand for active emerging market equity manager searches has declined and the majority of the firm's activity in this space has involved manager replacements or portfolio restructurings rather than new money entering the asset class. The key exception here has been **China**, with investors exploring allocations to A-Shares or All-Shares strategies.

Recent months have seen investors starting to question the role and relevance of **low-volatility** strategies in portfolios, marking a considerable shift given the popularity of this space through recent years. This trend is driven by evident frustrations around 2020 performance – disappointing on the way down in Q1, and unsurprisingly weak on the way up. Yet we caution against broad judgements here: low-volatility strategies have delivered very diverse results.

NUMBER OF TAIL EVENTS



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Equity continued

Market snapshot

Global equity markets surged higher in Q4 with the MSCI World returning +14.0% in USD terms. This spike meant the index ended a tumultuous 2020 with double-digit returns of +15.9% over the calendar year. News of viable Covid-19 vaccines and swift government approvals drove market activity, particularly in more economically exposed sectors, prompting a brief value style reversal.

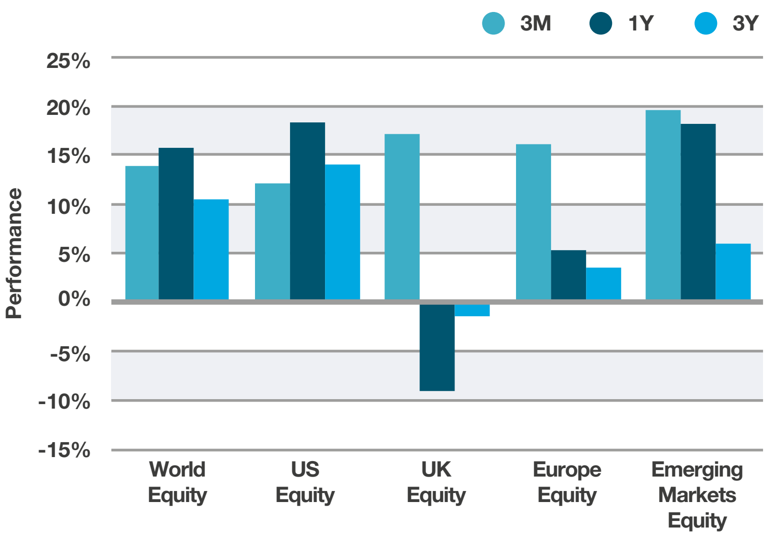
Although many countries tightened travel restrictions and imposed new lockdowns as coronavirus infection rates climbed, governments remained committed to extending financial aid – and that assurance underpinned positive market sentiment. Support measures included ground-breaking stimulus and aid packages worth US$900 billion apiece agreed by the EU and US in December.

Emerging markets performed strongly during Q4, supported by a weaker dollar, with the MSCI Emerging Markets Index returning +19.7% in USD. This figure was the region's highest quarterly return in more than ten years.

Markets in the US and China performed well on a calendar-year basis but gains in both countries were relatively muted in Q4. Trade tensions between the two nations persist. In China, the launch of an antitrust investigation into Alibaba, the largest constituent of MSCI China, also created a drag on domestic returns (MSCI China +11.2%, USD).

Politically, Q4 was eventful: the US election and the last-minute Brexit deal between the UK and EU both helped to resolve long-running market uncertainty. In the now-independent UK, returns were strong in Q4 (MSCI UK +16.9% in USD), but insufficient to recover losses earlier in 2020 and the index finished the year down 10.5%.

EQUITY MARKET PERFORMANCE IN USD (TO DECEMBER 31, 2020)



	YTD USD	YTD LOCAL
World Equity	15.9%	13.5%
US Equity	18.4%	18.4%
UK Equity	-9.0%	-11.5%
Europe Equity	5.4%	-3.2%
Emerging Markets Equity	18.3%	19.1%

Indices Used
World Equity: MSCI World Index in USD and in Local Currency
US Equity: S&P 500
UK Equity: FTSE 100
Europe Equity: Euro Stoxx 50
Emerging Markets Equity: MSCI Emerging Markets Index in USD and in Local Currency

Equity continued

Manager watch

Within global developed equities, value strategies rebounded briskly in Q4. News of Covid-19 vaccine approvals in mid-November led to a sharp style rotation away from growth and quality-led styles that predominated in the first ten months of 2020. Active managers with a deep-value bias were the best-performing subset, outperforming the MSCI World Index by an average of 16.0%. Even that outstanding result was insufficient to recover from previous losses, however, and deep-value ended the year trailing the index by 11.3%. Almost all other styles underperformed during the fourth quarter, though most showed healthy gains for the full year 2020 (e.g., high-growth strategies delivered +44.6%; quality growth strategies rose by +11.4%). Low volatility experienced a torrid Q4 as cheaper, previously out-of-favour, higher volatility stocks rebounded. The low-volatility style was the worst-performing among active managers for the full year, however, lagging the MSCI World Index by 14.4%.

Within emerging markets, patterns in style performance resembled those of developed markets, but were not as extreme. Managers with a strong value bias were the best performers in Q4, running ahead of the MSCI EM Index by more than 7%, but they were unable to recoup underperformance from the earlier part of the year. Most other styles outperformed in the fourth quarter, which could be attributed to slower vaccine rollout in the developing world impacting the timeline to a full economic recovery (or return to normality). Low volatility was by far the worst performing style in Q4, down 8.1% versus the index, extending its underperformance for the full year to nearly 18%.

MANAGER PERFORMANCE (TO DECEMBER 2020)

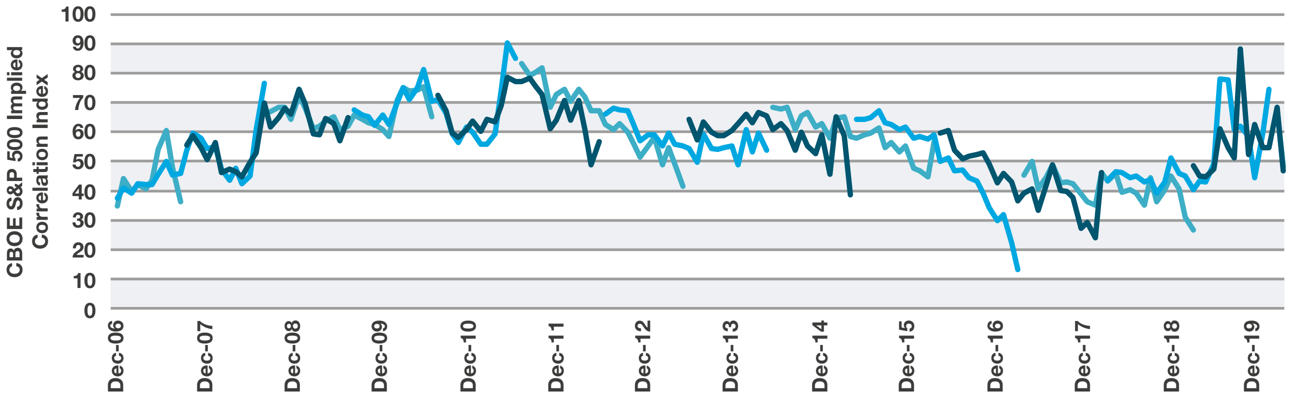
	3m	1Y	3Y (p.a)	5Y (p.a)
Global Equity Composite*	**14.9%**	**19.7%**	**12.5%**	**14.1%**
MSCI World NR (USD)	14.0%	15.9%	10.5%	12.2%
MSCI ACWI NR (USD)	14.7%	16.3%	10.1%	12.3%
Outperformance vs MSCI World	**0.9%**	**3.8%**	**2.0%**	**2.0%**
Outperformance vs MSCI ACWI	**0.2%**	**3.5%**	**2.5%**	**1.9%**
Global EM Composite*	**21.6%**	**20.3%**	**8.1%**	**14.1%**
MSCI EM NR (USD)	19.7%	18.3%	6.2%	12.8%
Outperformance	**1.9%**	**2.0%**	**2.0%**	**1.3%**

Source: bfinance/Bloomberg

* The Global Equity Manager and Global EM Manager composites show the performance of a sensible and representative sample of managers that invest in global equities and global emerging markets equities respectively. We use these composites as a proxy for how managers in the space are performing relative to their benchmarks. They do not represent manager recommendations.

Equity continued

CORRELATIONS BETWEEN STOCKS



CBOE Indicies measures the implied correlation between stocks that make up the S&P 500 Index. The series measures the expected average correlation of price returns of S&P 500 Index components, implied through SPX option prices and prices of single-stock options on the 50 largest components of the SPX for different maturities.

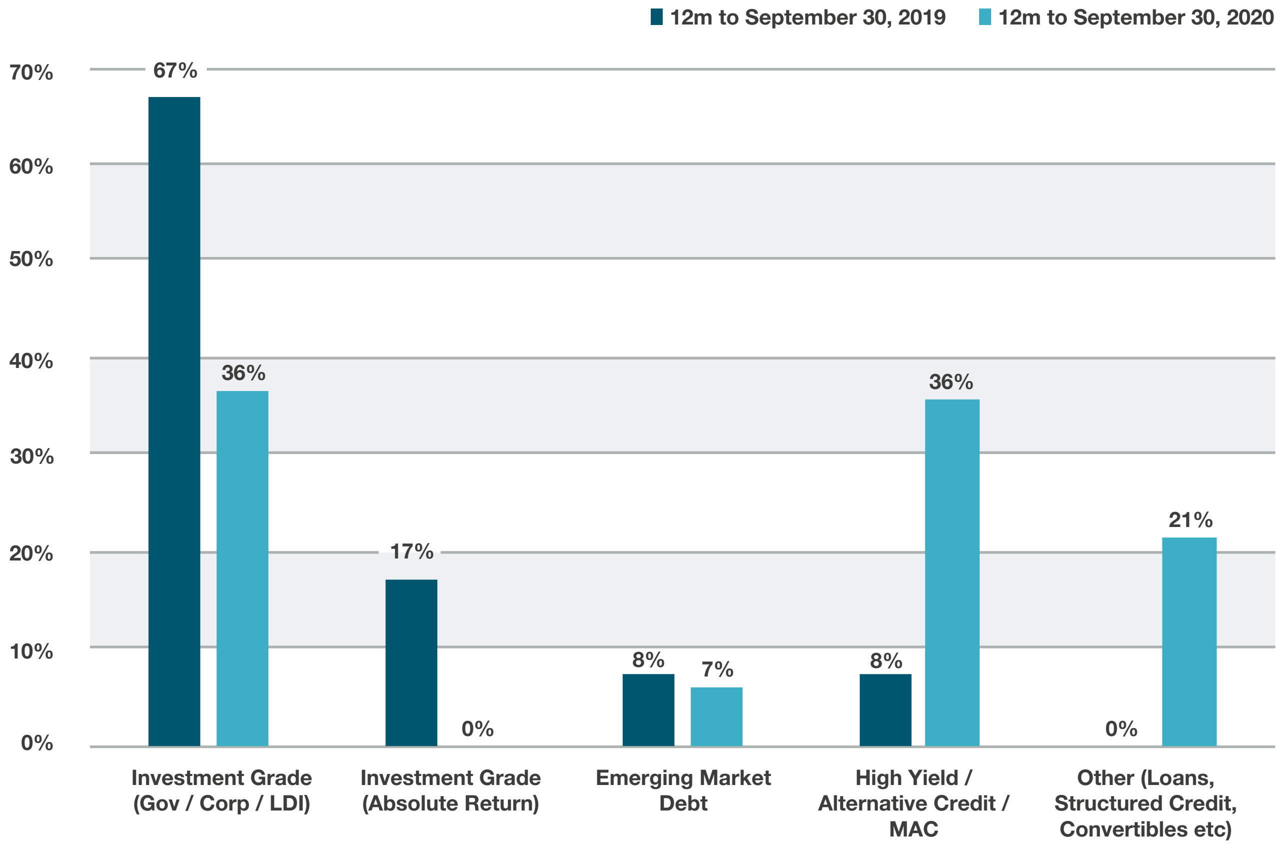
News from the equity manager world

- Paul Schofield and Jeremy Kent, managers of **Allianz**'s Global Sustainability Equity strategy, will depart the firm at the end of Q1 2021 to join **NN Investment Partners**.
- Mark Page, lead manager of the **Artemis** European Opportunities strategy, announces his retirement. Co-manager Laurent Millet takes on the lead manager role.
- **Aviva Investors** announces the departure of CEO Euan Munro, who leaves to join **Newton** as CEO.
- Lin Shi joins **Janus Henderson** as portfolio manager covering China strategies.
- **Newton** announces the departures of EM equity portfolio managers Robert Marshall-Lee and Sophia Whitbread. Marshall-Lee departed the firm after 20 years for **Odey Asset Management**, where he will lead a newly created GEM long-only team.
- **Newton** hires Paul Birchenough and Ian Smith from **AXA Framlington** to rebuild its EM equity resources.
- Crispin Odey steps back from **Odey Asset Management** as the firm announces plans to restructure and rebrand its fund range.
- **Polar Capital** acquires **Dalton Strategic Partnership**, adding several global and regional funds to its range.
- **Somerset Capital** expands its investment team with several hires including China portfolio manager Min Chen from Dymon Asia.
- Activist investor **Trian Fund Management** takes a circa 10% stake in both **Janus Henderson** and **Invesco**.

Fixed income

Investment grade credit managers recoup their losses relative to benchmark in risk-on shift

NEW FIXED INCOME SEARCHES, YEAR ON YEAR



Source: Bloomberg, JP Morgan. All data in USD. Contact bfinance for index queries.

Note: these figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Fixed income continued

Investor trends

Yield hunting is back, with a substantial pick up in investors' search activity for more aggressive strategies through the fourth quarter. Some asset owners have been waiting for the right window of opportunity to invest ever since spreads widened in Q1 2020, while others have been driven by falling interest rates. Investors have targeted traditional high-yield bonds, as well as multi-asset credit strategies which involve active management of sector allocation. Chinese bonds have also been in focus thanks to greater accessibility, low correlation with other sectors and the onshore market's relative resilience in the face of coronavirus turmoil.

Market snapshot

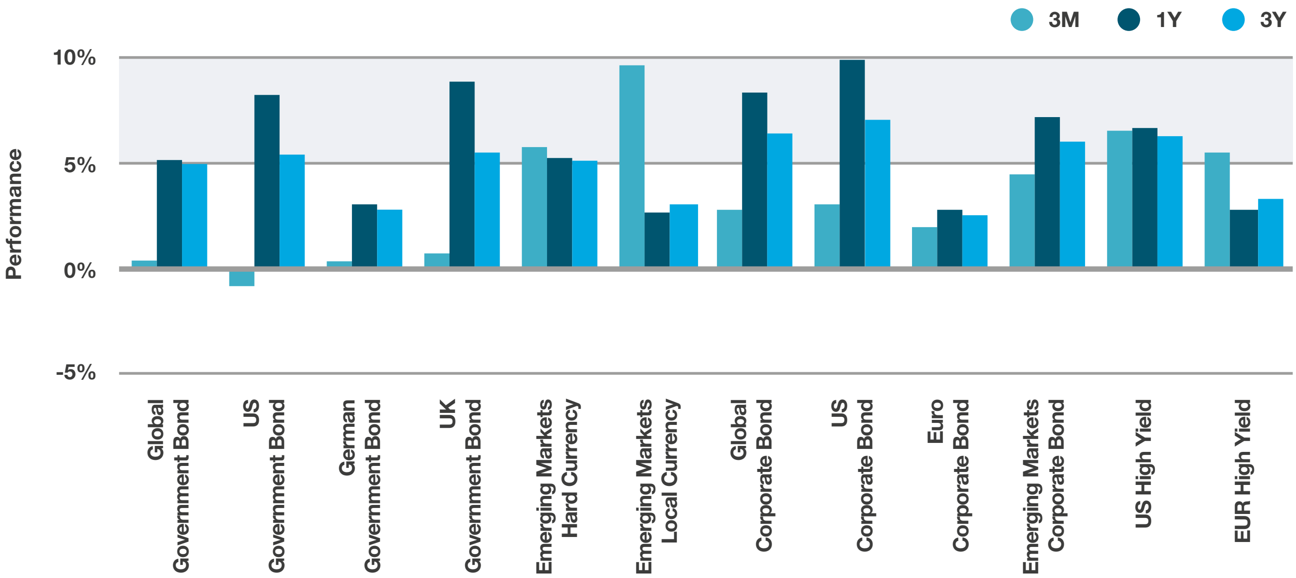
US investment grade bonds experienced a slow start to Q4 with AAA-A-rated debt pulling back as investors positioned themselves for the presidential election. Positive Covid-19 vaccine news helped to drive a risk-asset rally as BBB-rated bonds outperformed higher-rated issuers. The quarter brought a 2.99% return (+3.97% for BBB), with aggregate spreads tightening 41bps to 103bps – broadly the level seen at the end of 2019. New issuance subsided, having peaked in Q2-3 when companies raced to build liquidity buffers: 54 new bonds entered the index in Q4 (mostly single-A and BBB).

The quarter also brought a somewhat unexpected swathe of downgrades, with 18 issuers falling to high-yield status (versus just one in Europe).

European investment grade began in a similar fashion with modest returns in October followed by a mild uptick in November. The sector returned 1.95% in Q4, bringing full year 2020 returns to 2.59%; spreads tightened 25bps to 93bps (again similar to end-2019). As in the US, Q4 returns were led by BBB bonds (+2.51%), however, in contrast, full-year returns were driven by gains in AAA-rated debt. Issuance was down here as well, with only four new issuers added to the index.

US high yield bonds continued to post strong returns in Q4, up 6.48% with spreads tightening a remarkable 155bps to finish at 386bps over USTs – levels last seen in January 2020. All areas of the HY spectrum rallied with low-quality CCC bonds posting the highest gains (+12.19%). Positive vaccine news provided a particular boost to Airlines, while rebounding oil prices supported Oil & Gas and energy-related sectors. Dwindling new issuance towards year-end provided further technical support to the market, offsetting the impact of additional 'fallen angels'.

PERFORMANCE OF BOND MARKETS TO DECEMBER 31, 2020



Indices used: Barclays Global Aggregate Treasury (USD Hedged): BofA MLUS Treasury (USD Unhedged); BofA ML German Federal Government (EUR Unhedged); BofA ML UK Gilt (GBP Unhedged); JPM EMBI Global Div (USD Unhedged); JPM GBI-EM Global Div. (USD Unhedged); Barclays Global Aggregate Corporate (USD Hedged); Barclays US Aggregate Corporate (USD Unhedged); Barclays Pan-European Aggregate Corporate (EUR Unhedged); JPM CEMBI Broad Div (USD Unhedged); BofA ML US High Yield (USD Unhedged); BofA Merrill Lynch Euro High Yield (EUR Unhedged)

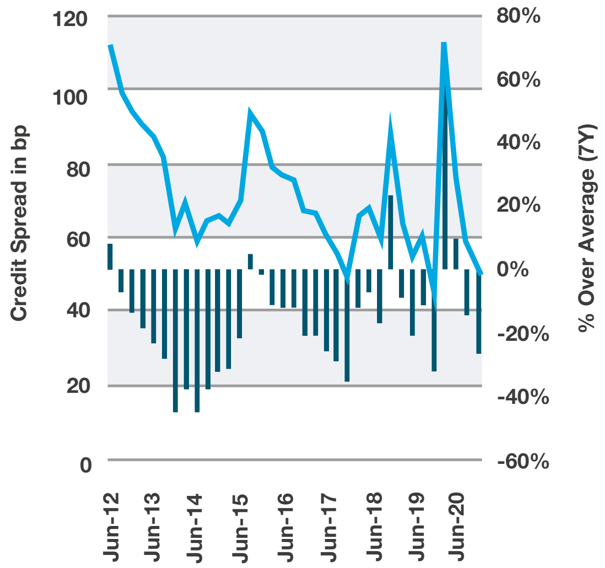
Fixed income continued

Market snapshot continued

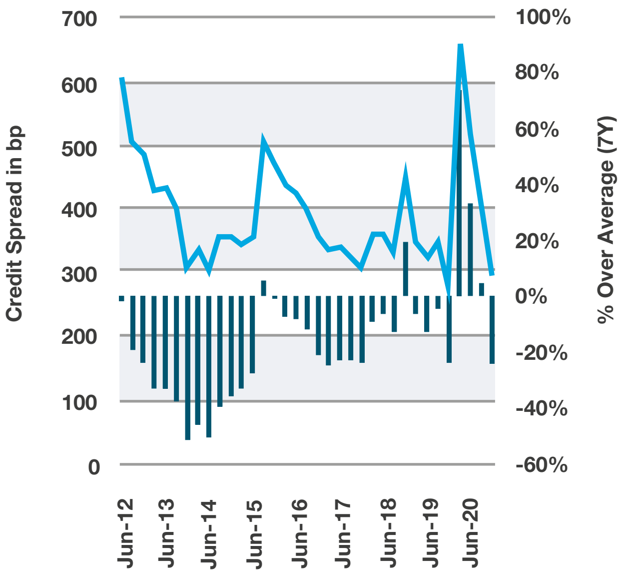
European high-yield bonds also had a strong quarter, albeit weaker than their US counterparts: the aggregate HY Index returned 5.46%, while spreads tightened 117bps to 355bps – levels last seen in February 2020. As in the US, European returns were led by CCC-rated debt (+9.47%) while Bs and BBs produced returns of 5.89% and 4.84% respectively. Airlines, Retail REITS and Leisure were some of the top performers. New issue supply (35 issues) was well absorbed by the market.

Hard Currency EM Debt produced strong results, up 5.80% in USD terms, with high-yield countries (+9.32%) outperforming investment grade (+2.96%) by a significant margin. The oil price rally supported commodity exporters (Angola, Ghana, Ivory Coast, Cameroon, Egypt). **EM Corporate Debt** followed the trend, posting a 4.29% return, led again by risk assets (+6.41% for high yield issuers). Sectors such as Pulp & Paper, Oil & Gas and Metals & Mining were among the strongest performers, with African and LatAm issuers leading from a regional perspective. Yet the standout performer of the EM universe in Q4 was **Local Currency EM Debt**, which gained 9.62% (unhedged, USD terms), bringing returns for the full year to 2.69%. LatAm and MEA (Middle East & Africa) sovereigns were the top performers, returning 12.99% and 21.31% respectively.

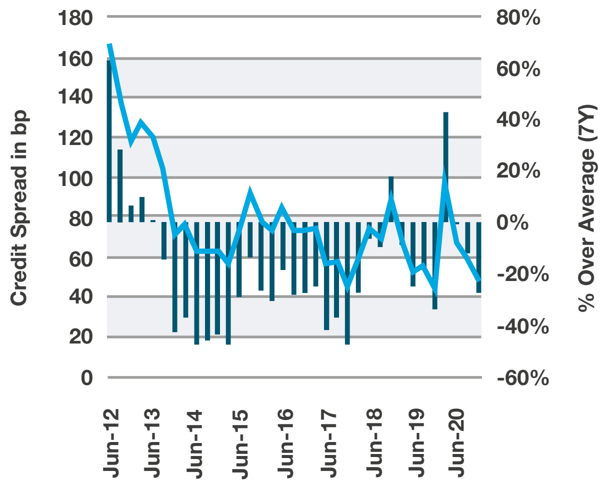
US IG CREDIT SPREAD CURRENT VS AVERAGE



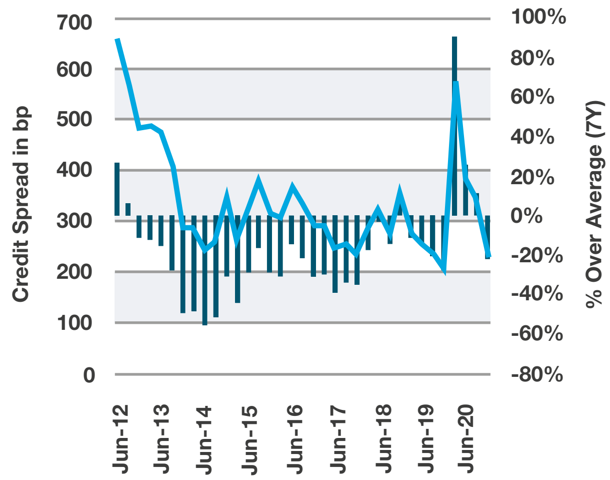
US HY CREDIT SPREAD CURRENT VS AVERAGE



EUROPEAN IG CREDIT SPREAD CURRENT VS AVERAGE



EUROPEAN HY CREDIT SPREAD CURRENT VS AVERAGE



Source: bfinance, Bloomberg.

Fixed income continued

Manager watch

Within the investment grade corporate bond universe, active managers posted a strong quarter with 85% of US managers and 87% of European managers outperforming the market. This enabled the median US manager to generate an outperformance of 1.33% (gross of fees) over the full year, retracing all losses incurred during the turbulent months of March and April.

High-yield bond managers had a more challenging time keeping pace with index returns over the fourth quarter, due in large part to the key driver of index returns coming from bonds rated in CCCs and below (an area most active managers allocated to on an opportunistic basis). Risk sentiment improved significantly during the month of November the strength of improving prospects for an electoral win by Joe Biden in the US as well as optimism surrounding vaccine developments. Some 66% of active managers outperformed their benchmarks within US High Yield, and 78% among European High Yield managers.

MANAGER PERFORMANCE (TO DECEMBER 31, 2020)

	3m	1Y	3Y (p.a)
US Investment Grade*	**3.46%**	**10.86%**	**7.46%**
Barclays US Corporate IG	3.05%	9.89%	7.06%
Outperformance	0.41%	0.97%	0.40%
Euro Investment Grade*	**2.57%**	**3.70%**	**3.20%**
Barclays Euro Corporate	1.98%	2.77%	2.54%
Outperformance	0.59%	0.93%	0.66%
US High Yield*	**6.15%**	**6.78%**	**6.14%**
BofA ML US High Yield Master II	6.48%	6.17%	5.89%
Outperformance	-0.33%	0.61%	0.26%
EUR High Yield *	**5.46%**	**3.28%**	**3.69%**
ML European Curr HY Constr. EUR Hedged	5.46%	2.76%	3.30%
Outperformance	0.00%	0.51%	0.39%
EMD – Hard Currency*	**7.38%**	**6.73%**	**5.21%**
JPM EMBI Global Diversified	5.80%	5.26%	5.05%
Outperformance	1.59%	1.47%	0.16%
EMD – Local Currency*	**10.72%**	**3.85%**	**3.18%**
JPM GBI-EM Global Diversified	9.62%	2.69%	3.01%
Outperformance	1.10%	1.15%	0.18%
EMD – Corporates*	**6.58%**	**8.78%**	**6.38%**
JPM CEMBI Broad Diversified	4.44%	7.13%	6.02%
Outperformance	2.15%	1.65%	0.36%

Source: bfinance/eVestment

The Fixed Income Manager peer groups show the average performance of a sensible and representative sample of managers. We use these peer groups as a proxy for how managers in the space are performing relative to their benchmarks. They do not represent manager recommendations.

Fixed income continued

Manager watch *continued*

Emerging market debt managers continued to build on positive momentum from the previous quarter, outperforming in the fourth quarter with 91% of all active managers beating their respective benchmarks in Hard Currency and a staggering 96% in EM corporate bonds. EM Local Currency managers also delivered solid outperformance, albeit lagging their hard currency counterparts with 88% of active Local Currency managers outperforming the market. This led to the median active manager across all EM disciplines beating their benchmarks on a full year basis.

Fixed income continued

News from the fixed income manager world

- Troy Ludgood moves to **BMO Global Asset Management** as Global Head of Fixed Income. He was previously in a part-time role as Senior Fixed Income Strategist at **Wells Fargo Asset Management**.

- Joseph Portera, **Invesco**'s Chief Investment Officer of High Yield and Multi-Sector Credit, announces that he will leave the firm at the end of the year. He has worked with **Invesco** for eight years and serves as a listed manager on the US$5.7 billion Invesco Core Plus Bond Fund.

- Robin Jenner joins **Mirabaud Asset Management** as a Credit Analyst. He previously worked for **MetLife Investments** as Head of EMEA Leveraged Loans Credit Research.

- **Mirabaud Group** appoints Andrew Lake as a limited partner effective 1 January 2021. Lake has been leading Mirabaud AM's Fixed Income teams since 2014 and is the lead manager of the group's flagship Global Strategic Bond Fund.

- **Morgan Stanley** enters into a definitive agreement to purchase **Eaton Vance** in a deal that will turn **Morgan Stanley Investment Management** into a US$1.2 trillion asset-management powerhouse.

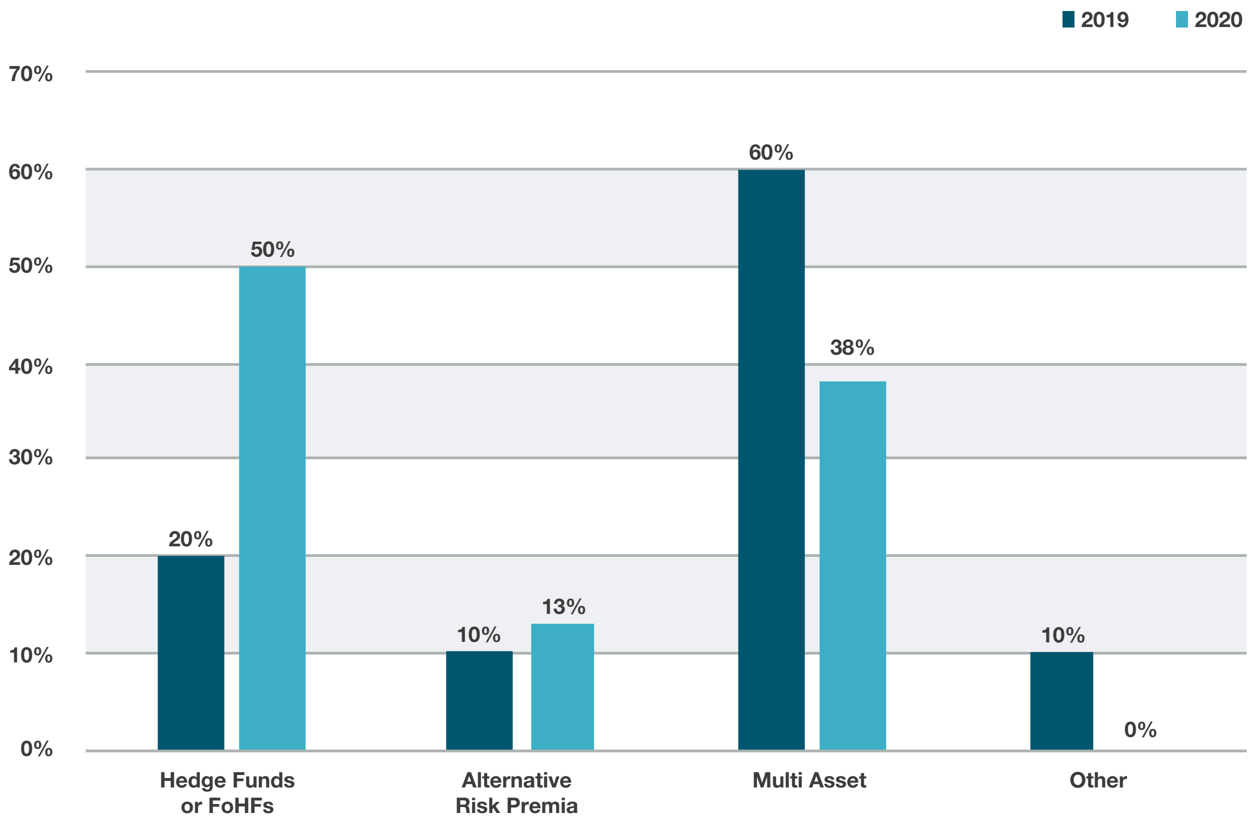
- Steve Logan moves to **PGIM Fixed Income** as a Portfolio Manager on the European Leveraged Finance team. Logan joins from **Aberdeen Standard Investments** where he was Head of European High Yield and Global Loans.

- **Pictet** hires Anton Kerkenezov as a Fund Manager focusing on Emerging Markets Debt. He previously worked for **Aviva Investors**.

Diversifying strategies

Directional strategies ride the risk-on wave

NEW 'DIVERSIFYING STRATEGIES' MANAGER SEARCHES, YEAR ON YEAR



Note: These figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Diversifying strategies continued

Investor trends

Although directional strategies have drawn the limelight in terms of performance in 2020, investor appetite is primarily directed towards more market-independent strategies with consistent, lower-volatility risk/return profiles and low sensitivity to traditional risk assets. Hedge fund manager selection activity revived in 2020 after a muted 2019. Many of these mandates were new allocations to the hedge fund space; only a few projects involved direct manager replacements following extended periods of poor performance. Overall, we note a general improvement in investor sentiment towards the hedge fund sector since the lows of mid-2020, when our *Asset Owner Survey* indicated higher-than-average levels of investor disappointment.

Manager watch

In line with broad risk asset movements, the vast majority of hedge fund and liquid alternative strategies delivered positive results in Q4 2020. The risk-on environment translated into positive performance for the more directionally-exposed managers within equities, as well as a benign environment generally for credit, commodities, and event-focused strategies. Overall, 2020 results for the hedge fund industry were solid despite many managers waiting until the last minute to either reinforce gains or squeeze into positive territory.

All our composites fared well, but the Event-Driven composite realized the biggest gains, rising 4.6% for the quarter and ending the year up 6.2%. Multi Asset and Equity L/S composites also produced solid returns, reflecting their more directional approaches. Alternative Risk Premia (ARP) posted the weakest performance of all the composites in Q4, but still rose into positive territory, capping off what has otherwise been a very disappointing year for these managers.

Looking through the **Equity Long/Short** composite, all Equity Long/Short sub-strategies posted gains for the quarter (and the year). Long-biased Equity Long/Short strategies led the way, adding a resounding +9.6% for the quarter (+14.6% for 2020) as these strategies capitalised on the rally sparked by the news about Covid-19 vaccine approvals. Small Cap Long/Short gained +8.3% for the quarter, with a similar return for the year; Variable Net managers posted a gain of +4.1% for the quarter and ended the year up +6.4%. In contrast, Low Net/Equity Market Neutral strategies had a more subdued quarter, adding just +0.7% and ending the year up +1.3%. By investment style, discretionary approaches significantly outperformed quantitative strategies for both the quarter and the full year.

In an environment that favoured risk-seeking exposures, the **Credit Long/Short** composite posted gains of +3.7% for Q4, taking full-year returns to +7.3%. Within the composite, all three sub-strategies delivered: Long-Biased Credit strategies were the most profitable, producing a return of +3.8% for Q4, taking returns for the full year to +7.3%..

MANAGER PERFORMANCE (TO DECEMBER 31, 2020)

	3m	1Y	3Y (p.a)
bfinance Equity Long/Short Composite	4.59%	6.17%	4.48%
bfinance Event Driven Composite	6.34%	3.51%	4.59%
bfinance Credit Long/Short Composite	3.65%	7.33%	4.77%
bfinance Macro & Trading Composite	3.25%	2.19%	2.59%
bfinance Alternative Risk Premia Composite	0.71%	-10.48%	-4.36%
bfinance Multi-Asset Composite	5.16%	5.22%	4.58%
bfinance Multi-Strategy Composite	3.42%	-0.38%	1.70%

The Hedge Fund Manager composites show the performance of a sensible and representative sample of each of the main hedge fund strategies. This is restricted to managers that genuinely pursue the relevant strategy rather than generating the majority of their returns from exposure to market direction alone. We use these composites as a proxy for how managers in the space are performing. They do not represent manager recommendations.

Source: bfinance

Diversifying strategies continued

Manager watch *continued*

Coming off a negative October, the **Macro & Trading** composite finished Q4 on a high note with gains in November and December pushing the strategy up by +3.3%. For many managers this so-called Santa rally either allowed them to consolidate modest gains or move into positive territory; the composite ended the year up 2.2%. Core Trend-Following managers delivered the strongest performance in Q4 with a +5.6% gain (+3.4% for the year). However, Discretionary Macro made the biggest leap: Although the composite only rose by +1.6% in Q4, it ended the year up +8.8%. Both Diversified CTAs and Systematic Macro managers recovered in Q4 (+3.1% and +2.9% respectively), but ultimately these returns were insufficient to move either strategy into positive territory for the year.

The **Multi-Strategy Hedge Fund** composite saw gains in November and December offset losses in October, leaving the composite up +3.4% for Q4. By sub-style, weakness in the composite was driven predominantly by Quant Multi-Strategy managers who posted returns of +2.4% for the quarter but suffered losses of -6.4% for the year following a difficult Q1. Both Discretionary Multi-Strategy (+5.7% for the quarter, +4.0% for the year) and Multi-Manager Multi-Strategy (+3.2% for the quarter, +4.3% for the year) fared better.

ARP strategies had a weak quarter, compounding what has been an ***annus horribilis*** for managers in the space. The ARP composite gained just 0.8% for the quarter as Academic ARP managers dropped by -0.4% and Practitioner ARP approaches gained +2.6%. On an annual basis all composites and sub-styles were materially negative; the overall composite declined -10.4% for 2020, with Academic ARP managers faring worse (-12.0%) than their Practitioner peers (-8.0%).

Finally, the **Multi Asset** composite posted a material gain of +5.2% for Q4 2020; that figure was the same for the full year. Gains here were greatest in November and largely equity-oriented on the strength of the vaccine-news rally. All sub-strategies saw gains for the quarter, with the more directional strategies posting larger profits. Risk Parity led the Multi Asset cohort in Q4 with gains of +6.5% (+5.0% for the year). Unconstrained Balanced and Diversified Growth both posted returns of +5.6% for the quarter with annual gains of +7.3% and +5.0% respectively. The least directional sub-strategy, Absolute Return Multi Asset, saw returns of +2.7% for the quarter and +2.5% for the year, which reflected its relative market-independent positioning.

Diversifying strategies continued

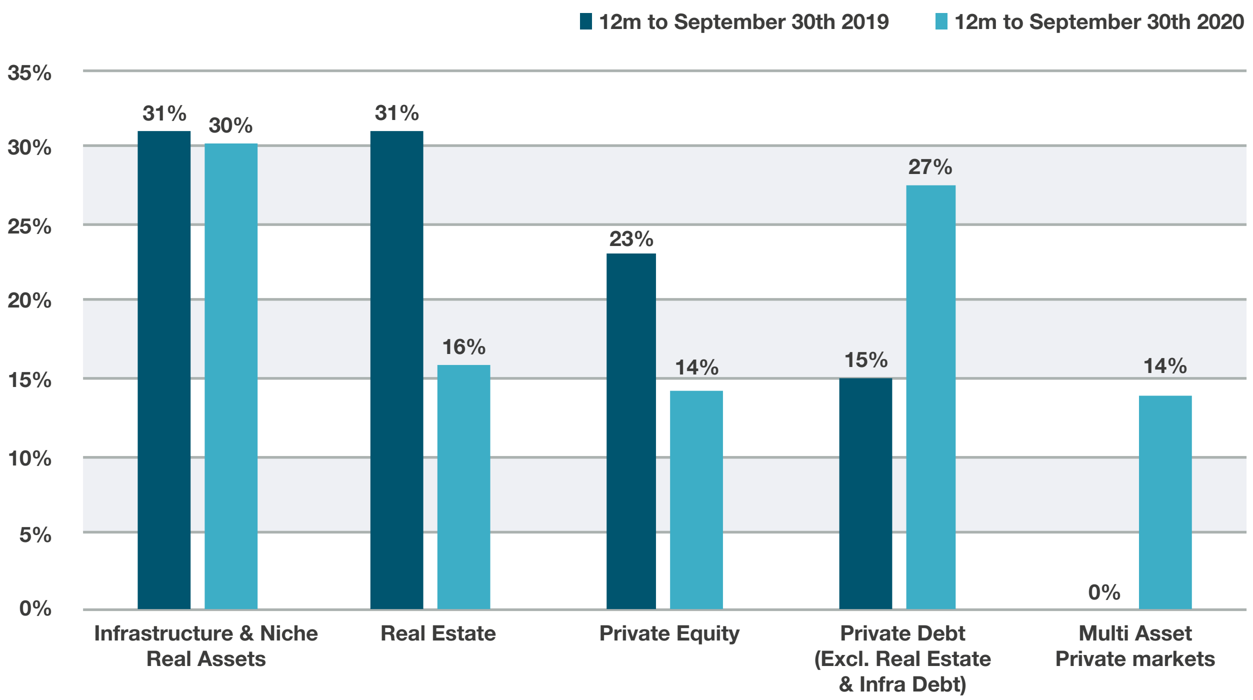
News from the alternative manager world

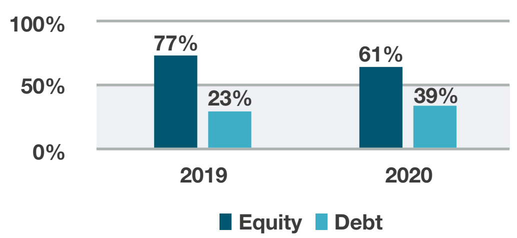
- **ADG Capital**'s CIO Vik Bansal departs the firm after just one year in the role. His predecessor Igor Yelnik begins trading a systematic macro strategy at his new firm **Alphidence Capital**.
- **Alma Capital** takes over the management of the InRIS alternative UCITS platform from **Rothschild & Co. Asset Management**.
- **Blackstone Credit** (formerly GSO) buys systematic credit manager **DCI** and its US$7.5 billion of assets.
- Systematic fixed-income manager **Bluecove** launches an Alternative Credit strategy on the Lumyna UCITS platform.
- **Eckhardt Trading** launches a UCITS version of its short-term CTA strategy on the **Investcorp-Targes** platform.
- Boutique alternatives manager **One River Asset Management** sells a 25% equity stake to **Brevan Howard** in October.
- **Owl Rock Capital**, a direct-lending manager, and **Dyal Capital Partners**, a division of **Neuberger Berman** that takes minority stakes in alternative investment managers, announce their intention to merge and go public via a SPAC.
- **Walter Global Asset Management** acquires a minority stake in the US$11 billion French alternative asset manager **LFIS Capital**.
- **Winton** launches a new Systematic Universal Momentum strategy offering trend-following exposure in major asset classes as well as less mainstream markets and assets. **Winton**'s AUM has dropped almost 80% from a peak of nearly US$34 billion to approximately US$7 billion at the end of 2020.
- **York Capital Management** announces in November that it is winding down its circa US$3 billion European hedge fund business to focus its external capabilities on less-liquid investments.

Private markets

Manager searches for illiquid strategies rise further against a backdrop of industry-wide fundraising declines

NEW PRIVATE MARKETS MANAGER SEARCHES, YEAR ON YEAR





Note: these figures only represent projects initiated during the specified period and do not include pre-existing client engagements that continued during the year.

Private markets continued

Investor trends

Appetite for private markets strategies continues to be exceptionally strong among bfinance clients. Reflecting industry fundraising trends, we see Infrastructure and Private Debt holding up well while Real Estate activity has decreased sharply.

Private Debt searches rose in 2020; here we note stronger demand for niche strategies including Trade Finance and Equipment Leasing, as well as Real Asset Debt. In Infrastructure, we note investors expanding their exposure in areas such as Renewables, regionally-specific strategies and Infrastructure Debt. The ESG theme is increasingly prominent across all private market manager search activity, both in terms of broad integration and use of thematic strategies such as Impact Real Estate.

Although the number of pure Private Equity searches is slightly down on the prior year, there has been a notable increase in activity in fund-of-funds solutions, Asia Pacific and Emerging Markets. Private Equity has also tended to be a key component in the increasing number of private market multi-asset searches that represented over 15% of all new manager selection activity last year.

A recent Global Macro Trends publication from KKR (*2021: Another Voice*) summarised the bullish mood around assets linked to nominal GDP growth and with upfront cashflows, urging others to “increase exposure to collateral-based cash flow with income generation and pricing power, including Asset Based Finance, Infrastructure, and parts of both Real Estate Equity and Real Estate Credit”.

CAPITAL RAISING MOMENTUM ACROSS PRIVATE ASSET CLASSES, FULL YEAR 2020

Asset Class	2020 No. & Vol., and % change on 2019		Quarterly trends through 2020	Largest Fund Raises During 2020
	No. Funds	Volume		
Real Estate	334 -39%	$133bn -34%	Funds Closed / Capital Raised ($bn) Q1 111 35 Q2 101 52 Q3 52 26 Q4 70 21	• Blackstone BREP VI, Opportunistic, Europe, $10.6bn • Blackstone Real Estate Debt Strategies IV, Global, $8bn. • Rockpoint Real Estate Fund VI, Opportunistic, US, $3,8bn
Infrastructure	107 -23%	$96bn -18%	Funds Closed / Capital Raised ($bn) Q1 29 40 Q2 29 15 Q3 26 25 Q4 23 16	• Brookfield Infrastructure Fund IV, Core, Global, $20bn. • Antin Infrastructure Partners IV, Value Add, Global, $7.7bn. • Blackrock Global Energy & Power Fund III, Core+, Global, $5.1bn
Private Equity	1,576 -24%	$635bn -14%	Funds Closed / Capital Raised ($bn) Q1 445 162 Q2 351 133 Q3 344 120 Q4 436 220	• CVC Capital Partners Fund VIII, Buyout, Global, $24bn. • Ardian ASF VIII, Secondaries, Global, $19bn • Silver Lake Partners VI, Buyout, US, $18bn • Thomas Bravo XIV, Buyout, US, $18bn
Private Debt	196 -11%	$115bn -13%	Funds Closed / Capital Raised ($bn) Q1 51 28 Q2 61 33 Q3 34 14 Q4 50 40	• HPS Mezzanine Partners, Mezz, US, $11bn • Clearlake Capital Partners VI, Special Situations, US, $7bn • GSO European Senior Debt Fund II, Direct Lending, Europe, $6bn

Note: Based on capital raised for closed ended commingled funds. Please note the tendency for most recent quarter to be revised by Preqin so the numbers are likely to understate the capital raised and funds closed.
Source: bfinance; Preqin

Private markets continued

Market snapshot *continued*

After private market assets and funds were broadly marked down in Q2 2020 due to concerns over cashflows and higher risk premiums, Q3 and Q4 brought a general recovery as lockdown restrictions were eased and confidence around cashflows improved. Capital flowed to more resilient sectors and there were fewer concerns over some of the more troubled areas. This improvement seems to have continued through to the end of the year, driven by lower interest rates, improving cashflows and greater weight of capital.

The early reporting of managers on Q4 2020 performance seems to support this narrative, which is also reflected in publicly available indices. These include the preliminary ODCE performance numbers for US real estate, which posted a figure of 1.29% for Q4, and the EDHEC results for their unlisted infrastructure fund index at 3.04% for the quarter – leaving it down by almost 5% for 2020 as a whole. These private market indices are complemented by improvements in listed Real Estate (REITs) and Infrastructure, both up by approximately 10% in the final quarter (based on FTSE, GLIO and GPR indices).

Despite these trends, there continue to be significant variations by sector and by manager. EDHEC estimate that the return from airports was close to negative 10% in Q4 (and -35% for the year as a whole), while more traditional sectors posted positive performance. Disparity was also very evident in the real estate market, with Retail and Hospitality REITs down around 25% for the year and Industrial up by 15%.

Spotlight on fundraising

After a decade of tremendous growth in private market capital raising, the coronavirus pandemic led to a sharp decline in 2020, with capital raising falling by nearly 20% for the year to US$979 billion according to market research firm Preqin. Admittedly, the pace had already began to soften in 2018 and 2019, but 2020 proved extremely challenging. Of the capital raised, private equity drew the bulk of assets (65% of the total) and realized the greatest number of funds closed (71%). Private Debt drew 12% of total assets raised, a decline of 13% for the year. Infrastructure, which has grown significantly in popularity with investors since 2009, when it attracted just 5% of available capital, suffered a sharp pullback in 2020 even though it still managed to attract 10% of the capital raised during the year. The steepest decrease, unsurprisingly, came in Real Estate, which saw capital raising decline by 34% to the lowest level since 2012. Across all asset classes, however, the average fund size continued to climb: The average across all Private Markets was US$446 million per fund, almost twice the size of the average fund in 2016.

Private equity

Although private equity capital raising declined for the full year, Q4 2020 inflows totalled US$220 billion, an increase of 84% over Q3. Fund size has continued to grow; the average fund in 2020 exceeded US$500 million compared with just US$350 million in 2019.

Private debt

After posting the lowest level of capital raising for almost a decade in Q3 2020, private debt bounced back in Q4, with managers reporting US$40 billion across 50 funds – nearly three times the amount raised in the previous quarter. This increase was skewed by the closing of the US$11 billion HPS Investment Partners Mezzanine fund, but even without its contribution, the quarterly close would have been close to the average of recent quarters.

Infrastructure

In the absence of any so-called mega infrastructure funds closing in the quarter, the largest infrastructure close of Q4 2020 was the DIF Infrastructure VI fund at US$3.5 billion. Looking back, the only outsized fund close during the year was Brookfield's US$20 billion Infrastructure Fund IV, which closed in Q1. Overall, the total level of capital raised in 2020 approached (but didn't quite touch) the US$100 billion figure that many investors had anticipated at the start of the year. Despite that outcome, investors continue to have a strong appetite for Infrastructure, particularly funds focused on Renewables and Digital strategies.

Real estate

Capital raising remained weak for Real Estate in Q4, with funds closing on just US$21 billion – the lowest amount since 2013 when the market was still recovering from the global financial crisis. The ongoing economic impact of the pandemic on funds' performance, particularly in retail and hospitality, continued to weigh heavily on the sector; the largest fund closed in Q4, NREP Nordic V, was a regionally focused strategy.

Private markets continued

Manager watch *continued*

News from the private market manager world

- Vincent Gombault, former head of **Ardian**'s Fund of Funds business, steps down.
- Mark Versey, CIO for real assets at **Aviva Investors**, takes over as CEO from Euan Munro.
- **BlackRock** names Jeetu Balachandani as head of global infrastructure debt following the departure of Erik Savi last year.
- **Brookfield Asset Management** is reportedly considering the privatisation of the US$108 billion listed fund Brookfield Property Partners for approximately US$6 billion.
- **Churchill** (the US private debt affiliate of **Nuveen**) and **Tikehau** announced a strategic alliance in which they will invest in each other's funds and assist each other in building out capability in their respective jurisdictions.
- **CVC** hires two new senior individuals to expand their private credit capabilities. John Empson joins from **Blackrock** as Partner and Co-head, while Miguel Toney joins as a Partner from **Park Square**.
- **GRESB** was sold by **GBCI** to a consortium of asset owners as part of a plan to ensure the independence of the sustainability benchmark group.
- **Jefferies** continues to recruit Managing Directors from **Greenhill**: two joined in September 2020 (Brenlen Jinkins and Scott Beckleman); three more are set to join this year (Todd Miller, Andy Nick and Chris Bonfield).
- **LaSalle** hires David DeVos, formerly of **PGIM**, as global head of ESG.
- **Octopus Energy Group** announces a strategic partnership with Tokyo Gas focused on the Japanese market.
- Tom Lister steps away from his leadership role at **Permira**, leaving Kurt Bjorklund as the sole remaining managing partner.
- **PineBridge** signs an agreement to acquire **Benson Elliot Capital Management** (Benson Elliot), a UK-based private equity real estate fund that manages US$3.5 billion across Europe.
- **Stonepeak** co-founder and Executive vice-chairman, Trent Vichie, announces his retirement from from the business.
- **Schroders** announces the departure of Charles Dupont, Head of Infrastructure.
- **Thoma Bravo** hires Oliver Thym to expand its private credit platform. The organisation's primary focus is private equity in the technology sector.

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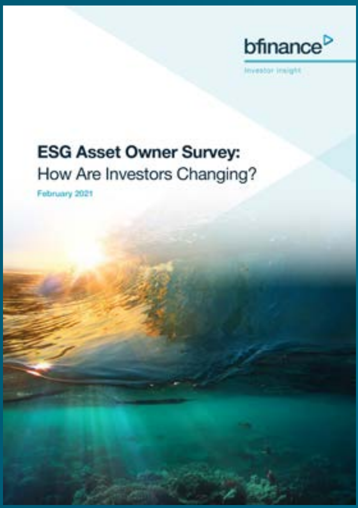
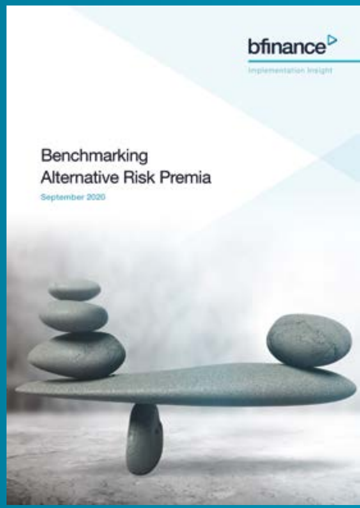


ESG Asset Owner Survey: How Are Investors Changing?
(February 2021)

Sector in Brief: Securitised Credit
(November 2020)



Benchmarking Alternative Risk Premia
(September 2020)

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