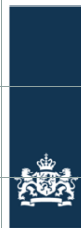
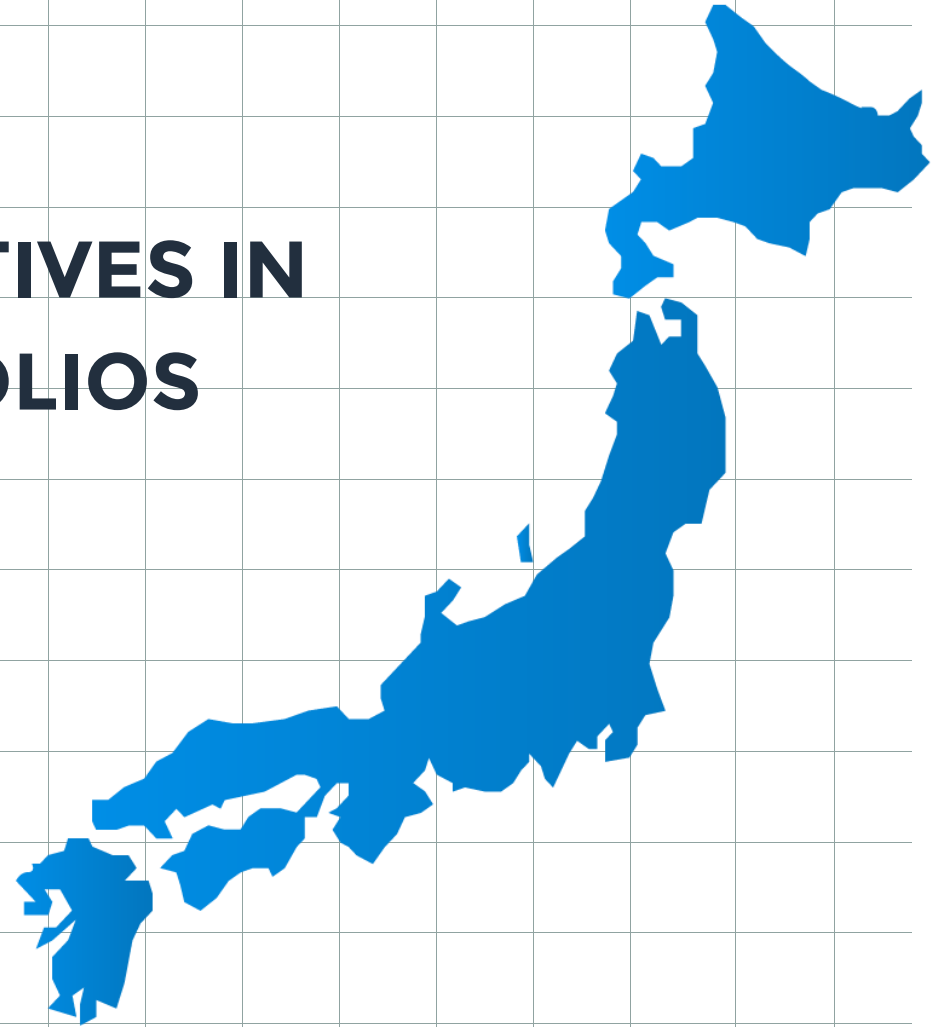


THE ROLE OF ALTERNATIVES IN INSTITUTIONAL PORTFOLIOS



Kingdom of the Netherlands

an **AEGON** Asset Management company

OUTLINE

1

CHALLENGING ENVIRONMENT

2

SOLUTIONS TO ENHANCE PORTFOLIO RETURNS

3

HEDGE FUND INDUSTRY

4

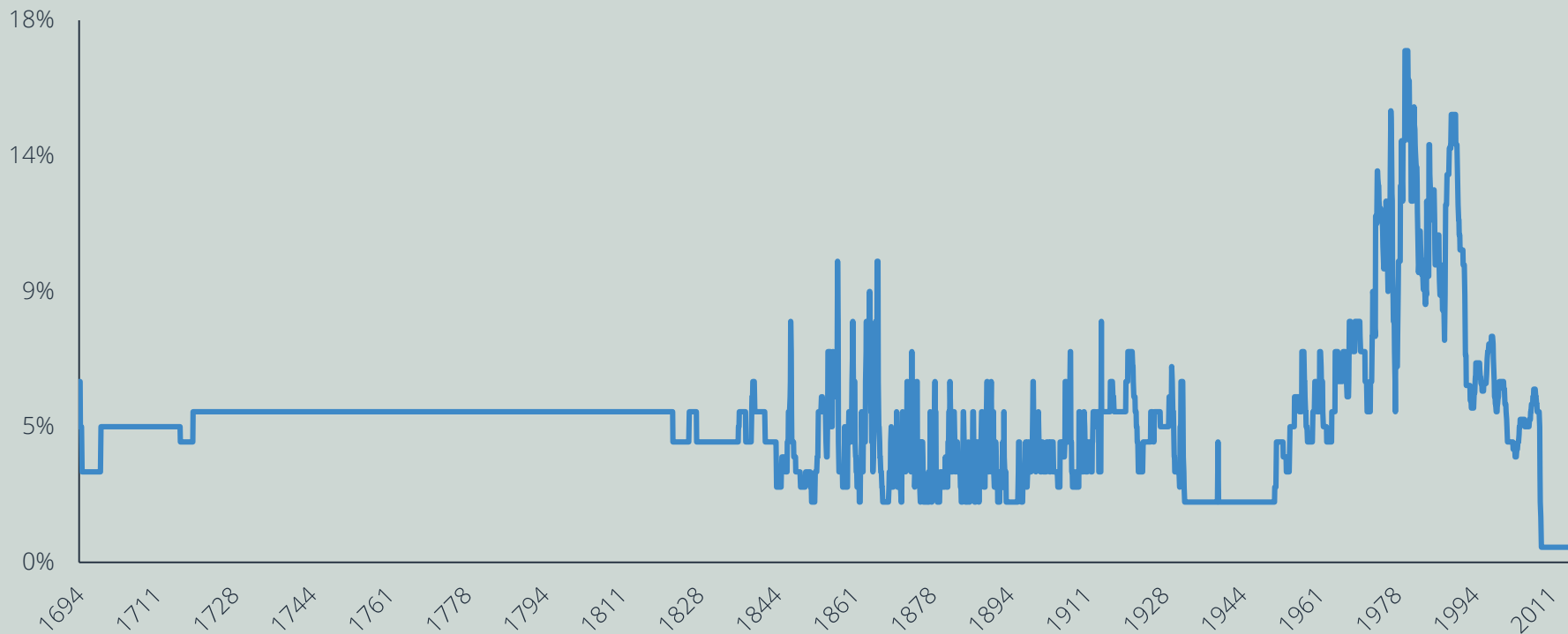
PELARGOS STRATEGY

Would you be interested in stable, attractive returns that are uncorrelated to other asset classes and with limited downside risk?

CHALLENGING ENVIRONMENT

HIGH GLOBAL ASSET VALUATIONS

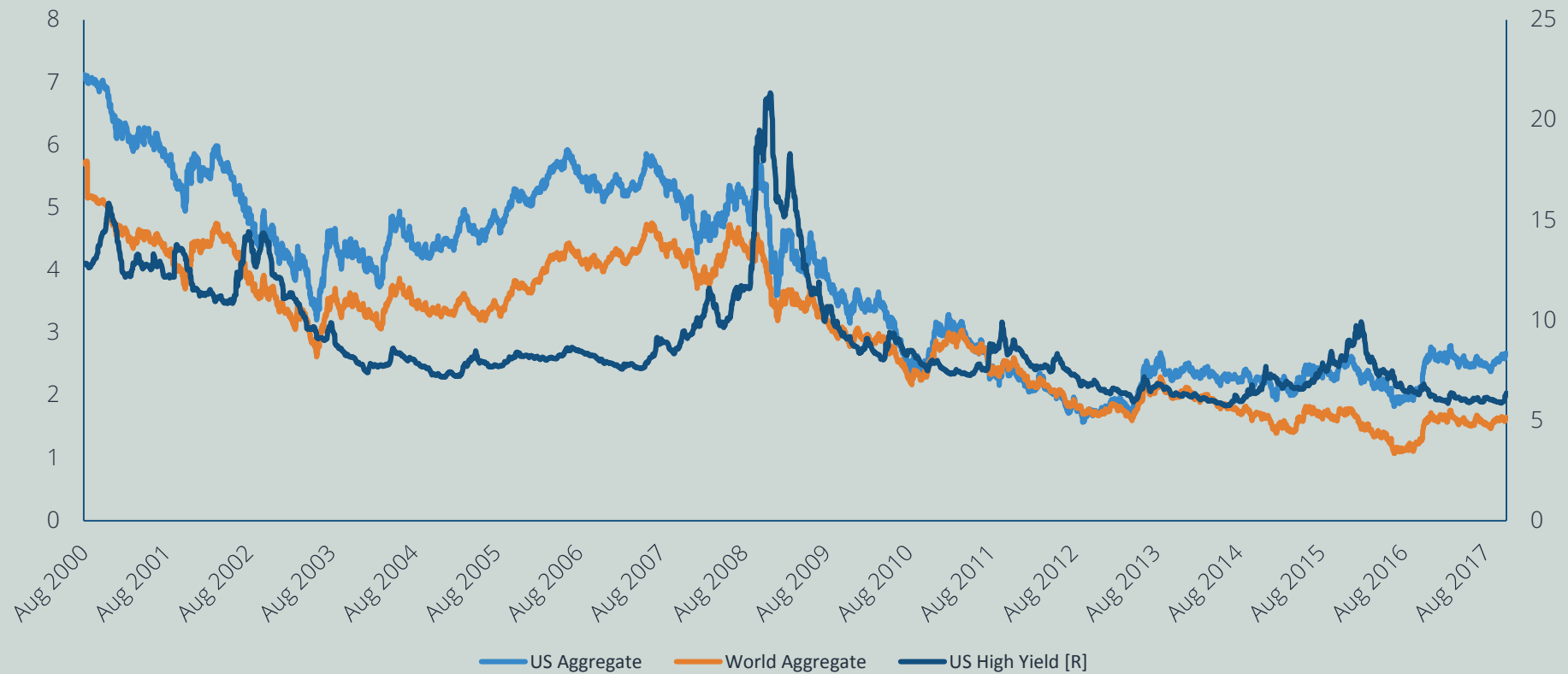
BANK OF ENGLAND POLICY RATE



CHALLENGING ENVIRONMENT

HIGH GLOBAL ASSET VALUATIONS

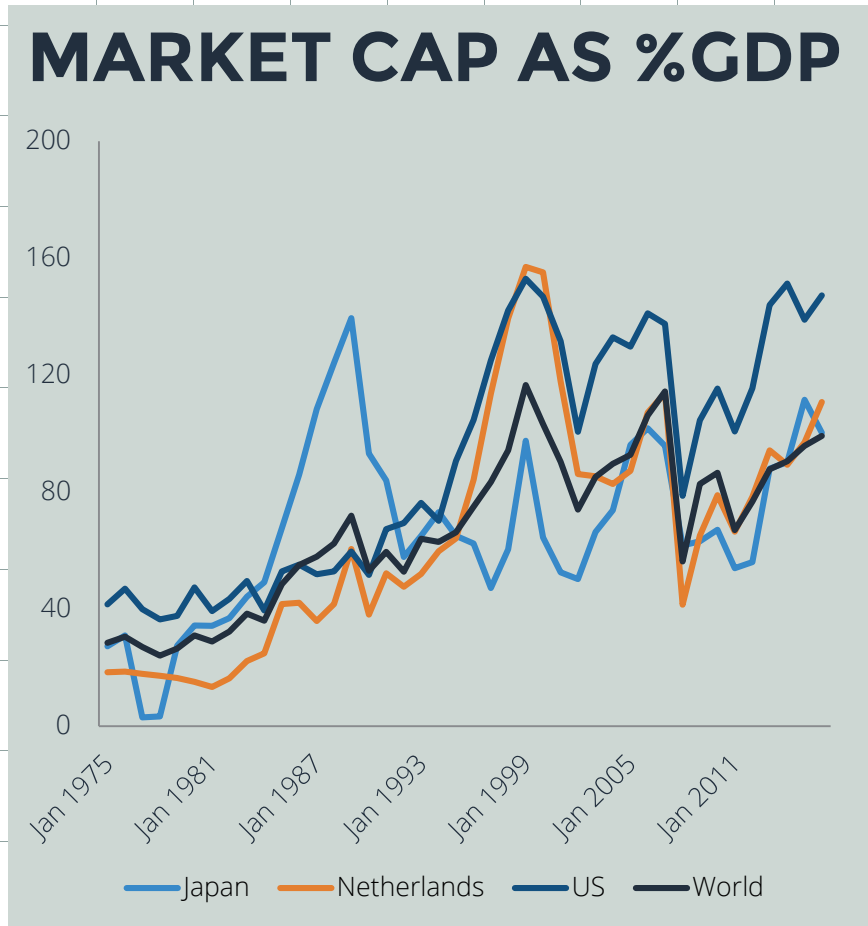
BLOOMBERG BARCLAYS YIELD TO MATURITIES



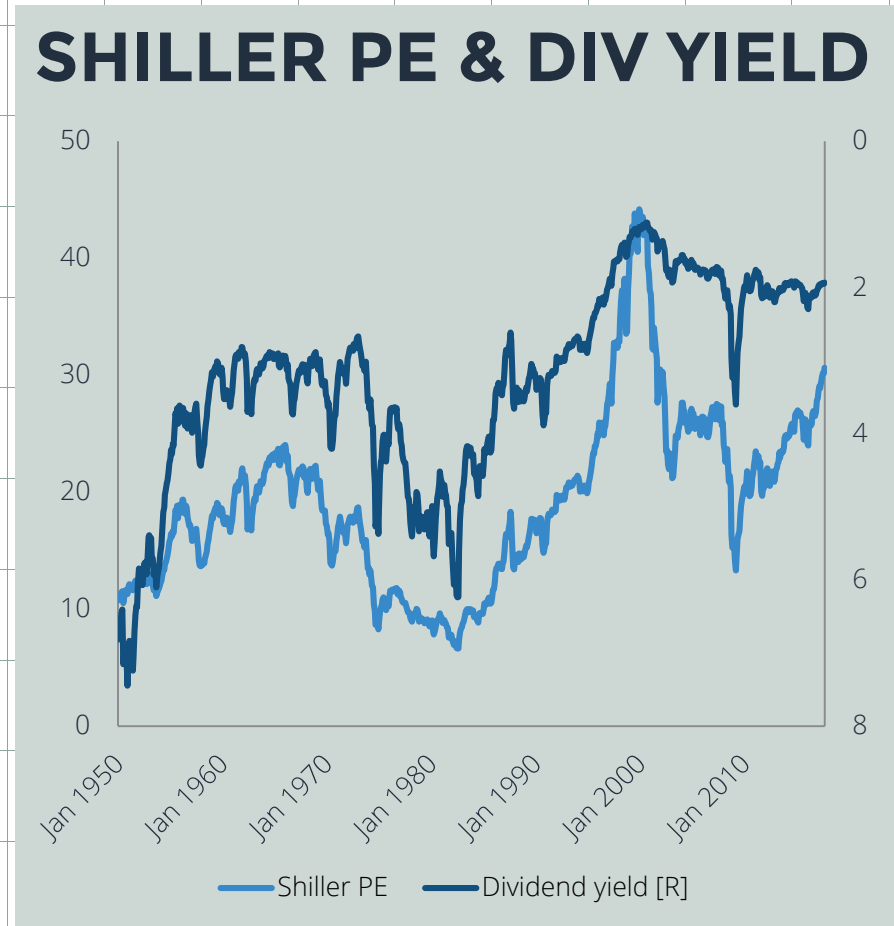
source: Factset

CHALLENGING ENVIRONMENT

HIGH GLOBAL ASSET VALUATIONS



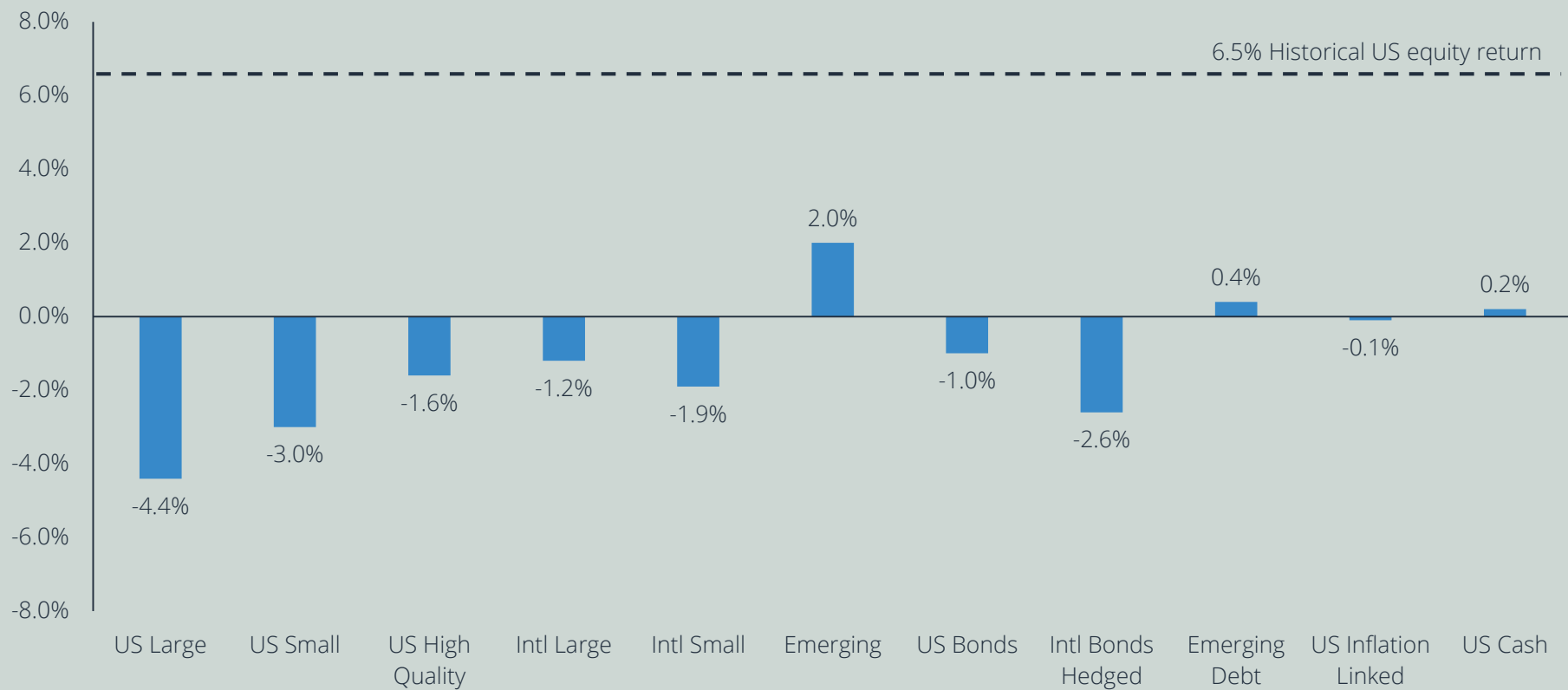
source: Thomson Reuters



CHALLENGING ENVIRONMENT

HIGH GLOBAL ASSET VALUATIONS

FORCAST ANNUAL REAL RETURN OVER 7 YEARS



source: GMO

CHALLENGING ENVIRONMENT

RISKS ARE BUILDING UP

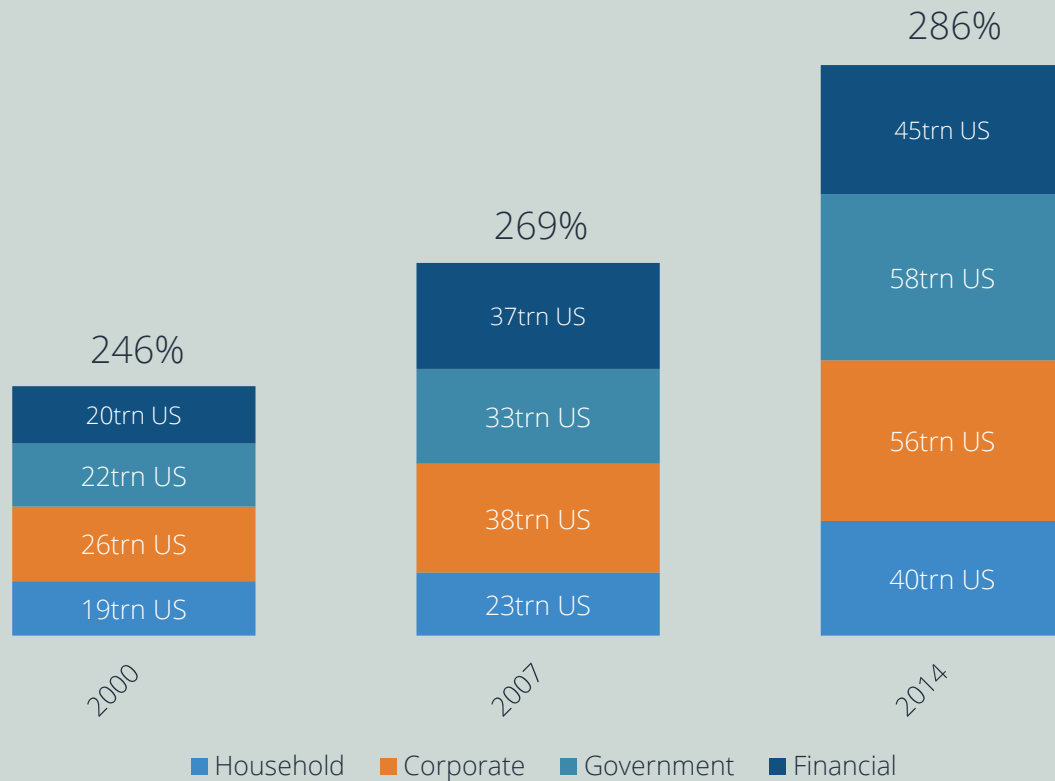


GLOBAL DEBT TO GDP

- Global debt to GDP off the charts
- Global debt does not include unfunded liabilities



TOTAL DEBT % OF GDP



source: McKinsey

CHALLENGING ENVIRONMENT

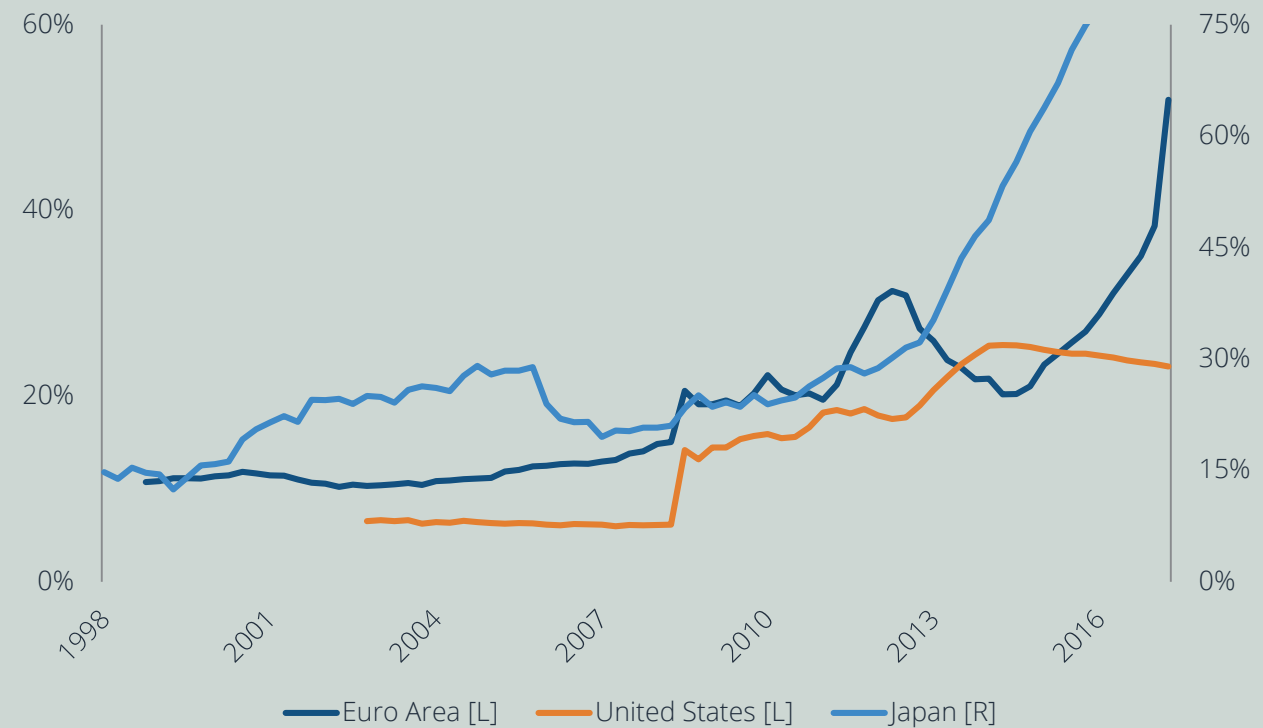
RISKS ARE BUILDING UP



ERA OF THE CENTRAL BANK

- Unprecedented central bank activism
- CPI obsession
- Omnipotence of the FED: "Do not fight the FED"

CENTRAL BANK BALANCE SHEET TO GDP



CHALLENGING ENVIRONMENT

RISKS ARE BUILDING UP

US GOVERNMENT BOND YIELDS

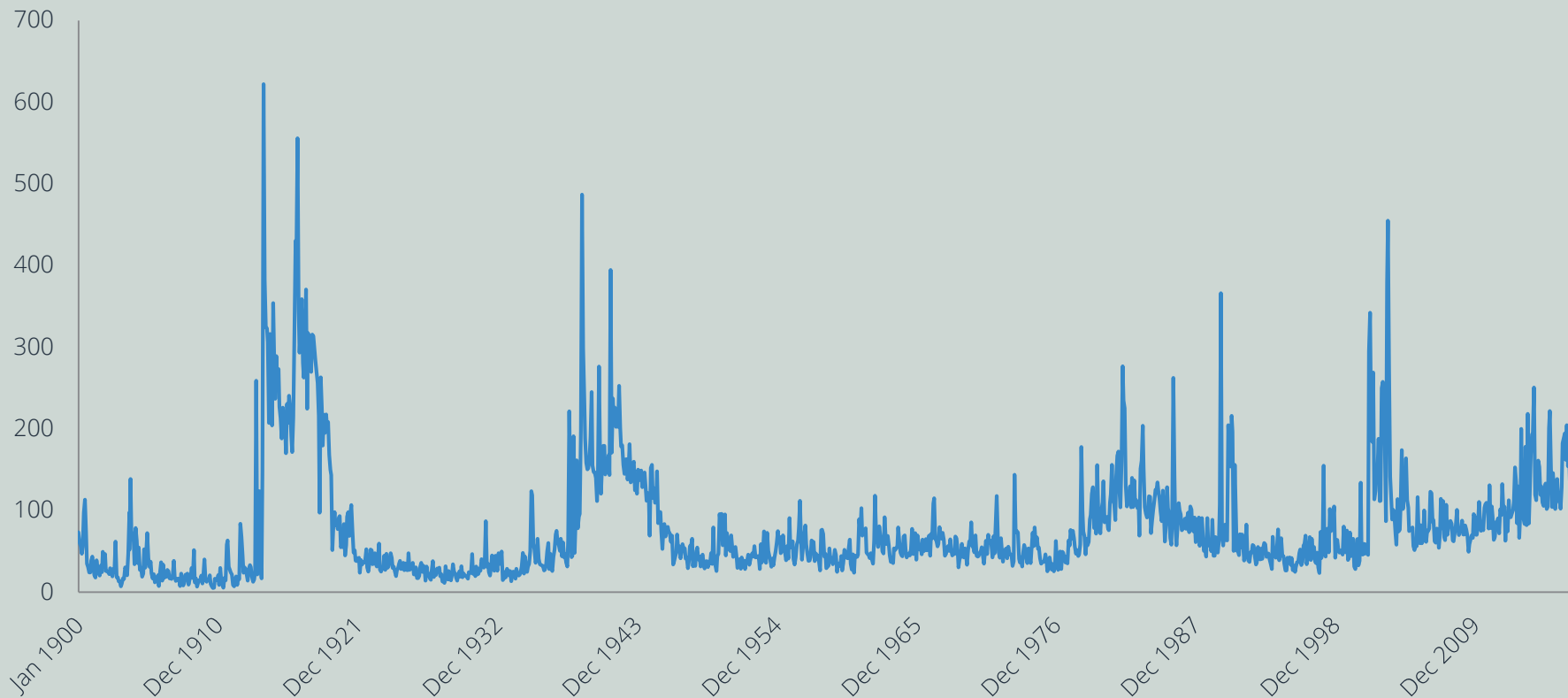


source: Thomson Reuters

CHALLENGING ENVIRONMENT

RISKS ARE BUILDING UP

GEOPOLITICAL RISK INDEX

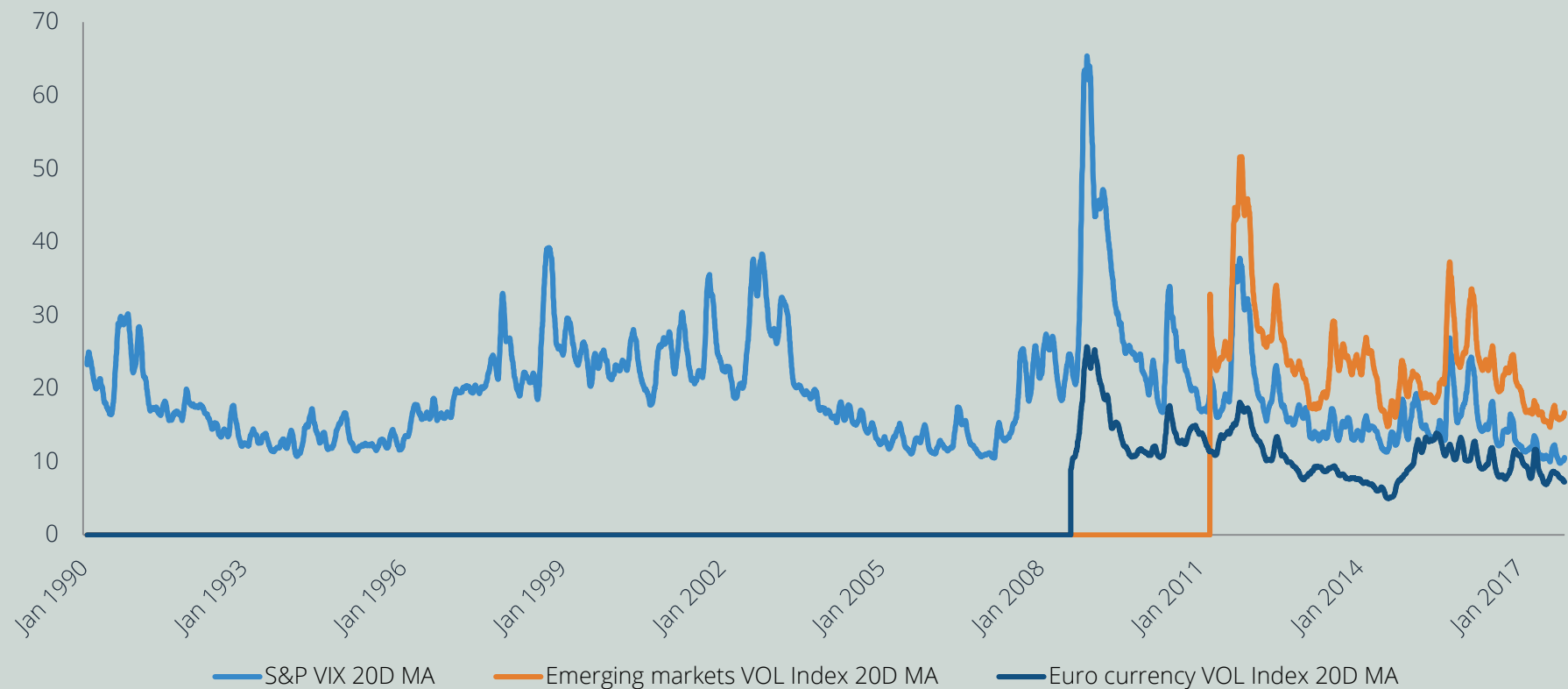


source: Caldara, Dario and Matteo Iacoviello, "Measuring Geopolitical Risk," working paper, Board of Governors of the Federal Reserve Board, November 2017

CHALLENGING ENVIRONMENT

LOW VOLATILITY FOR NOW

CBOE VOLATILITY INDICES



source: Thomson Reuters

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PELARGOS STRATEGY

ENHANCE PORTFOLIO RETURNS

SEARCH FOR YIELD: ILLIQUIDITY PREMIUM

1

DIRECT MORTGAGES

- Attractive spread
- Historical losses limited

3

ASSET BACKED SECURITIES

- Securities back by loans or receivables
- RMBS, CMBS, credit card loans etc.

2

PRIVATE EQUITY

- Attractive returns in recent years
- Substitution of listed equity (correlation with listed equity)
- Diversification with relation to countries, strategies, time
- Manager selection crucial
- Specific risks

4

INFRASTRUCTURE

- Research

ENHANCE PORTFOLIO RETURNS

SEARCH FOR DIVERSIFICATION: UNCORRELATED RETURNS

HEDGE FUNDS

1

**ABSOLUTE RETURN
CHARACTERISTICS**

3

**FOCUS ON
ALPHA GENERATION**

2

LOW CORRELATIONS

4

**VARIOUS UNDERLYING
STRATEGIES**

- Long/Short
- Tactical, e.g. CTA
- Relative value, e.g. Arbitrage
- Event driven
- Location

OUTLINE

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**SOLUTIONS TO ENHANCE PORTFOLIO
RETURNS**

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HEDGE FUND INDUSTRY

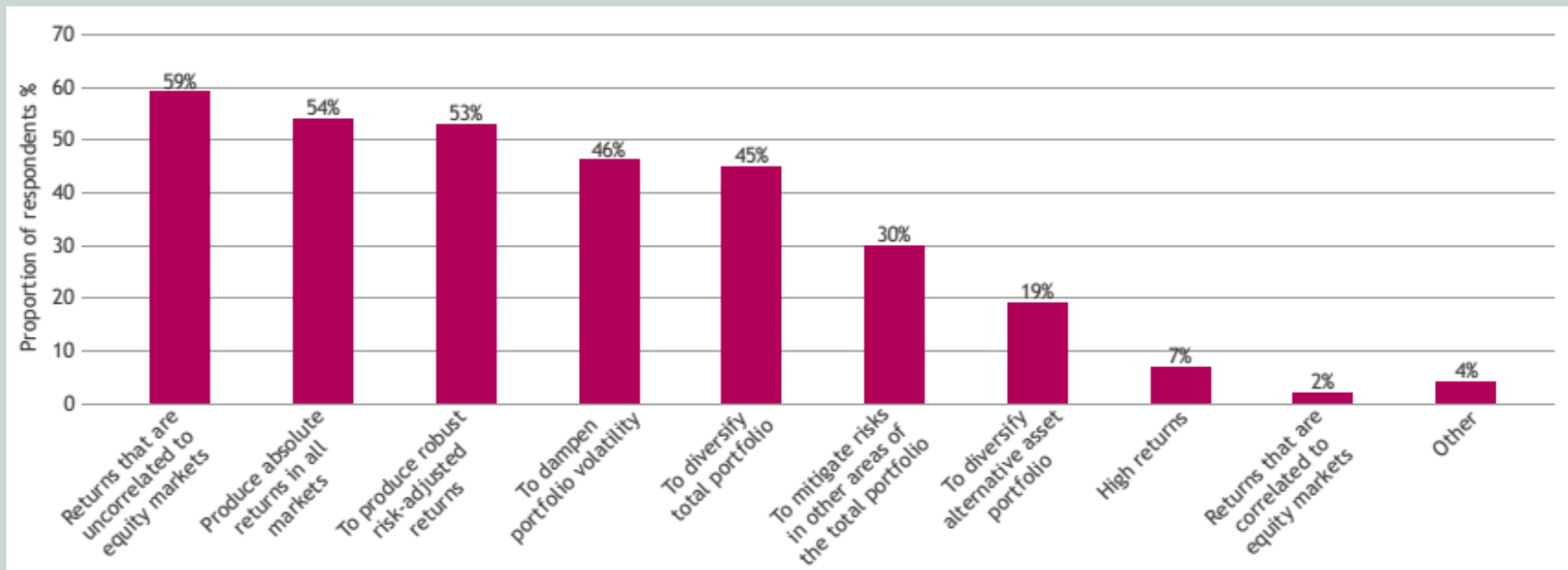
4

PELARGOS STRATEGY

HEDGE FUND INDUSTRY OVERVIEW

WHAT INVESTORS ARE LOOKING FOR

KEY OBJECTIVES OF INSTITUTIONAL INVESTORS FROM THEIR HEDGE FUND PORTFOLIOS

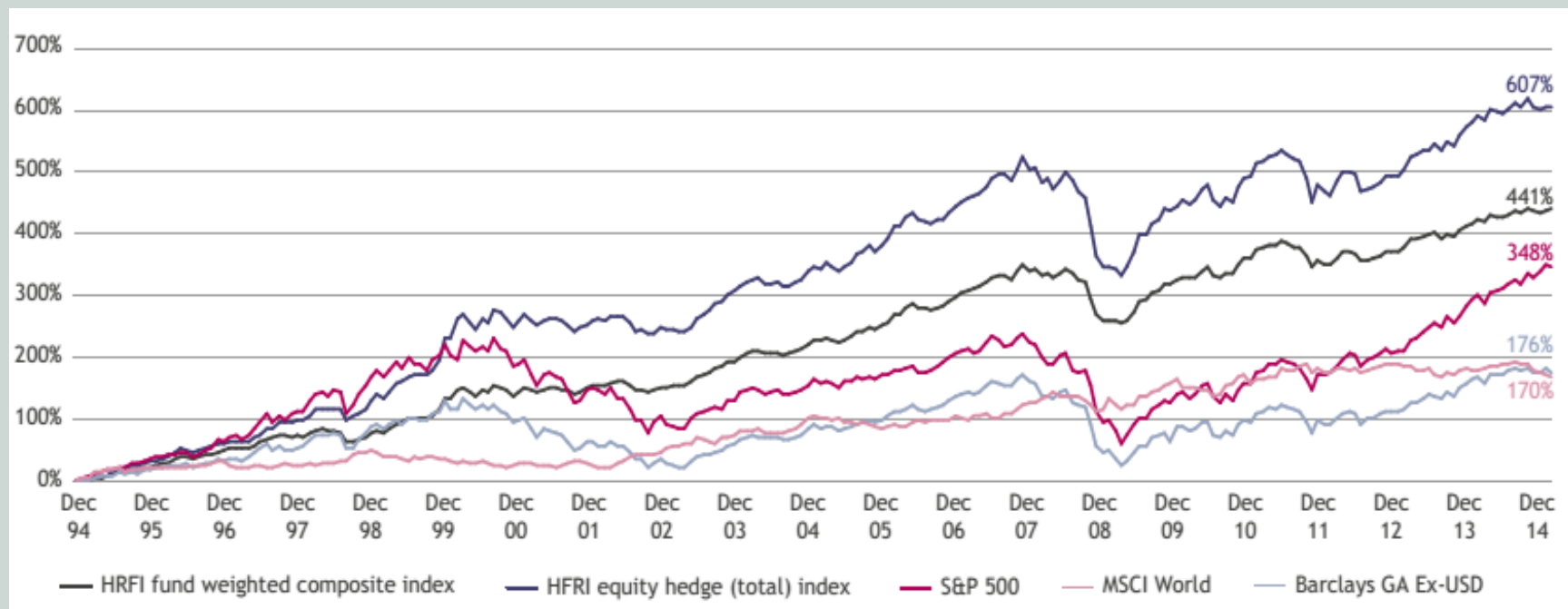


Source: AIMA and Preqin

HEDGE FUND INDUSTRY OVERVIEW

RETURNS VERSUS MAIN ASSET CLASSES

CUMULATIVE RETURNS JAN 1995 - DEC 2014



Source: AIMA Research, Hedge Fund Research Inc, S&P, MSCI, Barclays

HEDGE FUND INDUSTRY OVERVIEW

SUPERIOR RISK ADJUSTED RETURNS

PERFORMANCE 1995 – 2014

Index	Annualized Return	Annualised standard deviation	Sharpe Ratio
HFR fund weighted composite	8.8%	7.0%	0.55
HFRI equity hedge (total)	10.3%	9.2%	0.58
S&P 500	7.8%	15.1%	0.19
MSCI World	5.2%	15.5%	0.02
Barclays Global Aggregate ex-USD	5.1%	8.2%	0.02

Source: AIMA research, Hedge Fund Research Inc, S&P, MSCI, Barclays

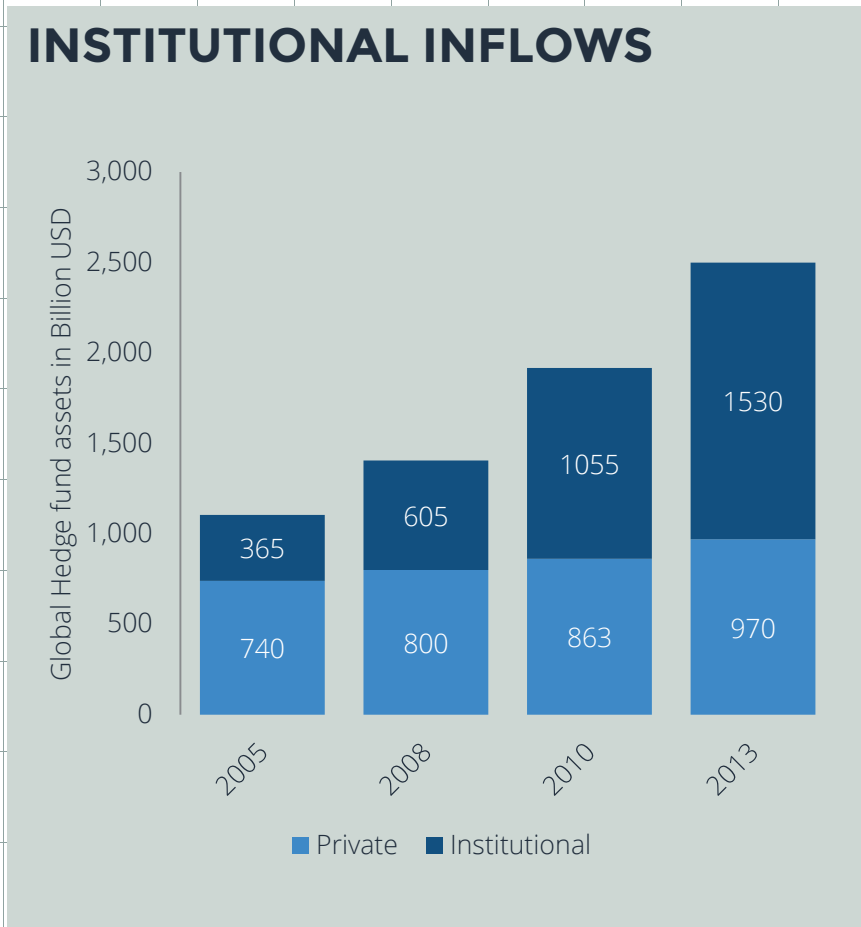
LOW CORRELATIONS

	Hedge Funds	Global Stocks	Global Bonds	Commodities
Hedge Funds	1.00			
Global Stocks	0.80	1.00		
Global Bonds	-0.06	-0.03	1.00	
Commodities	0.41	0.33	0.00	1.00

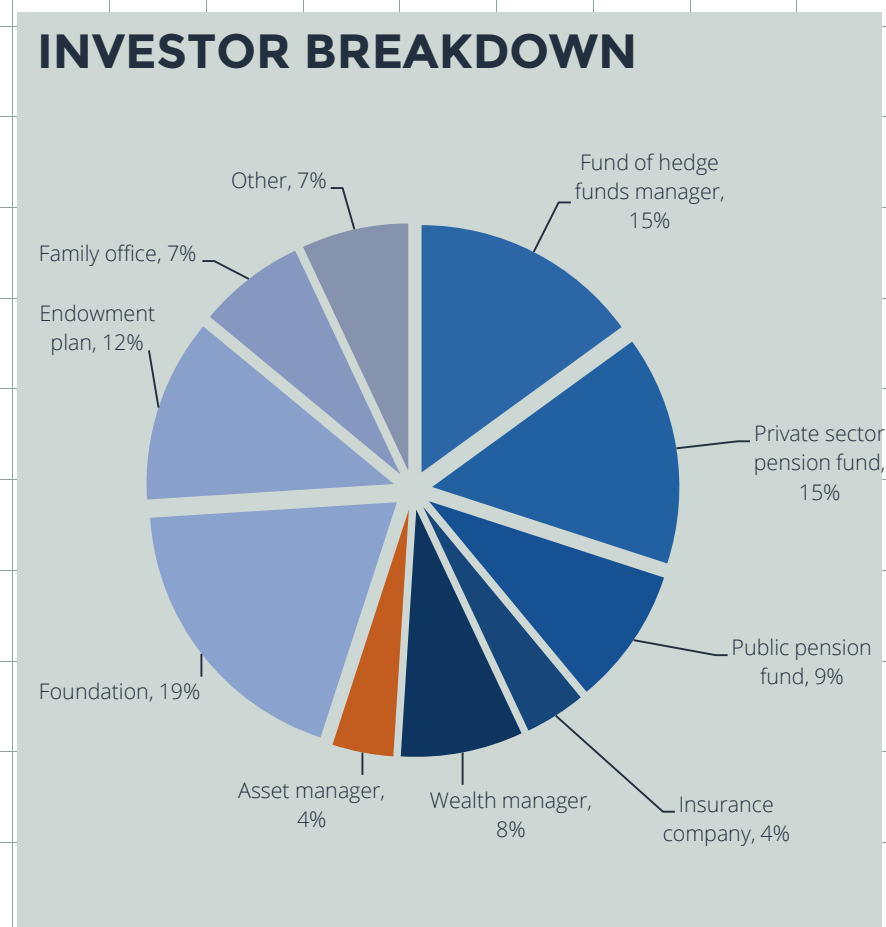
Source: AIMA research

HEDGE FUND INDUSTRY OVERVIEW

INSTITUTIONAL PARTICIPATION



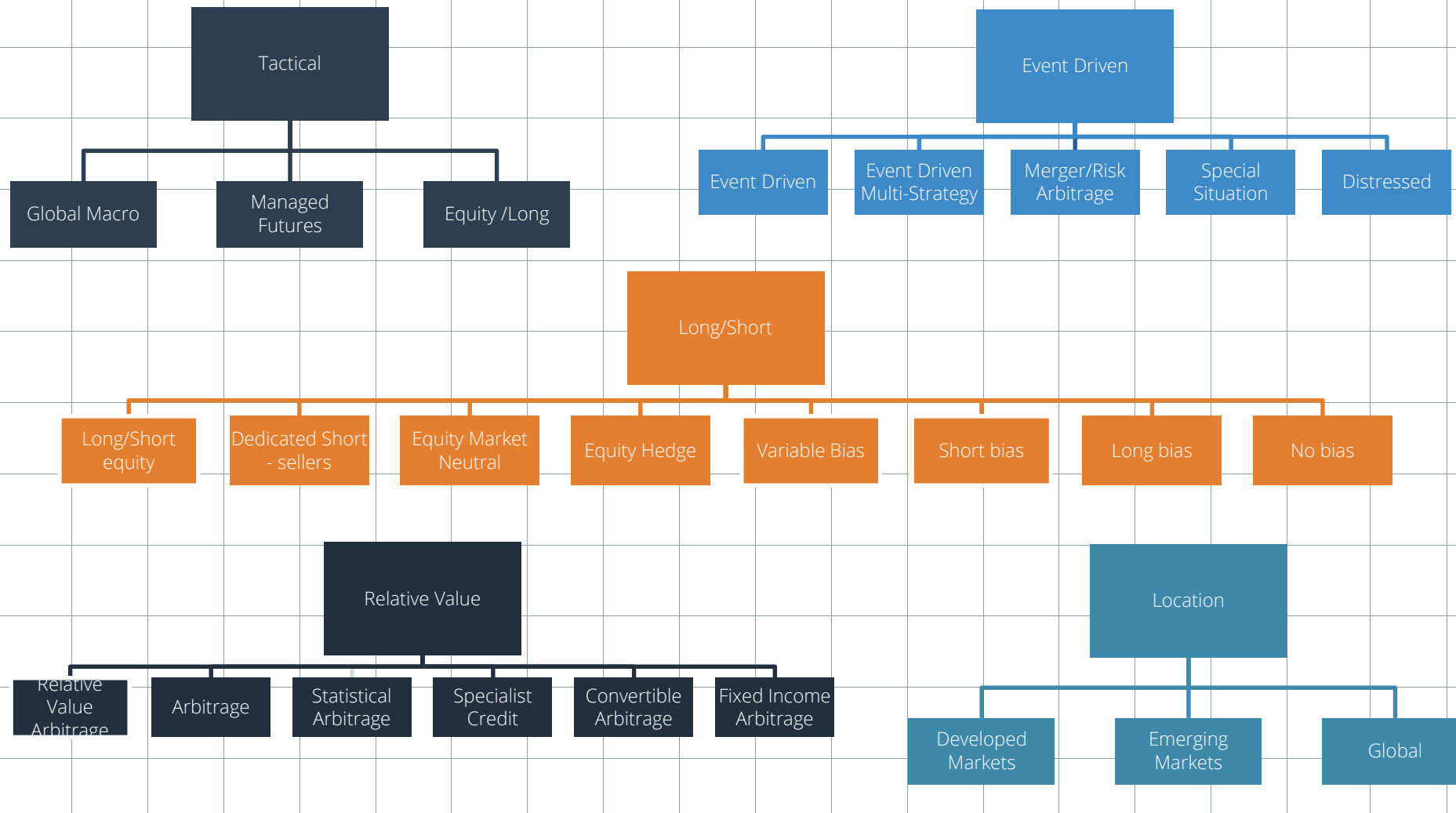
Source: AIMA and Barclays Strategic Consulting analysis



Source: AIMA and Preqin

HEDGE FUND INDUSTRY OVERVIEW

STRATEGY CLASSIFICATION



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PELARGOS STRATEGY

PELARGOS STRATEGY OVERVIEW

OUR SOURCES OF ALPHA

PELARGOS FOCUS



Informational edge



Analytical edge



Behavioral edge

SYSTEMATIC

FUNDAMENTAL

PELARGOS STRATEGY OVERVIEW

RISK MANAGEMENT - A BEAUTIFUL SHAPE



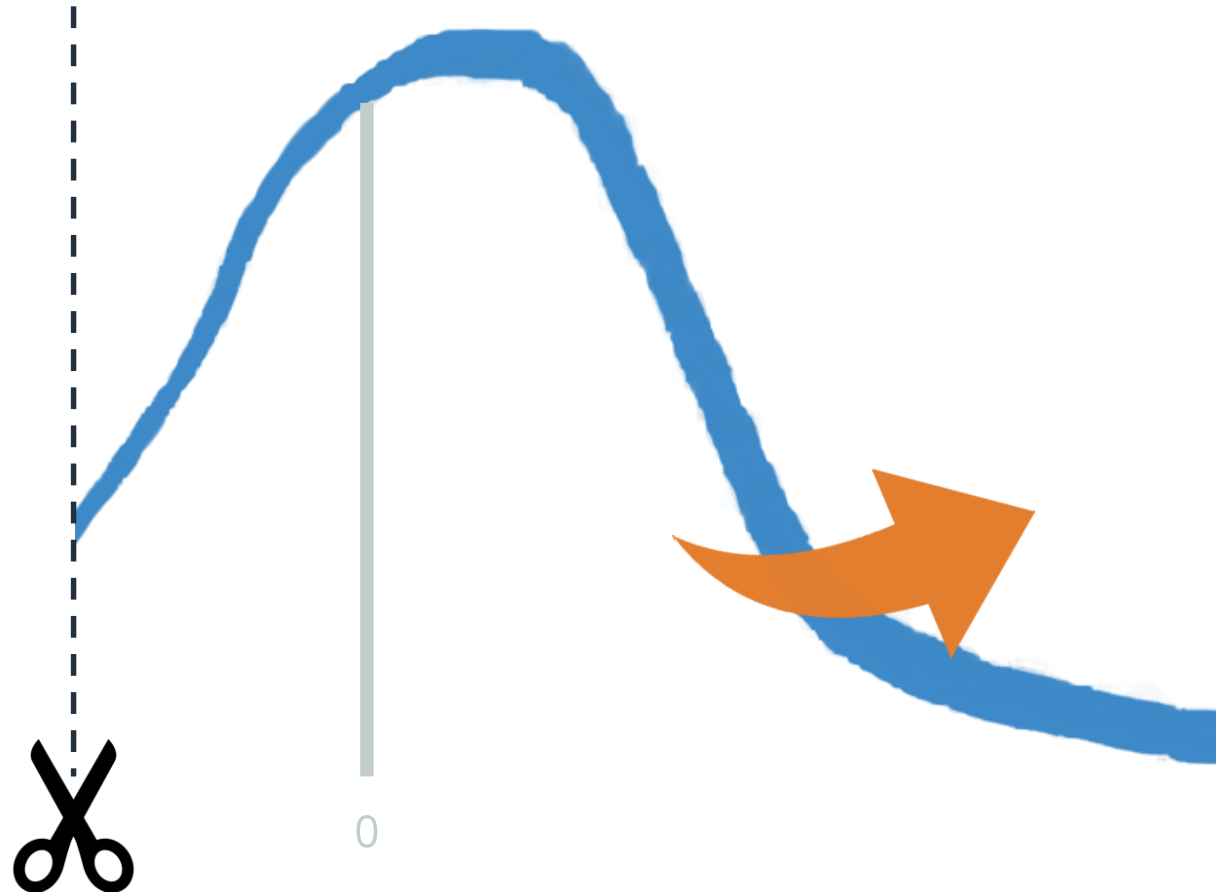
**MACRO RISK
FACTOR**



**BOTTOM UP
VALUE ANALYSIS**

RIGHT SKEWED

Diligent risk management not only protects the left side of our distribution, it also right skews our distribution.



CONCLUSIONS

1

Challenging environment forces changes in institutional portfolios

2

Search for yield and uncorrelated absolute returns

3

Risk management

4

Hedge Funds are in the business of managing the left tail and deliver superior risk adjusted returns

For more information, please visit www.pelargoscapi.com

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