



Alternative Investments

CAIA Ireland – Your Executive Committee



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Feel Free to Join:

CAIA Irish Chapter LinkedIn Group: <https://www.linkedin.com/groups/8545950>

Chapter Mission Statement:

- It is the mission of CAIA Ireland to be the foremost source of alternative investments knowledge in the region.
- Through a number of channels and initiatives, we will work to ensure the highest level of expertise among our constituents.
- Those opportunities will include:
 - the organisation of educational and networking events;
 - building strong and enduring relationships with the investment industry and academia both in Ireland and abroad;
 - and the promotion of professional development and excellence within the local investment community.

The CAIA Program

- **The Chartered Alternative Investment Analyst (CAIA) curriculum covers the following topics:**
 - Ethics and professional standards, hedge funds, private equity, real assets, commodities and structured products
 - Over 20% of the program material is dedicated to inflation-sensitive assets
- **Over 6,500 members worldwide have earned the CAIA designation**
 - 75% of candidates are from the US, UK, Hong Kong, Switzerland or Singapore
- **Members are typically employed as**
 - Portfolio managers, consultants, marketers, asset allocators, analysts, or risk managers

Charter Alternative Investment Analyst

CAIA® is the globally-recognized credential for professionals managing, analyzing, distributing, or regulating alternative investments.

Level I: Introduction to Alternative asset classes

Level II: Deep dive into each alternative asset class

A minimum of 200 study hours is recommended

March & September: Exams administered –
4 hour sitting per exam.

Costs

- Program Enrolment (one-time fee) US \$400
- Level I Exam Registration US \$1250
- Level II Exam Registration US \$1250

Annual Membership Dues US \$350; US \$650/2-year

CAIA LEVEL I EXAM: Curriculum Overview

The CAIA Charter exam curriculum is revised regularly to incorporate relevant, practical industry developments, and the latest academic research.



Professional Standards and Ethics

- Professionalism
- Integrity of Capital Markets
- Duties to Clients
- Duties to Employers
- Investment Analysis, Recommendations, and Actions
- Conflicts of Interest

Introduction to Alternative Investments

- What Is an Alternative Investment?
- The Environment of Alternative Investments
- Quantitative Foundations
- Statistical Foundations
- Measures of Risk and Performance
- Foundations of Financial Economics
- Benchmarking and Performance Attribution
- Alpha, Beta, and Hypothesis Testing
- Regression, Multivariate, and Nonlinear Methods

Real Assets

- Natural Resources and Land
- Commodity Forward Pricing
- Commodities: Applications and Evidence
- Operationally-Intensive Real Assets
- Liquid and Fixed-Income Real Estate
- Real Estate Equity Investments

Hedge Funds

- Structure of the Hedge Fund Industry
- Macro and Managed Futures Funds
- Event-Driven Hedge Funds
- Relative Value Hedge Funds
- Equity Hedge Funds
- Funds of Hedge Funds

Private Equity

- Introduction to Private Equity
- Equity Types of Private Equity
- Debt Types of Private Equity

Structured Products

- Introduction to Structuring
- Credit Risk and Credit Derivatives
- CDO Structuring of Credit Risk
- Equity-Linked Structured Products

Risk Management and Portfolio Management

- Cases in Tail Events
- Investment Process, Operations, and Risk
- Due Diligence of Fund Managers
- Portfolio Management, Alpha, and Beta

LEVEL I TEXTS



Alternative Investments: CAIA Level I Wiley, 2015.



Standards of Practice Handbook 11th edition CFA Institute, 2014

CAIA LEVEL II EXAM: Curriculum Overview



LEVEL II TEXTS



Alternative Investments: CAIA Level II Wiley, 2016



CAIA Level II: Guide to Current and Integrated Topics



Standards of Practice Handbook 11th edition CFA Institute, 2014

Asset Allocation and Institutional Investors

- Asset Allocation Processes and the Mean-Variance Model
- Tactical Asset Allocation, Mean-Variance Extensions, Risk Budgeting, Risk Parity, and Factor Investing
- The Endowment Model
- Pension Fund Portfolio Management
- Sovereign Wealth Funds
- The Family Office Model

Private Equity

- Private Equity Market Structure
- Private Equity Benchmarking
- Fund Manager Selection and Monitoring
- Private Equity Operational Due Diligence
- Private Equity Investment Process and Portfolio Management
- Measuring Private Equity Risk
- The Management of Liquidity

Real Assets

- Real Estate as an Investment
- Real Estate Indices and Unsmoothing Techniques
- Investment Styles, Portfolio Allocation, and Real Estate Derivatives
- Listed Versus Unlisted Real Estate Investments
- Infrastructure as an Investment
- Farmland and Timber Investments
- Investing in Intellectual Property

Commodities

- Key Concepts in Commodity Markets
- Allocation to Commodities
- Accessing Commodity Investment Products

Hedge Funds and Managed Futures

- Managed Futures
- Investing in CTAs
- Relative Value Strategies
- Hedge Funds - vs. : Directional Strategies
- Hedge Funds - vs. : Credit Strategies
- Volatility, Correlation, and Dispersion Products and Strategies
- Hedge Fund Replication
- Funds of Hedge Funds and Multistrategy Funds
- Hedge Fund Operational Due Diligence

Structured Products

- Regulation and Compliance
- Structured Products I - vs. : Fixed-Income Derivatives and Asset-backed Securities
- Structured Products II - vs. : Insurance-Linked Products and Hybrid Securities

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CAIA ASSOCIATION | Established in 2002, the Chartered Alternative Investment Analyst Association is the world leader in alternative investment education. | CAIA.ORG

Fundamentals of Alternative Investment Certificate

Foundation course of core concepts in alternative investments. Fundamentals of Alternative Investments fills a critical education gap when you need to understand the ever-changing landscape of alternative investments.

Access: Online - Presented in an engaging, conversational video format

Flexibility: 20 one-hour modules online, plus a bonus module on liquid alts

Accountability: A quiz requiring 70% proficiency at the end of each module confirms your understanding

Knowledge: Created and taught by CAIA's alternative investment experts

Coverage: Your guide to the core concepts in alternative investments

You learn at your own pace (complete the program within a year) and are eligible for continuing education hours for the CIMA®, CIMC®, CPWA®, NASBA and CFP® designations and is CECAP accredited.

Cost: Individual US\$895

Level II

- Chapter 2: The Endowment Model
- Chapter 3: Risk Management for Endowment and Foundation Portfolios



Alternatives a Broad Church

Commodities

Hard

Soft

Hedge Funds

Market Neutral

Long Short

Macro &
Managed Futures

Private Equity

Buyout

Venture Capital

Infrastructure

Private Credit

CLO's

Real Estate

Distressed Debt

Direct Lending

Mezzanine Debt

Intellectual
Property

Forestry

What Investors Think

“60/40”: allocation to stocks and bonds may no longer be enough to achieve long-term investment goals.

Why Alternatives:  Volatility;  Returns;  Levels of Income

Liquidity: **44%** Alts UCITS Investors prefer daily liquidity.... **<5%**actually require it.

Track Record: **80%** Do not require a track Record before investing **42%** Do not have minimum fund AUM requirement.

Growth: **70%** Currently allocate to Alternative UCITS **5%** Planning to make 1st investment.

Endowments

- Permanent funds established with gifts and bequests that are subject to a requirement that the principal be maintained intact to meet long-term expenditure objectives.

- USA – Yale & Harvard UK – The Wellcome Trust

Objective:

To provide predictable income and protect and grow real value of capital over the medium and longer term

Return Objectives

*Net 8% p.a.
(Medium Term)*

Risk Mitigation

*Disciplined
Diversification*

Risk Orientation

*Higher Returns
Outweigh short term
volatility*

Liquidity Constraints

*A portfolio able to
tolerate holding
illiquid assets*

- **Key to Success:** Asset Allocation is the overriding feature of approach
- **Concerns:** Spending Rate, Inflation, Liquidity and Tail Risk

Endowments Asset Allocation

Endowment Target Asset Allocation
Table of Asset Allocation, Returns and Expenditure

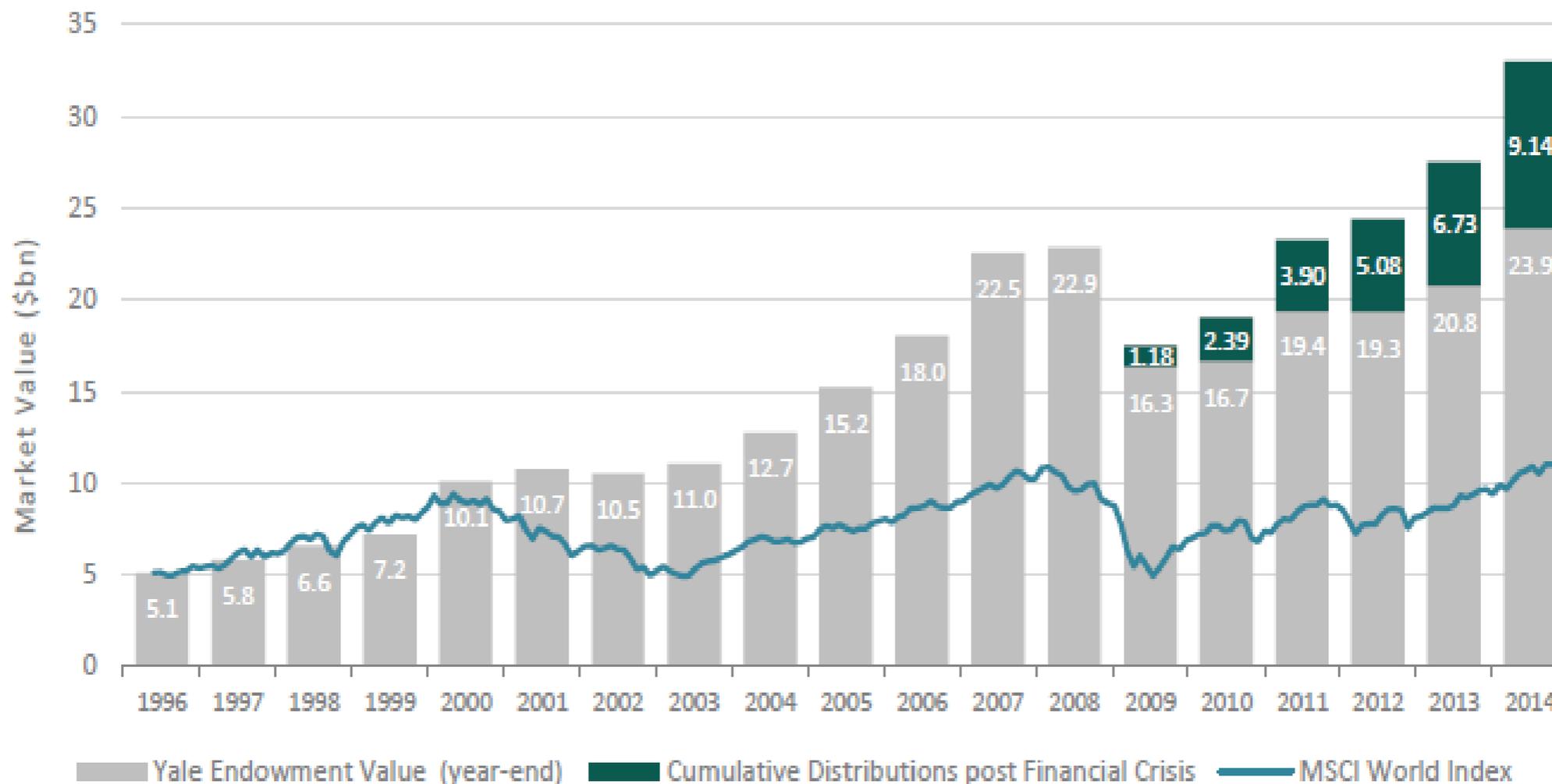
	Wellcome Trust	Harvard	Yale	82 US Endowments
Endowment Size	£16.7bn	\$36.4bn	\$23.9bn	Over \$1bn
Detailed Asset Allocations for Fiscal Year 2014				
Equity Total	74.9%	49.0%	48.4%	48.0%
<i>Developed Market</i>	40.0%	22.0%	} 15.4%	} 31.0%
<i>Emerging Markets</i>	9.1%	11.0%		
<i>Private Equity</i>	25.8%	16.0%	33.0%	17.0%
Alternatives Total	21.4%	40.0%	43.2%	40.0%
<i>Absolute Return</i>	11.1%	15.0%	17.4%	18.0%
<i>Real Assets</i>		15.0%	8.2%	10.0%
<i>Real Estate</i>	10.3%	10.0%	17.6%	7.0%
<i>Not Specified</i>	-	-	-	5.0%
Bonds and Cash	3.6%	11.0%	8.4%	11%
Average Annual Effective Spending Rates for Fiscal Years 2004 to 2014				
Average Spending Rate	4.8%	-	4.9%	4.6%
Annualised 10-Year Net Returns to Fiscal Year 2014				
10-Year Annualised Net Return	10.2%	8.9%	11.0%	8.2%

*Private equity includes leveraged buyouts, mezzanine, distressed debt, and venture capital. '-' indicates the value was unavailable.
Source: NACUBO 2014, Harvard Management Co. 2014., The Yale Endowment 2014, Wellcome Trust Annual Report 2004-2014

Long-term Performance of the Endowment Model

- *Yale has produced 13.9% per annum over last 20 years.*
- *US Endowments returned 8.2% on average over the last 10 years with Yale returning 11%.*
- *Yale achieved a post Financial Crisis average return of 14% per annum.*

Yale Endowment Value versus MSCI World Equity Index



Source: Yale Endowment Reports: 1996 to 2013, S&P Capital IQ

Source: NACUBO Common Fund Study 2014, which covers valuations to June 2014 and Yale Annual Report for 2014. All returns are net all management fees and expenses.

How Can Endowments Outperform?

- **Aggressive asset allocation to high returning assets**
Large allocation to alternative investments and a low allocation to fixed income and cash
- **Rebalancing and contrarian views**
- **Effective investment manager research**
- **First mover advantage (e.g. Yale)**
- **Access to a network of talented alumni – SAT Effect**
- **Acceptance of liquidity risk**

Long-term Returns for Alternatives

- **Positive outlook for alternative strategies relative to public markets**
 - Industry and investment trends favour alpha generation to alternative investments and a low allocation to fixed income and cash
- **Manager selection is critical determinant of investment success**
- **Good risk adjusted returns, low correlation, diversification, diverse return generators**

Alternative Asset Strategy	Return	Volatility	Return / Risk ratio
Private Equity	6.25%	21.00%	0.30
Direct Lending (USD)	7.00%	10.00%	0.70
US Direct Real Estate	4.25%	14.25%	0.30
European Direct Real Estate	4.75%	10.25%	0.46
US REITs	5.25%	15.25%	0.34
Global REITs (ex US)	7.00%	17.50%	0.40
Global Infrastructure	5.25%	15.25%	0.34
Infrastructure Debt (USD)	4.25%	5.75%	0.74
Diversified Hedge Funds	3.50%	7.50%	0.47
Event Driven Hedge Funds	4.00%	9.00%	0.44
Long Bias Hedge Funds	4.00%	10.50%	0.38
Relative Value Hedge Funds	3.75%	7.00%	0.54
Macro Hedge Funds	3.00%	7.50%	0.40
Commodities	2.75%	14.00%	0.20
Gold	3.00%	18.00%	0.17

Key Trends for Alternatives

- **Hedge Funds - Continued need to diversify away from traditional equities and credit markets**
 - Hedge funds and liquid alternatives uniquely equipped to deliver returns while mitigating downside risks
- **Private Equity – Potential for managers to offer longer term funds; also seeing more asset owners doing direct or co-investing**
- **Real Estate – At low rates, investors need to be patient and selective**
- **Infrastructure – Huge potential but requires more engagement with stakeholders (governments, regulators, communities)**
 - Infrastructure can offer attractive yields for string, stable cashflows via Illiquidity premium
- **Commodities – OPEC and shale will influence energy markets; base and industrial metals will be dependent on global growth; long term demand for Gold is positive**
- **Natural Resources – New strategies to emerge in water, environmental, sustainability or technology themes**

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Thank you for attending



The CAIA Charter

The Global Benchmark In Alternative
Investment Education

www.caia.org