HEALTH WEALTH CAREER

THE CASE FOR TRADITIONAL HEDGE FUNDS

APRIL 2018

MAKE TOMORROW, TODAY

MERCER

HEDGE FUNDS
OVERVIEW

WHAT ARE THEY?

- We do not think of hedge funds as an asset class, rather as a collection of heterogeneous investment strategies which can be utilised to gain exposure to a variety of non-traditional risks ("hedge fund risks")
- In fact, individual hedge fund managers implementing the same investment strategy often target and generate contrasting risk profiles.

WHY INVEST NOW?

- We believe hedge funds represent a long term strategic allocation in the range of 10-20% of investor portfolios. Timing an allocation is difficult at best and highly discouraged.
- Investors increasingly seeking a greater contribution from "alpha" to capitalise on policy divergence, transition from QE to QT, rising dispersion, continued M&A activity and maturity of credit / default cycle.

RECENT CHALLENGES

- Performance
- Fees/Costs

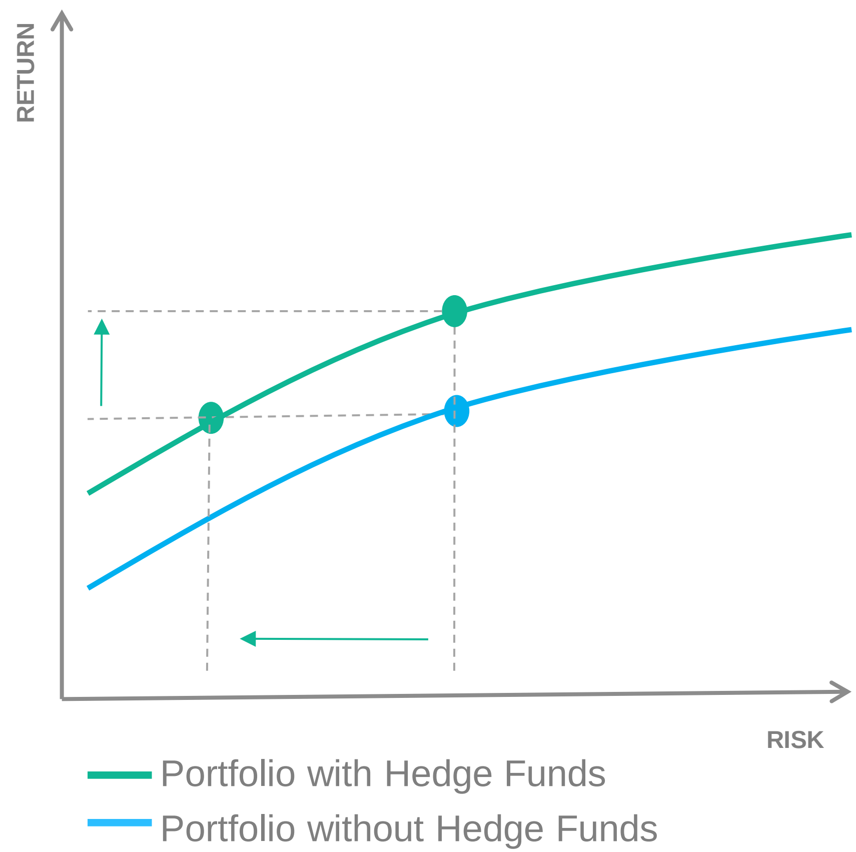
MERCER PHILOSOPHY

- A risk reducing component of the growth portfolio
- Improve total portfolio diversification
- Diversify equity risk without introducing interest rate sensitivity
- Downside protection first, balanced with upside participation second

WHAT ARE HEDGE FUNDS?

WHAT ARE HEDGE FUNDS?
IMPROVING THE RISK/REWARD PROPOSITION

- Hedge funds offer a unique ability to diversify the traditional equity, credit and interest rate risks that dominate a typical asset allocation.
- This is achieved through a less constrained mandate which allows for more flexibility to capitalize on opportunities, expertise, and skillsets.
- Hedge funds provide exposure to non-traditional return drivers and can play an important role in achieving a well-diversified overall portfolio.
- By introducing new return drivers, the total portfolio relies less on the direction of capital markets.
- Hedge funds can be a powerful diversifier, stretching the efficient frontier and improving risk-adjusted performance.



WHAT ARE HEDGE FUNDS?
THE HEDGE FUND TOOL BOX

HEDGE FUNDS

LONG/SHORT

- Hedge funds have the ability to invest long and short
- Taking long positions in securities that are expected to appreciate and short positions in securities that are expected to decline
- Short selling enables a strategy to profit from a position that is expected to decline in value

MANAGER SKILL

- Hedge funds are more reliant on investment manager skill (successful active management) than the direction of markets in general
- Returns are less reliant on market direction and therefore should be more consistent over time

ABSOLUTE RETURN

- Hedge funds focus on “absolute return” rather than performance relative to a specific benchmark

LEVERAGE

- Hedge funds have the ability to borrow
- Applying leverage enables a strategy to amplify position sizing to exploit opportunities in a more sizeable manner; however, this flexibility needs to be managed carefully

INVESTMENT FLEXIBILITY

- Hedge funds have few restrictions on asset classes and investment techniques they can employ
- However, most hedge funds do tend to specialise

Hedge funds offer greater flexibility in execution and a broader mandate through fewer constraints

WHAT ARE HEDGE FUNDS?
THREE MAIN "TYPES"

- **Multi-strategy Funds**

Multi-Strategy	Expected to produce consistent returns due to diversification across strategies, plus the ability to tactically shift allocations between strategies as the opportunity set changes

- **Focused Single Strategies**

Long/Short Equity	Relative Value
Global Macro	Credit Opportunity
Event Driven & Distressed	Insurance Linked

Expected to produce strong returns over a full cycle, but with less consistency than Multi-strategy Funds

- **Hedging Strategies**

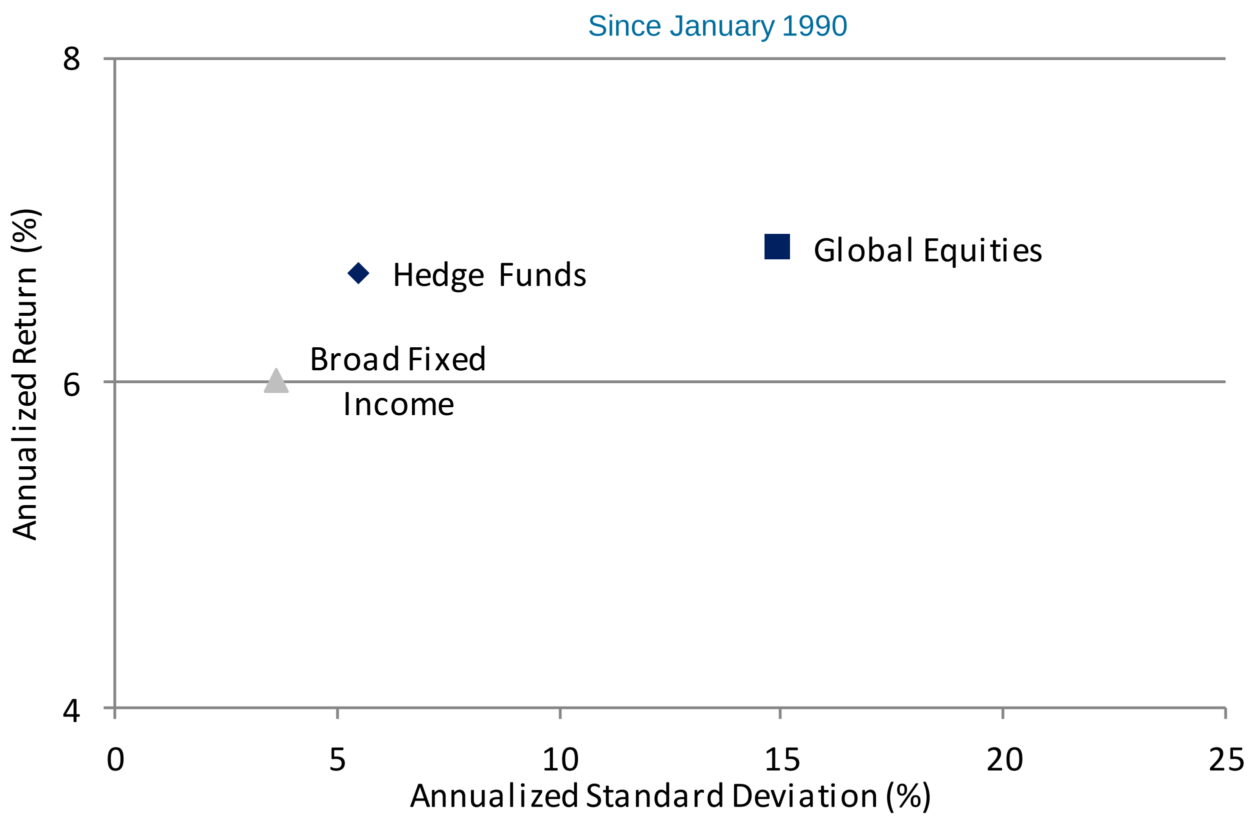
Tail Risk Hedging	Managed Futures

Strategies that can be expected to provide useful diversification or protection against systemic risk

WHY INVEST IN HEDGE FUNDS?

WHY INVEST IN HEDGE FUNDS?
HISTORICAL RESULTS SUPPORT THESIS

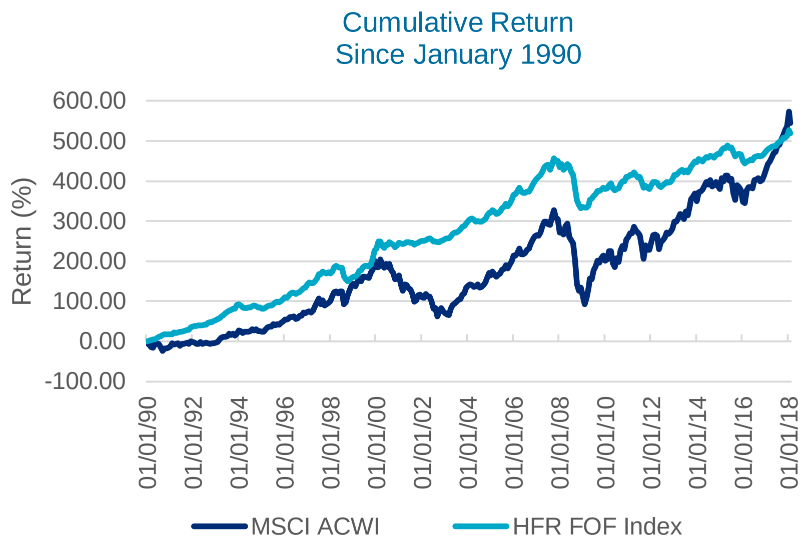
- Over their full history, hedge funds on average have indeed provided attractive risk-adjusted returns relative to traditional stock and bond portfolios.



Source: Datastream. Based on the HFRI FoF Composite Index; MSCI ACWI; and BBgBarc Agg from Jan 1990 to Dec 2017.

WHY INVEST IN HEDGE FUNDS?
DAMPENING CYCLE EFFECTS

- Over their full history, hedge funds have delivered returns in line with global equities with approximately 1/3 the volatility.
- Generally, over full market cycles, hedge funds have demonstrated their benefit in a portfolio, as illustrated in the table below.
  - Over the first two cycles, hedge funds outperformed equities with less risk.
  - While hedge funds have underperformed equities in the current market cycle, the low volatility profile has remained consistent and attractive, particularly as a diversifier to equities that carries no interest rate risk. The comparison versus equities in the current cycle has been distorted by the end-period parabolic move in the equity markets.



Hedge Funds
Return: 6.7% p.a.
Volatility: 5.5% p.a.
Sharpe: 0.7

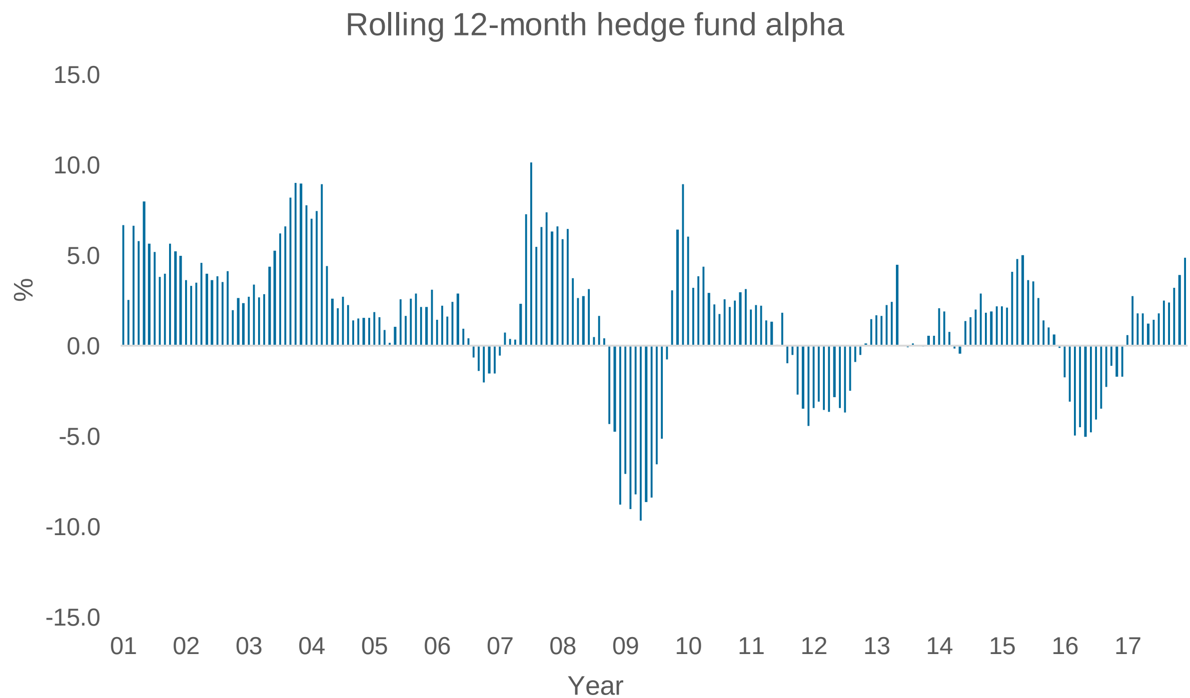
Equities
Return: 6.8% p.a.
Volatility: 15.0%
Sharpe: 0.3

Market Cycle	MSCI ACWI		HFR FOF	
	Ann. Return	Ann. Std Dev	Ann. Return	Ann. Std Dev
1. Jan '90 - Mar '00	11.5	14.2	13.0	6.1
2. Apr '00 - Oct '07	4.6	13.5	6.3	4.2
3. Nov '07 - Dec '17	4.0	16.7	1.0	5.1

Source: HFRI FoF composite Index and MSCI ACWI from Jan 1990 to Dec 2017

HISTORICAL RESULTS SUPPORT THESIS. . . BUT WHAT ABOUT THE LAST TEN YEARS ?

- Residual hedge fund alpha has been more sporadic in recent years, however we believe much of this may be attributable to global monetary easing and regulatory changes. As we begin to move from QE to QT, we are seeing positive signs more recently for hedge fund alpha. Net of their average exposure to global equities, hedge funds provided alpha over calendar year 2017.
- While the average results continue to support the thesis, in our experience, alpha can be enhanced through manager selection and portfolio construction.



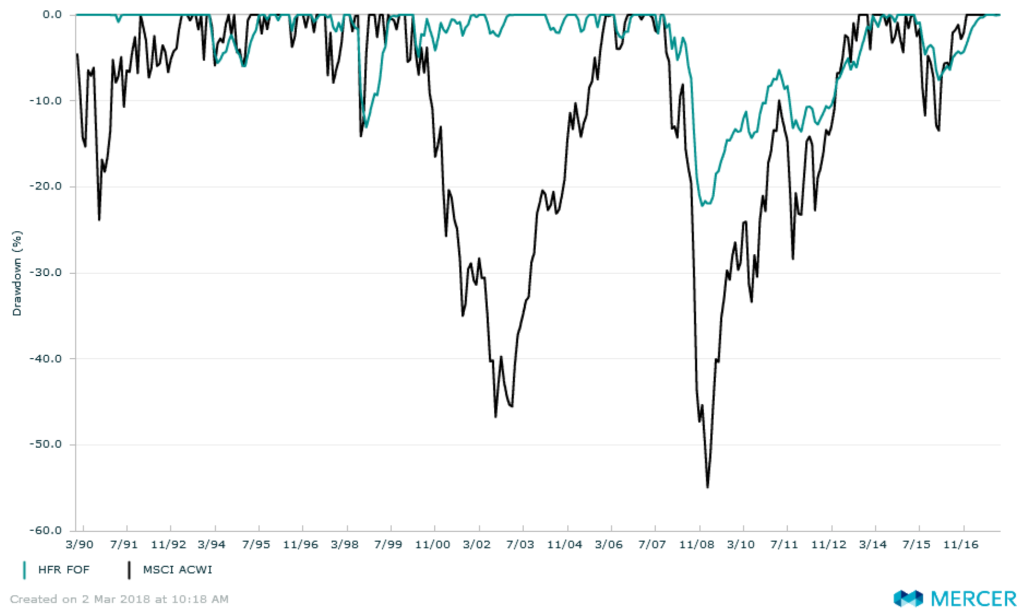
Source: Datastream Data from Jan 2000 to Dec 2017.

Calculated as (rolling 12 month HRI FoF Composite returns) – (rolling 12 month beta to MSCI World Index * rolling 12 month MSCI World Index return).

WHY INVEST IN HEDGE FUNDS?
THE POWER OF NEGATIVE RETURNS

Return in Year 1	Return in Year 2 to Break-Even	Years at 10% Return to Break-Even
-10%	11.1%	1.11
-20%	25.0%	2.34
-30%	42.9%	3.74
-40%	66.7%	5.36
-50%	100.0%	7.28

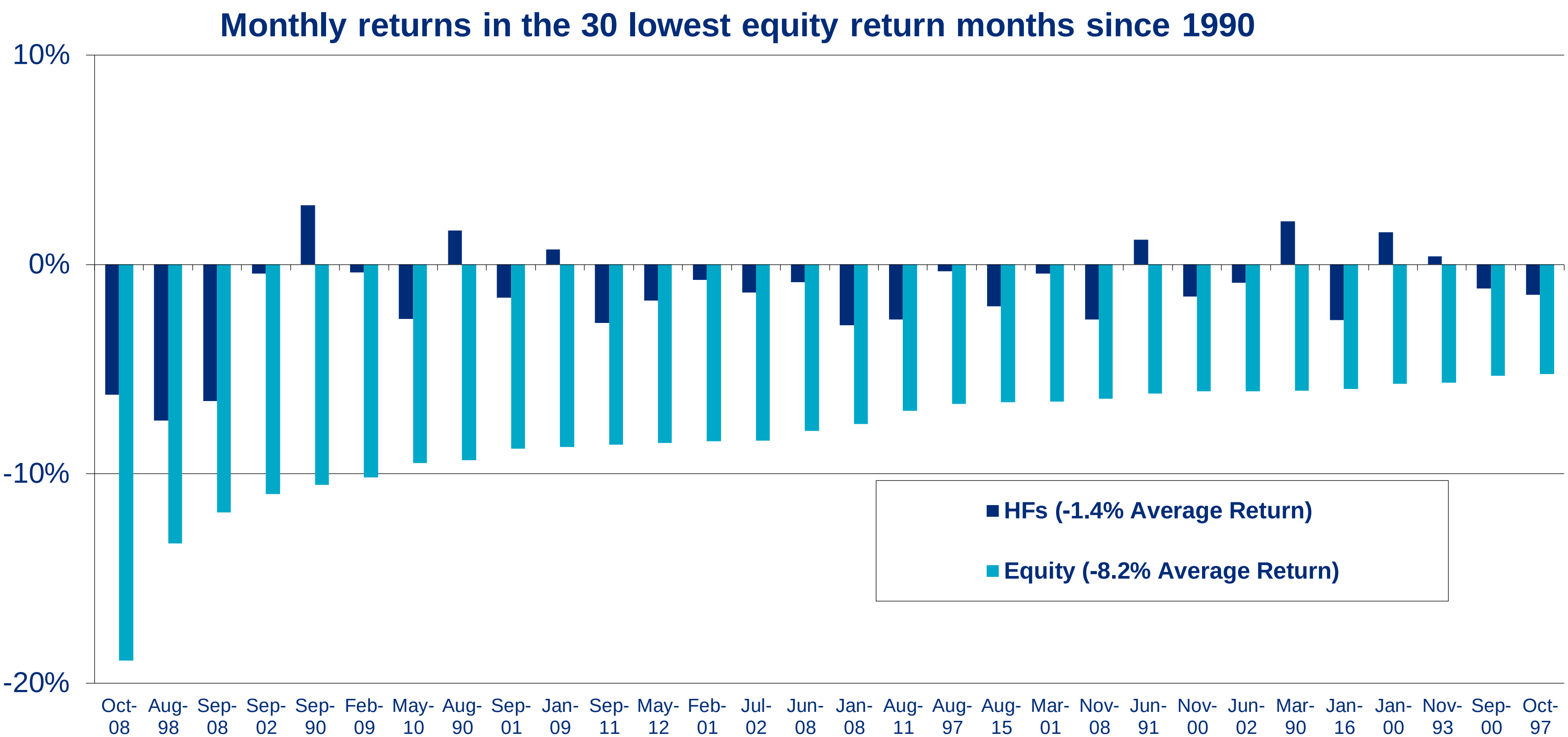
Drawdowns since January 1990



“ The tyranny of negative compounding returns may be the hardest lesson that far too many investors never master.” David Rolfe, Westwood Partners

Source: Drawdown data from Jan 1990 to Dec 2017.

WHY INVEST IN HEDGE FUNDS?
EXCHANGING SHORT TERM GAINS FOR LONG TERM REWARD



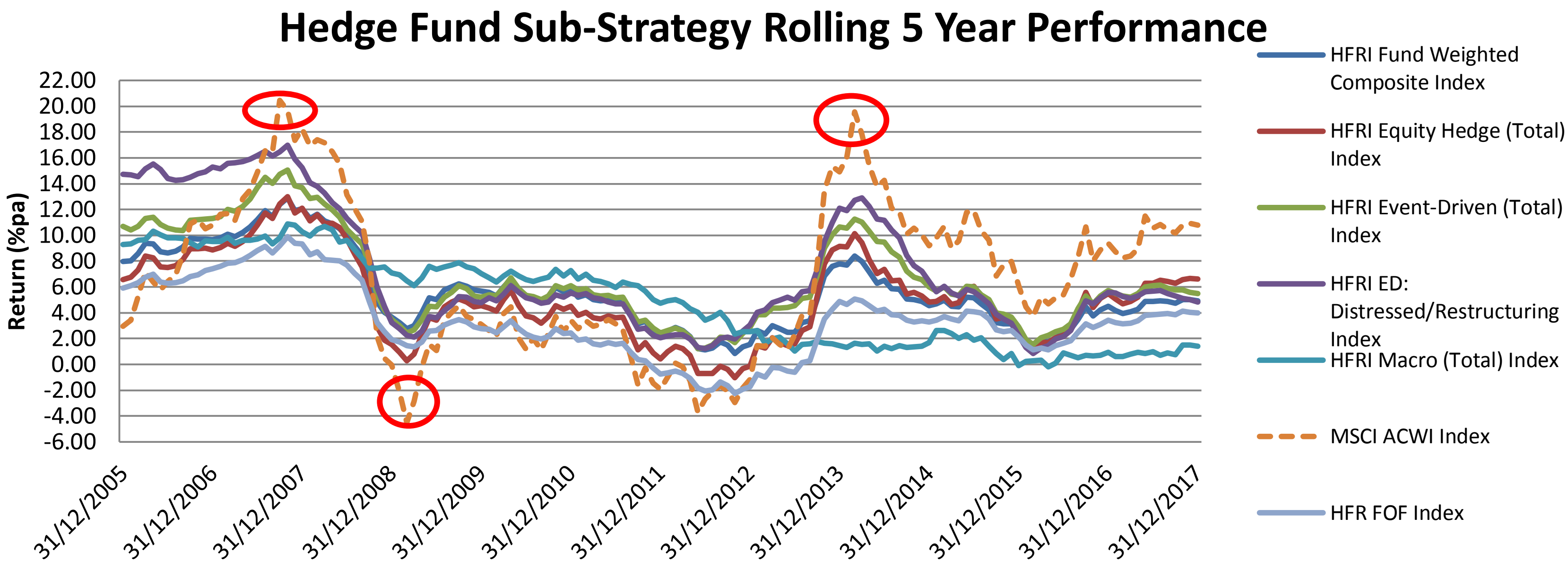
Source: Datastream
Note: Based on the HFRI Fund of Fund Composite and MSCI AC World indices from January 1990 to December 2017

WHY INVEST IN HEDGE FUNDS?
CONCLUSIONS

- In our opinion, a well-crafted hedge fund allocation represents an attractive component of the growth portfolio toolkit.
- Through risk factor diversification, hedge funds can increase the drivers of portfolio growth, thereby reducing risk in an absolute sense.
- Well executed, a hedge fund program may produce close to equity-like returns with significantly less volatility over the long-term.
- Hedge funds are not, of course, without risk. Furthermore, many hedge fund risks are non-compensating - diversification of such risks is critical.
- Successful implementation is necessary in order to achieve the desired benefits. Manager selection, due diligence, risk monitoring, and portfolio construction are critical.

HEDGE FUND
RECENT CHALLENGES

POSITIVE BUT MUTED PERFORMANCE IN RECENT YEARS



Source: Thomson Reuters Datastream based on HFRI Fund of Fund Composite, MSCI AC World indices, and HFRI indices from December 2005 to December 2017 showing 5 year rolling period returns.

As of 12/31/17	HFRI Fund Weighted Composite Index	HFRI Equity Hedge (Total) Index	HFRI Event-Driven (Total) Index	HFRI ED: Distressed/Restructuring Index	HFRI Macro (Total) Index	MSCI ACWI Index	HFR FOF Index
1 Year (%)	8.6	13.3	7.6	6.3	2.2	24.0	7.8
3 Years (%)	4.2	5.8	4.7	4.0	0.7	9.3	2.6
5 Years (%)	4.9	6.6	5.5	4.8	1.4	10.8	4.0
10 Years (%)	3.2	3.2	4.2	3.9	2.0	4.7	1.1
Since Inception (%)	9.9	11.5	10.4	10.7	10.1	6.8	6.7
Inception Date	12/31/89						

Source: HFRI Fund of Fund Composite, MSCI AC World indices, HFRI indices from December 1989 to December 2017.

- The long-term track record of hedge funds broadly has been strong, but performance is strategy dependent and cyclical, underperforming during strong markets and adding significant value during market dislocations (as illustrated above).
- However, hedge funds have provided returns of cash + 4-6% over the last five years.
- As a reminder, hedge funds generally focus on absolute returns, are benchmark agnostic, and not constructed to outperform a particular benchmark.

WHY HAS HEDGE FUND PERFORMANCE BEEN LOWER IN RECENT YEARS?

1. **The low interest rate environment**
   - Reduces the return on cash in the portfolio and resets global return expectations on all asset classes.

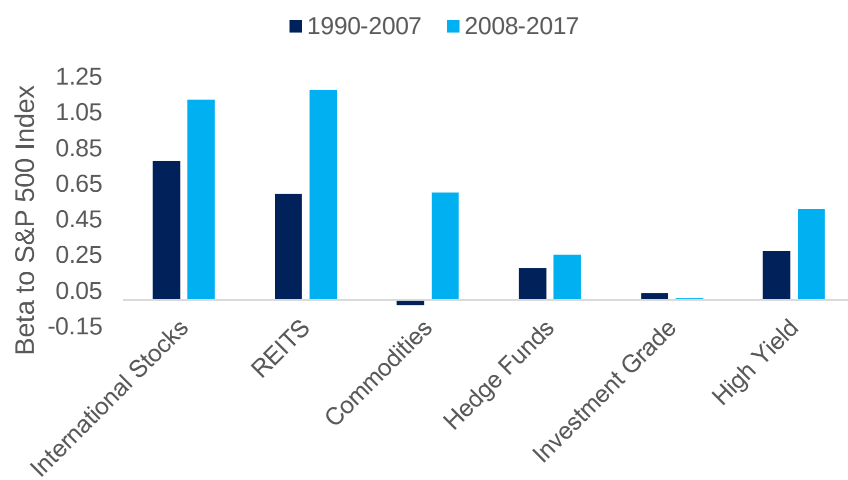
2. **Relatively little dispersion within markets**
   - Extreme monetary stimulus has reduced the degree of dispersion at a security level, thereby reducing the opportunity set for relative-value and bi-directional investors.

3. **A falling (and low) volatility environment**
   - Volatility in markets creates opportunities that can be exploited by hedge funds.

4. **Increased emphasis on passive investing has led to equity beta driven markets**
   - QE has been effective in forcing investors into risk-on mode and resulted in increased passive investing.
   - This has resulted in an unabated search for yield and return, resulting in indiscriminate asset price appreciation driven by global equities.
   - Correlations have increased across most all asset classes, however the degree of sensitivities is notable across some of the more traditional diversifying asset classes.

Rolling 1 year volatility since January 2008

Beta of Asset Classes with the S&P 500 Index

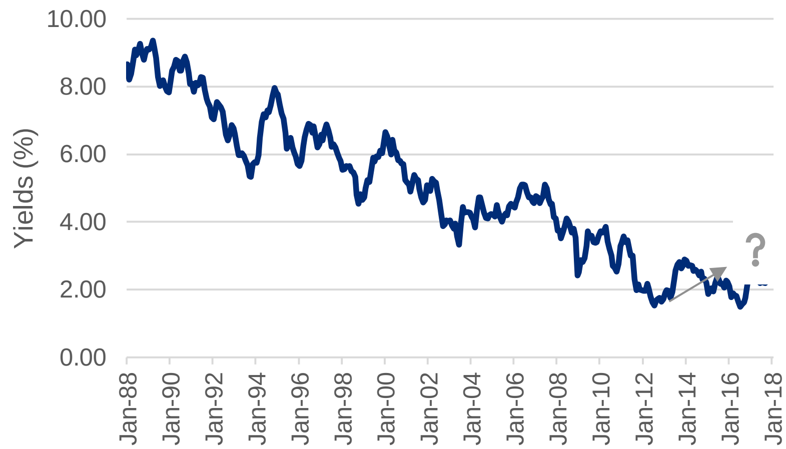


Source: Datastream. Based on MSCI ACWI X-US, FTSE NAREIT All Equity REITS, Bloomberg Commodity Index, HFR FoF Composite, BBgBarc Agg Index, Barclays US HY Index. All data through Dec 2017.

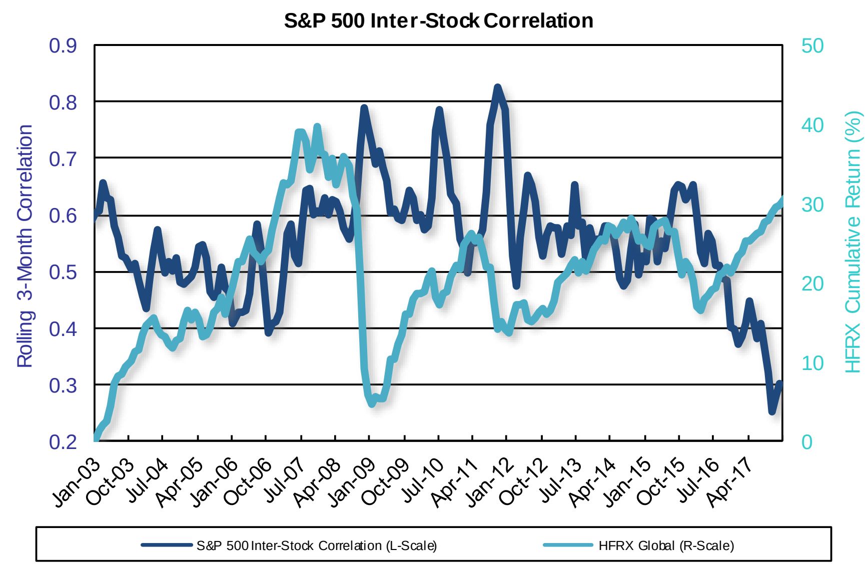
HEDGE FUNDS LOOKING FORWARD

1. **The low interest rate environment**
   - Interest rates are expected to gradually increase over the next few years, which should be a tailwind for absolute return focused mandates. This should also create winners and losers within markets as weaker companies no longer survive through cheap financing.
   - While not expected to be a strong tailwind, the short interest rebate is expected to turn from a constant negative to a slight positive for bi-directional equity strategies.
2. **Relatively little dispersion within markets**
   - It is difficult to make strong assertions about the likely level of dispersion in markets, although we are now starting to see decreased intra asset class correlation. To the extent that we have already passed the high point in monetary stimulus, it may be that more "normal" market dynamics resume in years ahead.
3. **A falling (and low) volatility environment**
   - Volatility regime shifts have proven to be dramatic and swift in the past.
   - We expect hedge fund strategies to capitalize on higher levels of volatility and any resulting forced selling.
4. **Increased emphasis on passive investing has led to equity beta driven markets**
   - A well diversified hedge fund program continues to offer correlation benefits. Targeting a low correlation (and beta) to global equities.

US 10-Year Yields



Source: FRED. Data from Jan 1988 to Dec 2017.



Source: Bloomberg: Data from Jan 2003 to Dec 2017

PERFORMANCE

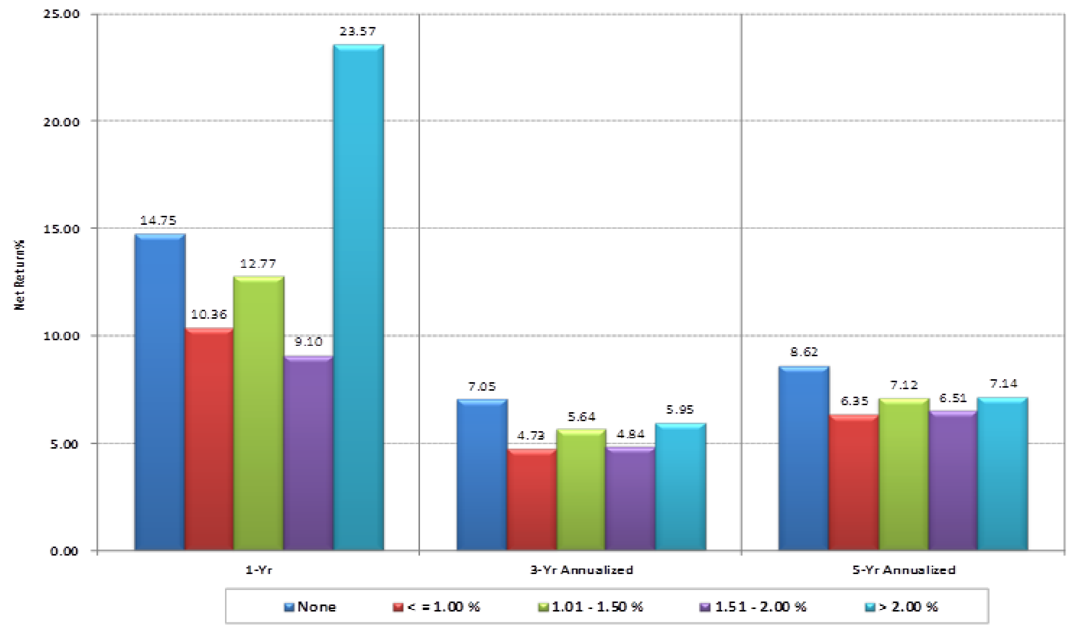
HEDGE FUNDS IN A BROADER CONTEXT

- Following a period of exceptional returns from many financial assets (equities, credit, government bonds), generating positive real returns in this environment is likely to be challenging
- We believe that investors need to prepare for lower returns or consider less familiar asset classes and more flexible strategies in order to deliver on their return objectives
- Hedge funds offer exposure to sources of return that are unlikely to have been significantly eroded by asset price inflation. These include:
  - Less constrained security selection
  - Variable beta
  - Complexity risk premium
  - Deal risk premium
  - Liquidity risk premium
  - Spread capture
- We believe that a well diversified portfolio of high calibre hedge funds should be capable of delivering returns of cash plus 3-5% (net of fees) over a full market cycle.

FEES

- The traditional 2% management fee and a 20% performance fee structure continues to be challenged. In our experience, hedge fund fees have been falling in recent years, with reductions in both the management and performance fees. Average fees today are in the range of 1.5-1.75% management fees and 15-17.5% performance fees.
- An overriding emphasis on fees alone may provide for less than desirable results. Current evidence suggests that outside of 0% management fee, over the last 5 years, lower fees have not resulted in higher returns on average.
- Higher fees, in some cases, may provide greater stability in team, structure, and process resulting in improved performance long-term.

HFRI Fund Weighted Composite Index
Performance by Current Management Fee Bucket
Period Ending Q4 2017



Source: HFR Industry Reports, © HFR, Inc. Year End 2017
www.hedgefundresearch.com

ARE FEE CONSTRAINTS A ROADBLOCK?

- Hedge fund fees are higher than those for traditional asset classes. This will act as a barrier to entry for investors with explicit fee constraints.
- We continue to believe that true investment skill is a finite resource and allocating a greater portion of one's fee budget should carry a higher hurdle. We make a conscious decision to define that hurdle as superior risk management as opposed to absolute or relative performance levels.
- We favour an improved alignment of interests and allocation of returns between asset owners and asset managers broadly. We believe the unconstrained mandate affords a skilful investor the full expression of their talents. While there is scope broadly to improve the allocation of economics, we continue to believe there will be a premium for skilful hedge fund managers, however rare a breed.
- Those clients who aren't heavily fee constrained should consider the diversifying properties and inefficiencies available for hedge fund investors. In our opinion, attractive *net of fee* returns can be achieved.

MERCER HEDGE FUND PHILOSOPHY

MERCER'S HEDGE FUND PHILOSOPHY

We believe that a hedge fund program, properly designed, is a "**risk reducing**" component of the growth portfolio.

- A well diversified hedge fund program represents a strategic long term allocation within a portfolio.
- The allocation allows the growth portfolio to pursue a long term offensive posture.
- Risk reduction is defined as diversity of risk factors and return drivers
- We seek capital preservation first and performance enhancing second, utilizing the full spectrum of the hedge fund tool set.
- The allocation should diversify and complement the equity risk that dominates the growth portfolio without introducing interest rate sensitivity

The role of our hedge fund strategy is to diversify the return drivers in the growth portfolio and generate attractive risk-adjusted returns relative to equities over a market cycle.

MERCER'S HEDGE FUND PHILOSOPHY
STRATEGIC ALLOCATION

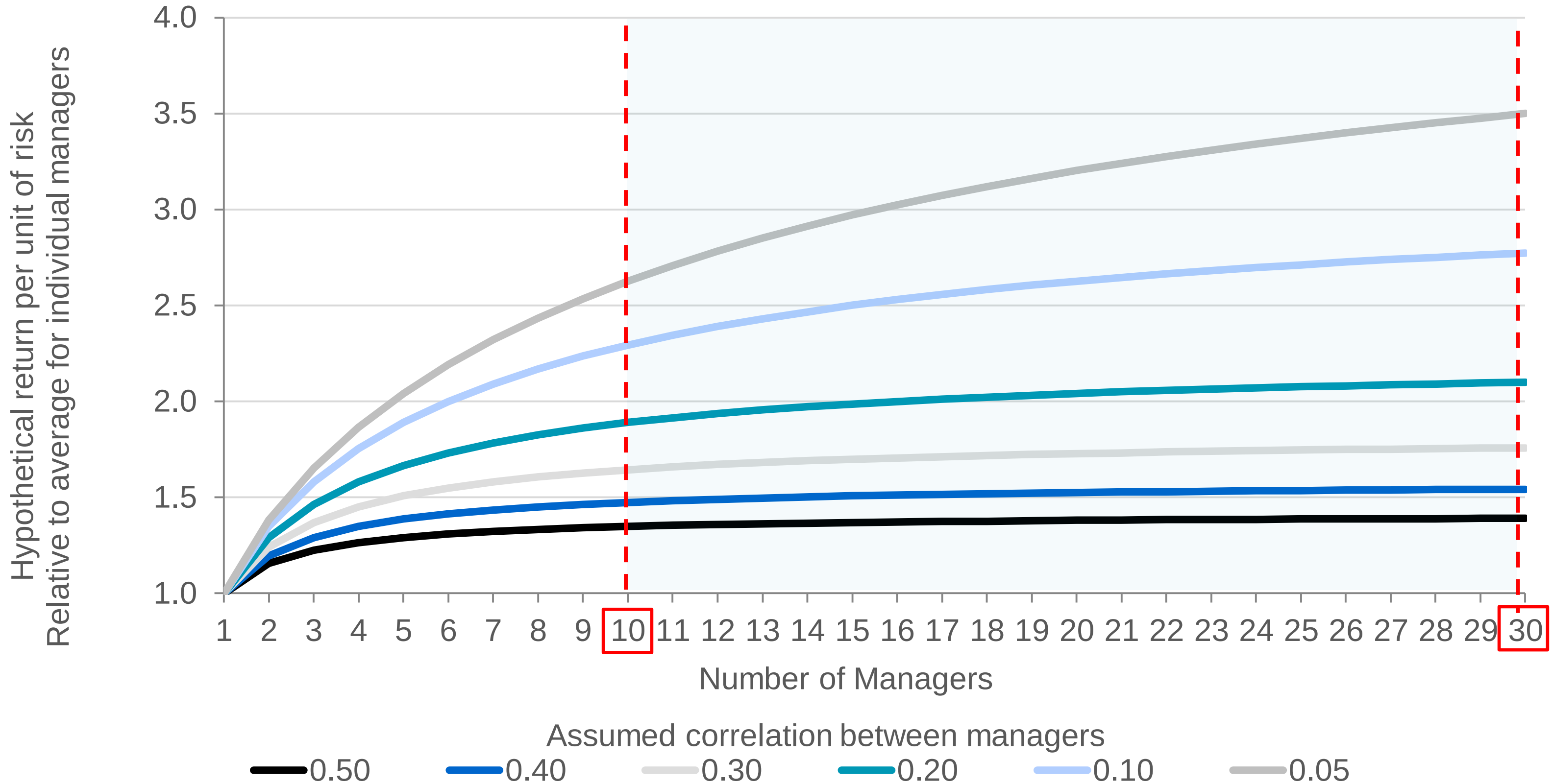
- In our opinion, the value proposition of a hedge fund allocation is best viewed through the benefits it can provide to a broader portfolio.
- A diversified collection of risk and return drivers should provide the most robust outcomes over a full market cycle.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
HFRI Emerging Markets 39.36%	HFRI ED: Distressed 18.89%	HFRI Emerging Markets 21.04%	HFRI Emerging Markets 24.26%	HFRI Emerging Markets 24.92%	Barclays Gov't/Credit 6.09%	HFRI RV: ConvertArb 60.17%	S&P 500 15.08%	Barclays Gov't/Credit 9.24%	S&P 500 15.99%	S&P 500 32.36%	S&P 500 13.65%	HFRI EH: Eq Mrkt Ntrl 4.27%	HFRI ED: Distressed 15.15%	S&P 500 21.80%
HFRI ED: Distressed 29.56%	HFRI Emerging Markets 18.42%	HFRI Equity Hedge 10.60%	HFRI ED: Distressed 15.94%	HFRI Macro 11.11%	HFRI Macro 4.83%	HFRI Emerging Markets 40.25%	HFRI RV: ConvertArb 13.35%	S&P 500 2.09%	HFRI Relative Value 10.59%	HFRI Equity Hedge 14.28%	Barclays Gov't/Credit 6.32%	HFRI ED: Merger Arb 3.32%	S&P 500 11.93%	HFRI Emerging Markets 20.12%
S&P 500 28.67%	HFRI Event-Driven 15.01%	HFRI Fund Wghtd Comp 9.30%	S&P 500 15.78%	HFRI Equity Hedge 10.48%	HFRI ED: Merger Arb -5.37%	HFRI ED: Distressed 28.14%	HFRI ED: Distressed 12.12%	HFRI ED: Merger Arb 1.50%	HFRI Emerging Markets 10.37%	HFRI ED: Distressed 14.05%	HFRI Macro 5.58%	HFRI RV: ConvertArb 1.92%	HFRI Event-Driven 10.57%	HFRI Equity Hedge 13.46%
HFRI Event-Driven 25.33%	S&P 500 10.86%	HFRI ED: Distressed 8.27%	HFRI Event-Driven 15.33%	HFRI FOF Composite 10.25%	HFRI EH: Eq Mrkt Ntrl -5.92%	S&P 500 26.47%	HFRI Event-Driven 11.86%	HFRI Relative Value 0.15%	HFRI ED: Distressed 10.12%	HFRI Event-Driven 12.51%	HFRI Relative Value 4.02%	S&P 500 1.38%	HFRI RV: ConvertArb 8.10%	HFRI Fund Wghtd Comp 8.68%
HFRI Macro 21.42%	HFRI Fund Wghtd Comp 9.03%	HFRI FOF Composite 7.49%	HFRI ED: Merger Arb 14.24%	HFRI Fund Wghtd Comp 9.96%	HFRI Relative Value -18.04%	HFRI Relative Value 25.81%	HFRI Emerging Markets 11.44%	HFRI ED: Distressed -1.79%	HFRI Event-Driven 8.89%	HFRI Fund Wghtd Comp 9.13%	HFRI FOF Composite 3.37%	Barclays Gov't/Credit 0.15%	HFRI Relative Value 7.67%	HFRI FOF Composite 7.73%
HFRI Equity Hedge 20.54%	HFRI Equity Hedge 7.68%	HFRI Event-Driven 7.29%	HFRI Fund Wghtd Comp 12.89%	HFRI Relative Value 8.94%	HFRI Fund Wghtd Comp -19.03%	HFRI Event-Driven 25.04%	HFRI Relative Value 11.43%	HFRI EH: Eq Mrkt Ntrl -2.13%	HFRI RV: ConvertArb 8.58%	HFRI FOF Composite 8.96%	HFRI EH: Eq Mrkt Ntrl 3.06%	HFRI FOF Composite -0.27%	HFRI Emerging Markets 7.03%	HFRI Event-Driven 7.73%
HFRI Fund Wghtd Comp 19.55%	HFRI FOF Composite 6.86%	HFRI Macro 6.79%	HFRI Relative Value 12.37%	Barclays Gov't/Credit 7.75%	HFRI FOF Composite -21.37%	HFRI Equity Hedge 24.57%	HFRI Equity Hedge 10.45%	HFRI Event-Driven -3.30%	HFRI Equity Hedge 7.41%	HFRI RV: ConvertArb 8.02%	HFRI Fund Wghtd Comp 2.98%	HFRI Relative Value -0.29%	HFRI Equity Hedge 5.47%	HFRI ED: Distressed 7.58%
HFRI FOF Composite 11.61%	HFRI Relative Value 5.58%	HFRI ED: Merger Arb 6.25%	HFRI RV: ConvertArb 12.17%	HFRI ED: Merger Arb 7.05%	HFRI Event-Driven -21.82%	HFRI Fund Wghtd Comp 19.98%	HFRI Fund Wghtd Comp 10.25%	HFRI Macro -4.16%	HFRI Fund Wghtd Comp 6.36%	HFRI Relative Value 7.07%	HFRI Equity Hedge 1.81%	HFRI Equity Hedge -0.97%	HFRI Fund Wghtd Comp 5.44%	HFRI RV: ConvertArb 5.81%
HFRI RV: ConvertArb 9.93%	HFRI Macro 4.63%	HFRI EH: Eq Mrkt Ntrl 6.22%	HFRI Equity Hedge 11.71%	HFRI Event-Driven 6.61%	HFRI ED: Distressed -25.20%	HFRI ED: Merger Arb 11.65%	HFRI Macro 8.06%	HFRI RV: ConvertArb -5.16%	Barclays Gov't/Credit 5.07%	HFRI EH: Eq Mrkt Ntrl 6.46%	HFRI ED: Merger Arb 1.69%	HFRI Fund Wghtd Comp -1.12%	HFRI ED: Merger Arb 3.63%	HFRI Relative Value 5.11%
HFRI Relative Value 9.72%	Barclays Gov't/Credit 4.54%	HFRI Relative Value 6.02%	HFRI FOF Composite 10.39%	S&P 500 5.49%	HFRI Equity Hedge -26.65%	HFRI FOF Composite 11.47%	Barclays Gov't/Credit 6.99%	HFRI Fund Wghtd Comp -5.25%	HFRI FOF Composite 4.79%	HFRI Emerging Markets 5.47%	HFRI RV: ConvertArb 1.55%	HFRI Macro -1.26%	Barclays Gov't/Credit 3.19%	HFRI EH: Eq Mrkt Ntrl 5.04%
HFRI ED: Merger Arb 7.47%	HFRI EH: Eq Mrkt Ntrl 4.15%	S&P 500 4.91%	HFRI Macro 8.15%	HFRI RV: ConvertArb 5.33%	HFRI RV: ConvertArb -33.73%	Barclays Gov't/Credit 4.81%	HFRI FOF Composite 5.70%	HFRI FOF Composite -5.72%	HFRI EH: Eq Mrkt Ntrl 2.98%	HFRI ED: Merger Arb 4.74%	HFRI Event-Driven 1.08%	HFRI Emerging Markets -3.28%	HFRI EH: Eq Mrkt Ntrl 2.23%	HFRI ED: Merger Arb 4.24%
Barclays Gov't/Credit 5.07%	HFRI ED: Merger Arb 4.08%	Barclays Gov't/Credit 2.55%	HFRI EH: Eq Mrkt Ntrl 7.32%	HFRI EH: Eq Mrkt Ntrl 5.29%	S&P 500 -36.99%	HFRI Macro 4.34%	HFRI ED: Merger Arb 4.60%	HFRI Equity Hedge -8.38%	HFRI ED: Merger Arb 2.76%	HFRI Macro -0.44%	HFRI ED: Distressed -1.39%	HFRI Event-Driven -3.55%	HFRI Macro 1.03%	Barclays Gov't/Credit 4.18%
HFRI EH: Eq Mrkt Ntrl 2.44%	HFRI RV: ConvertArb 1.18%	HFRI RV: ConvertArb -1.86%	Barclays Gov't/Credit 4.07%	HFRI ED: Distressed 5.08%	HFRI Emerging Markets -37.26%	HFRI EH: Eq Mrkt Ntrl 1.43%	HFRI EH: Eq Mrkt Ntrl 2.85%	HFRI Emerging Markets -14.01%	HFRI Macro -0.06%	Barclays Gov't/Credit -2.47%	HFRI Emerging Markets -2.56%	HFRI ED: Distressed -8.06%	HFRI FOF Composite 0.51%	HFRI Macro 2.21%

Source: HFR Industry Reports, © HFR, Inc. Year End 2017, www.hedgefundresearch.com.

MERCER'S HEDGE FUND PHILOSOPHY
HOW MANY MANAGERS?

- Our analysis suggests that somewhere in the ***10 to 30*** range makes sense
- From a **qualitative** standpoint, this range allows the maximum allocation to a single fund to kept below 10%, without any allocations being too small to be meaningful
- From a **quantitative** standpoint, the conclusions are similar



INVESTMENT MANAGER SELECTION
IDENTIFYING CANDIDATES

GATHER DATA
(Global Investment Manager Database™)

6,503 Managers
32,439 Strategies
11,042 Strategies are Rated
61% of Rated Strategies are Rated A, B+ or B

PRIORITIZE CANDIDATES

Review of GIMD Entry
Previous Mercer Research
Market Intelligence

WORLDWIDE DUE DILIGENCE

Idea Generation
Portfolio Construction
Implementation
Business Management

RATINGS

Ratings Review Committee
Highly Rated Candidates
(Ongoing monitoring)

CANDIDATES

Data as of 31 December 2017

IDEA GENERATION
How strong is the manager's ability to generate value-adding investment ideas?

PORTFOLIO CONSTRUCTION
How effectively are these investment ideas translated into weightings within portfolios?

IMPLEMENTATION
How much of the value-add is given back in the form of transaction costs and opportunity costs?

BUSINESS MANAGEMENT
Well-managed investment firms are more likely to maintain and enhance the competitiveness of their investment strategies over time.

A Above average prospects of outperformance.

B+ Above average prospects of outperformance but which are qualified by at least one of the following:
- There are other strategies in which we have a greater conviction of outperformance.
- Mercer requires more evidence to support its assessment.

B Average prospects of outperformance.

C Below average prospects of outperformance.

N Not rated.

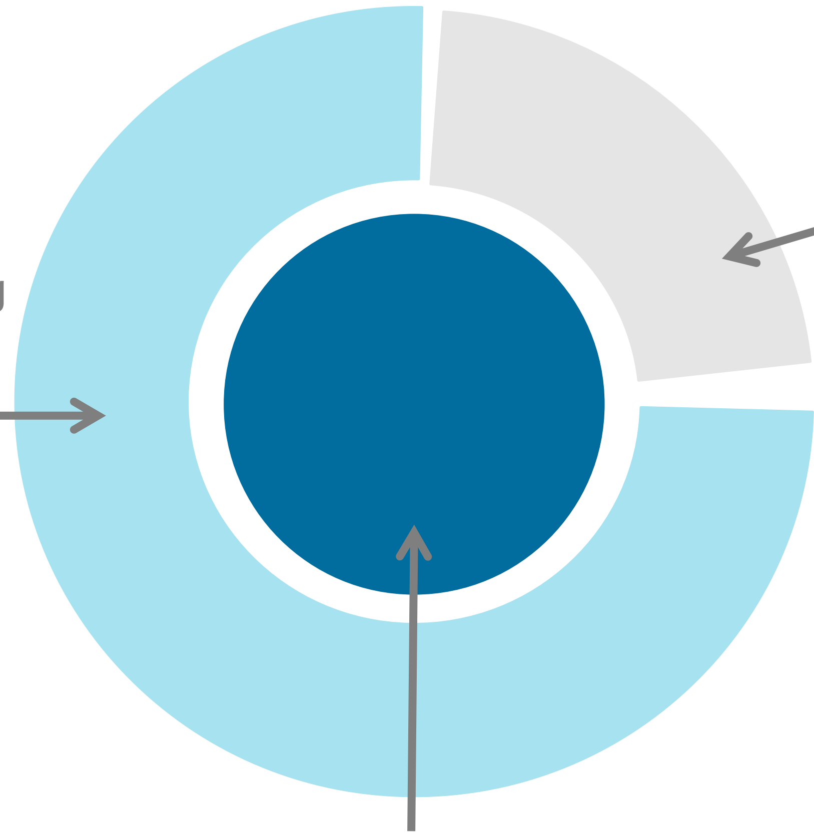
R 1) Early stage research.
2) Research no longer maintained.

STRUCTURING A HEDGE FUND ALLOCATION
THREE KEY STEPS

1) Talk to clients about their objectives, beliefs, and analyze the current investment portfolio
2) Review the appropriate hedge fund allocation, depending on a client's objectives and constraints
3) Review best way to implement the allocation, depending on client type:

"Do it for me" Investor	"Guide me" Investor	"Let me do it" Investor
• Appreciates the value of hedge funds, but • Limited hedge fund depth, operational resources, and/or time • Wants professional assistance managing investment exposure over time	• Reviews alternatives allocation occasionally • Wants control over major shifts in allocation • Limited engagement on implementation, rebalancing and other shorter term issues	• Frequently reviews alternatives portfolio • Utilizes full range of investment options • Controls all key investment allocation decisions
• An **outsourced portfolio approach** is likely to be the most appropriate	• A **tailored portfolio approach** is likely to be appropriate either **directed or delegated**	• An **advisory portfolio approach** is likely to be most appropriate

STRUCTURING A HEDGE FUND ALLOCATION
BEST PRACTICE PORTFOLIO CONSTRUCTION



Hedging strategies
useful diversifiers
(0% - 30%)

Tail Risk Hedging

Managed Futures

Focused single strategies
expected to generate strong returns over a full cycle
(30% - 70%)

Global Macro

Long/Short Equity

Relative Value

Credit Opportunity

Insurance Linked

Event Driven & Distressed

Multi-strategy
provide diversification with scope to shift allocations as opportunity set changes and to gain exposure to niche/emerging strategies
(20% - 60%)

IMPLEMENTATION OPTION
LARGE UNIVERSE POTENTIALLY AVAILABLE

Category	Strategies on GIMD*	A rated
Multi-Strategy	224	11
Long Short Equity	1,043	46
Event Driven (inc Distressed Debt)	308	12
Long Short Credit	267	9
Macro	291	31
Managed Futures	270	24
Liquid Alternatives	272	46
Alternative Risk Premia	73	11
Idiosyncratic Multi-Asset	117	12
Fund of Funds	743	23
Other	688**	26
Total	**4,296**	**251**

* As at 31 December 2017
** includes Active Currency, Commodities Long/Short, Tail Risk Hedging, Insurance Linked & Other strategies

HEDGE FUND SPECIALISTS
14 YEARS AVERAGE INDUSTRY EXPERIENCE

AMERICAS

Peter Willett, CFA, MBA, Boston, 29 years
Dave McMillan, CFA, St. Louis, 20 years
Stephen Ewen, CFA, Cleveland, 18 years
Jonathan Douek, St. Louis, 17 years
John Jackson, CFA, St. Louis, 17 years
John Schelich, St. Louis, 17 years
Erika Gestrich, St. Louis, 14 years
Juleigh Eggert, MBA, CAIA St. Louis, 13 years
Scott Zipfel, CFA, CAIA, St. Louis, 12 years
David Erhardt, CAIA, Chicago, 11 years
Lamar Small, MBA, CAIA, CFA, New York, 6 years
James Moog, CAIA St. Louis, 5 years
Brett Kasper, Chicago, 4 years
Dev Singhvi, CFA, New York, 4 years
Varun Patel, St. Louis, 1 year

EUROPE

Bill Muysken, FIA, FIAA, London, 35 years
Diane Miller, FIA, London, 34 years
Robert Howie, **FIA,** London, 21 years
Penny Aitken, **ACA** London, 20 years
Romule Nohasiarisoa, CFA, London, 18 years
Garvan McCarthy, CAIA, FIA, London, 13 years
Daniela Doria, London, 11 years
Shailan Mistry, CFA London, 6 years
Deborah Wardle, CFA, CAIA, London, 6 years
Jai Doshi, CFA, London, 5 years
Kishen Ganatra, CFA, London, 5 years
Edward Richardson, CFA, London, 4 years
Olivia Hu, MSc, London, 3 years
Harry Moore, London, 3 years
Matt Soundy, London, 3 years
Daisy King, London, 2 years
Georgia Wynter, London, 1 year

ASIA / PACIFIC

Phil Graham, CFA, Melbourne, 37 years
Simon Coxeter, Hong Kong, 16 years
Adrian Worth, MSc, CAIA, CFA, Hong Kong, 9 years

Data as of 31 December 2017. Average years experience excludes analysts and support/admin staff.

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