

# K2 ADVISORS

## Alternative Investment Case Studies

*Fiduciary Investors Symposium*

**October 2012**

*Presentation by David C. Saunders*



K2 ADVISORS®

# The Emergence of the Strategic Partner

# The Emergence of the Strategic Partner

**A collaborative, interactive relationship in which responsibilities are shared with or delegated to the investment manager; with the goal of creating a more absolute return approach to investing and improving risk-adjusted returns**

# The “Real Value” of a Strategic Partnership

## U.S. Public Pension Fund

**“We set up these partnerships with a real eye toward hiring managers with broad investment capabilities and lots of quantitative and qualitative talent, and then let them manage so we get their best ideas. The pension and consulting communities still are intent on dividing investments into tiny boxes. The ultimate iteration of this tendency is to hire talented managers and then keep them in the tiny boxes.”**

**“They are very flexible and allow the manager to be very responsive to market conditions. Managers can make swift decisions about investment opportunities and take full advantage of opportunities when they come up.”**



# Strategic Partnership: A Growing Trend Among Pension Funds

## ■ CalPERS

**“Investment committee adopted a formal investment policy for a new multi-class strategic partnership program that will invest up to a total of \$8 billion with four investment managers.”**

## ■ Texas Permanent School Fund, Austin

**“The \$24 billion Texas Permanent School Fund, Austin, in April selected... strategic relationship managers who, together with internal staff, will co-manage portfolios of direct investments in hedge funds.”**

## ■ New Jersey Division of Investment, Trenton

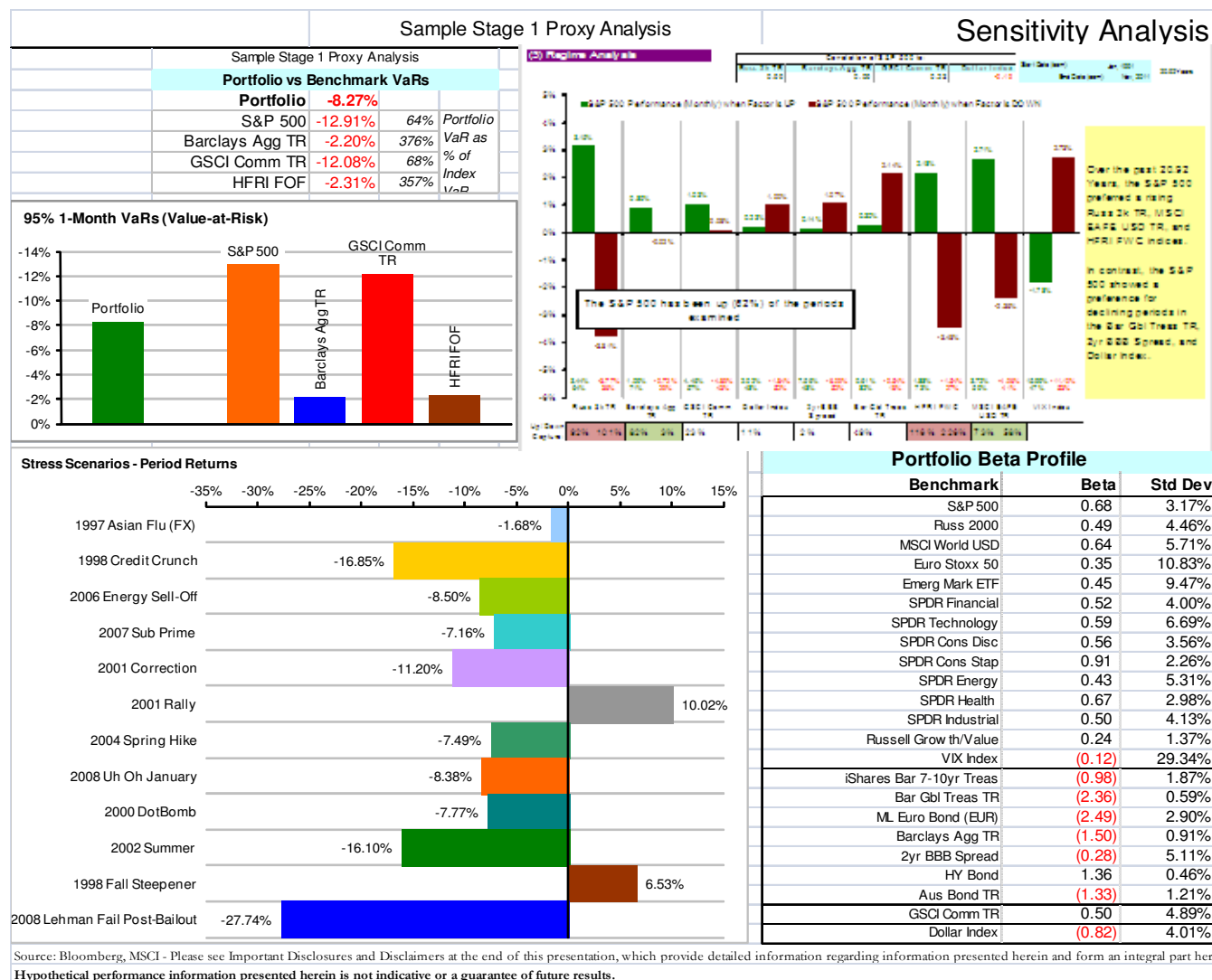
**“The \$72.1 billion New Jersey Division of Investment, Trenton, in December (2011) began a \$1.5 billion strategic relationship.”**



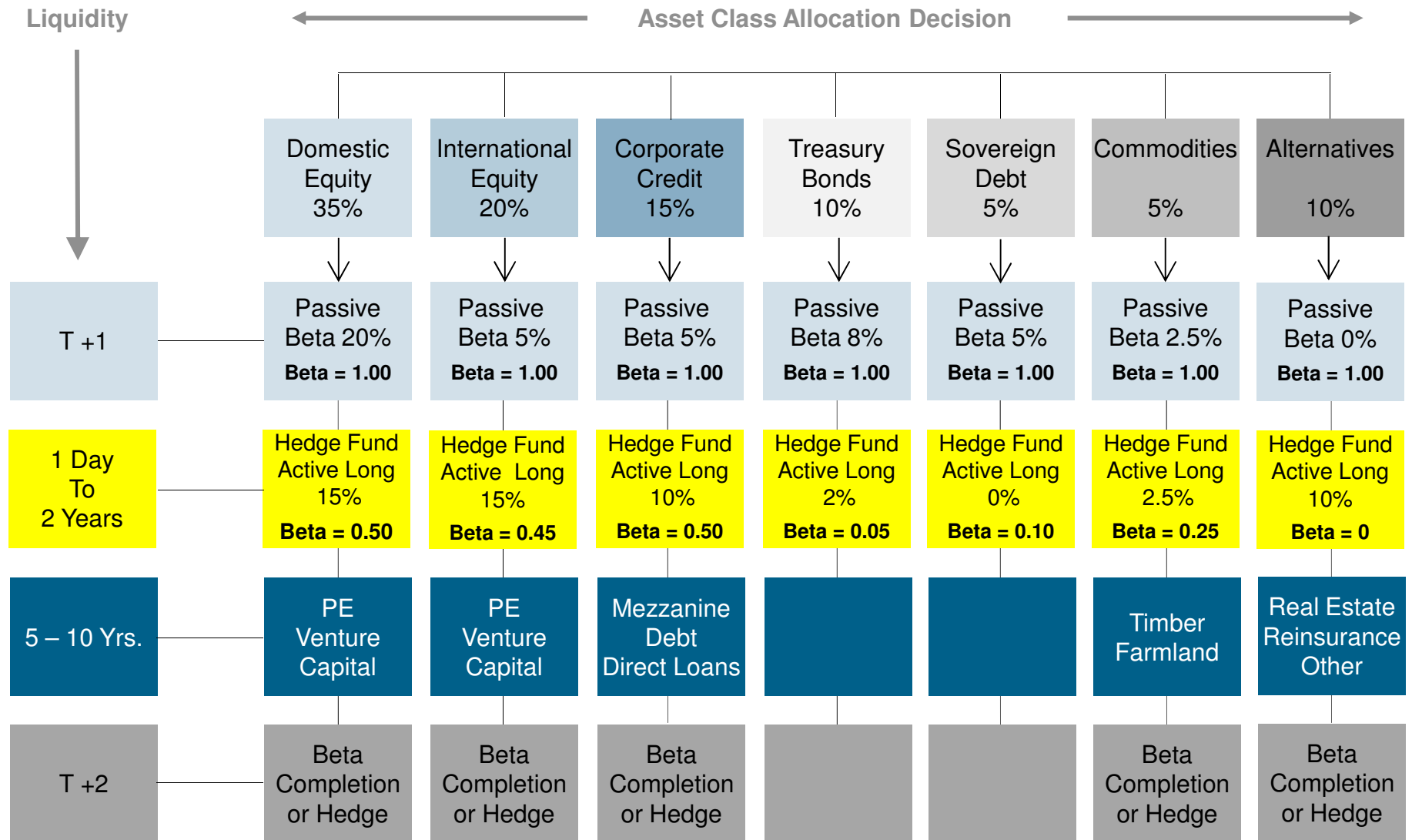
# Risk Systems: Stress Tests, Correlation, and Risk Profile

Risk systems enable investors to measure risk: stress tests, correlation analysis

These tools are needed for active portfolio management



# Dynamic Asset Allocation Framework – US\$ 1 Billion Sample Portfolio



# Potential Benefits From a Strategic Partnership

- **Establishes a layer of fiduciary responsibility**
- **Best thinking and ideas from managers**
- **Increased investment flexibility**
- **Ability of manager to reduce risk or seek best risk-adjusted investments**
- **Increased ability to be more opportunistic**
- **Improves staff productivity:**
  - Reduction in amount of RFP's
  - Board Meetings are streamlined (fewer manager presentations)
  - Less clerical / administrative work
  - Enables staff to spend time analyzing and investing
- **Knowledge transfer – education of staff**
- **Access to systems (risk, data, market information, etc.)**





## Contact Information

### **K2 Advisors, L.L.C.**

300 Atlantic Street – 12th Floor  
Stamford, CT 06901

Telephone: 203-348-5252  
Facsimile: 203-359-6369  
Investor Relations: 203-504-1407  
E-mail: [investoractivity@k2advisors.com](mailto:investoractivity@k2advisors.com)

### **David C. Saunders**

Co-Founding Managing Director  
E-mail: [saunders@k2advisors.com](mailto:saunders@k2advisors.com)



# Important Disclosures and Disclaimers

## RISK CONSIDERATIONS

Investment in a fund of funds is a speculative investment, entails significant risk and should not be considered a complete investment program. An investment in a fund of funds provides for only limited liquidity and is suitable only for persons who can afford to lose the entire amount of their investment. There can be no assurance that the investment strategies employed by K2 or the managers of the investment entities in which K2 Funds invest will be successful.

The identification of attractive investment opportunities is difficult and involves a significant degree of uncertainty. Returns generated from the funds described in this presentation may not adequately compensate investors for the business and financial risks assumed. Investment in these types of funds is subject to those market risks common to entities investing in all types of securities, including market volatility. Also, certain trading techniques employed by the investment entities in which the funds described in this presentation invest, such as leverage and hedging, may increase the adverse impact to which the fund's investment portfolio may be subject.

Hedge funds are not required to provide investors with periodic pricing or valuation and there is generally a lack of transparency as to the underlying assets. Investing in hedge funds may also involve tax consequences and a prospective investor should consult with a tax advisor before investing. Investors in funds of hedge funds will incur asset-based fees and expenses at the fund level and indirect fees, expenses and asset-based compensation of investment funds in which these funds invest.

## DISCLAIMERS

This presentation shall not constitute an offer to sell or a solicitation of an offer to buy an interest in any of the funds advised by K2. Such offer may only be made at the time a qualified offeree (as determined by K2 and the applicable K2 Fund in their sole discretion) receives from K2 a Confidential Private Offering Memorandum describing an offering. This material does not constitute investment advice with respect to an investment in any security or other interest in any K2 Fund. Any information herein regarding K2 Funds should not be regarded as providing any assurance that any such K2 Fund will continue to have the features, attributes and qualities described herein as of any subsequent date and is not a guarantee of future results.

THIS MATERIAL DOES NOT CONTAIN ALL OF THE INFORMATION THAT IS MATERIAL TO A PROSPECTIVE INVESTOR IN ANY K2 FUND. AN INVESTOR CONSIDERING INVESTING IN A K2 FUND SHOULD CAREFULLY CONSIDER ALL OF THE TERMS GOVERNING AN INVESTMENT THEREIN INCLUDING INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES, WHICH ARE CONTAINED IN ITS CONFIDENTIAL PRIVATE OFFERING MEMORANDUM. THE CONFIDENTIAL PRIVATE OFFERING MEMORANDUM OF SUCH FUND SHOULD BE CAREFULLY READ AND UNDERSTOOD BEFORE INVESTING.

This presentation has been approved with limitations for the purpose of Section 21 of the Financial Services and Market Act 2000, by K2 Advisors, Ltd., an affiliate of K2, which is authorized and regulated by the United Kingdom Financial Services Authority.

THIS PRESENTATION DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR TO ANY PERSON WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

