ALTitude™

Winter
2025

Your quarterly guide to the world of alternative investing

Featured Article: Partners Group & Breitling

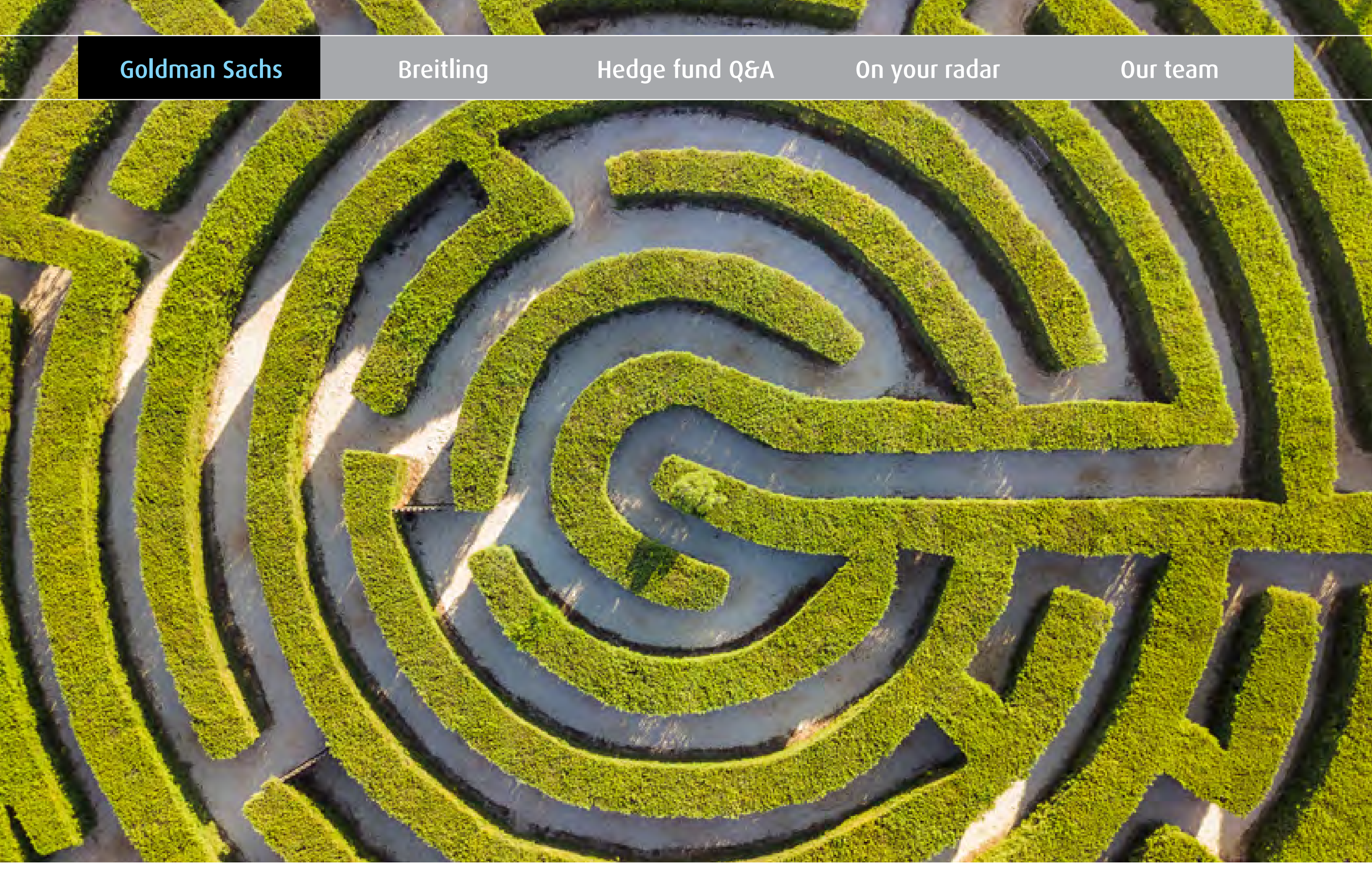
Time to invest in the private luxury market?

Page 8

Also in this issue:

2 Demystifying global hedge funds with Goldman Sachs
15 Q&A: Canadian hedge fund landscape with AIMA

Global Asset Management



Demystifying the global hedge fund industry

A 20-year veteran at Goldman Sachs dispels common myths and misperceptions Canadian investors may have about the hedge fund industry.

Author: Jack Springate | Co-Head of External Investing Group (XIG), Hedge Fund Strategies Business, Goldman Sachs

Hedge funds (HF) are a surprisingly large asset class, representing US$4.5 trillion in assets under management globally. However, entry has typically been limited to the largest and most sophisticated investors—an exclusion that has inadvertently resulted in widespread misperceptions about hedge funds.

Now, as alternative markets continue to be democratized and more investors have the opportunity to enter the asset class, there is a greater need for education. This report is intended to clarify key details so investors can have the confidence to make informed determinations about their portfolio construction.

Myth #1: Hedge funds are out of favour.

Reality: Hedge funds are actually experiencing a resurgence of interest in institutional portfolios. Data from a multi-year survey of allocators conducted by the Goldman Sachs Capital Introduction Team shows it is the most popular asset class for the first time since 2020. Additionally, the percentage of allocators wanting to increase their exposure to the industry reached the highest levels on record in 2024, a clear signal that interest is expanding rather than receding.

There is, of course, a cyclical nature to flows. Investors who lived through the decade after the Great Financial Crisis witnessed a highly unusual market, where an unprecedented amount of liquidity was pumped into the system via quantitative easing (QE).

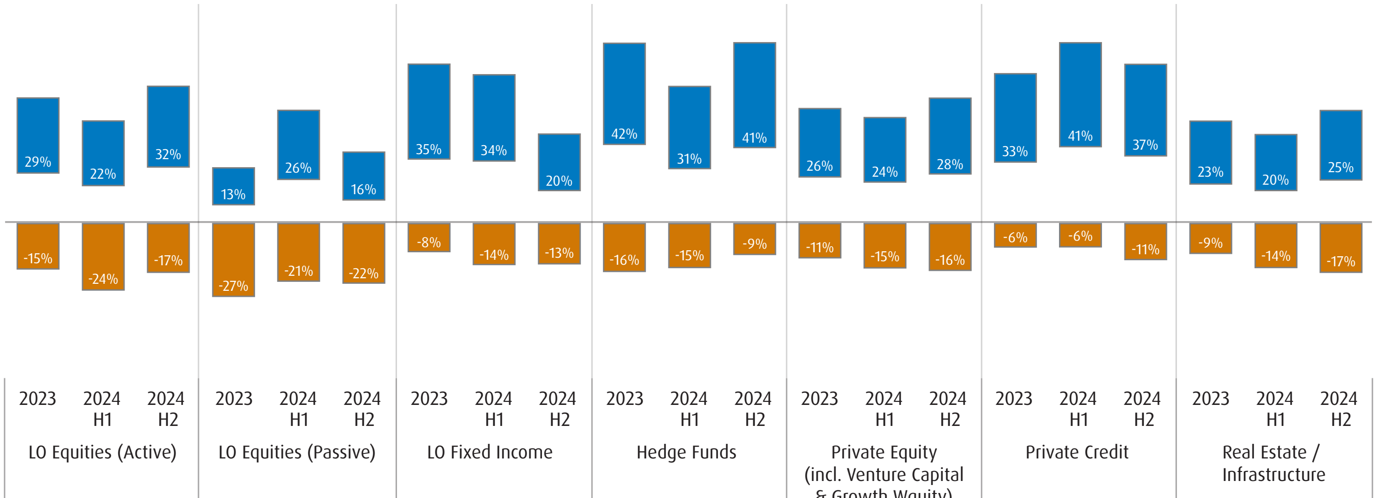
This 'easy money' compressed market volatility and led to an incredibly supportive environment for traditional risk assets. As a result, hedge fund managers in the 2010s faced two major headwinds.

As private markets continue to be democratized and more investors have the opportunity to enter the asset class, **there is a greater need for education.**

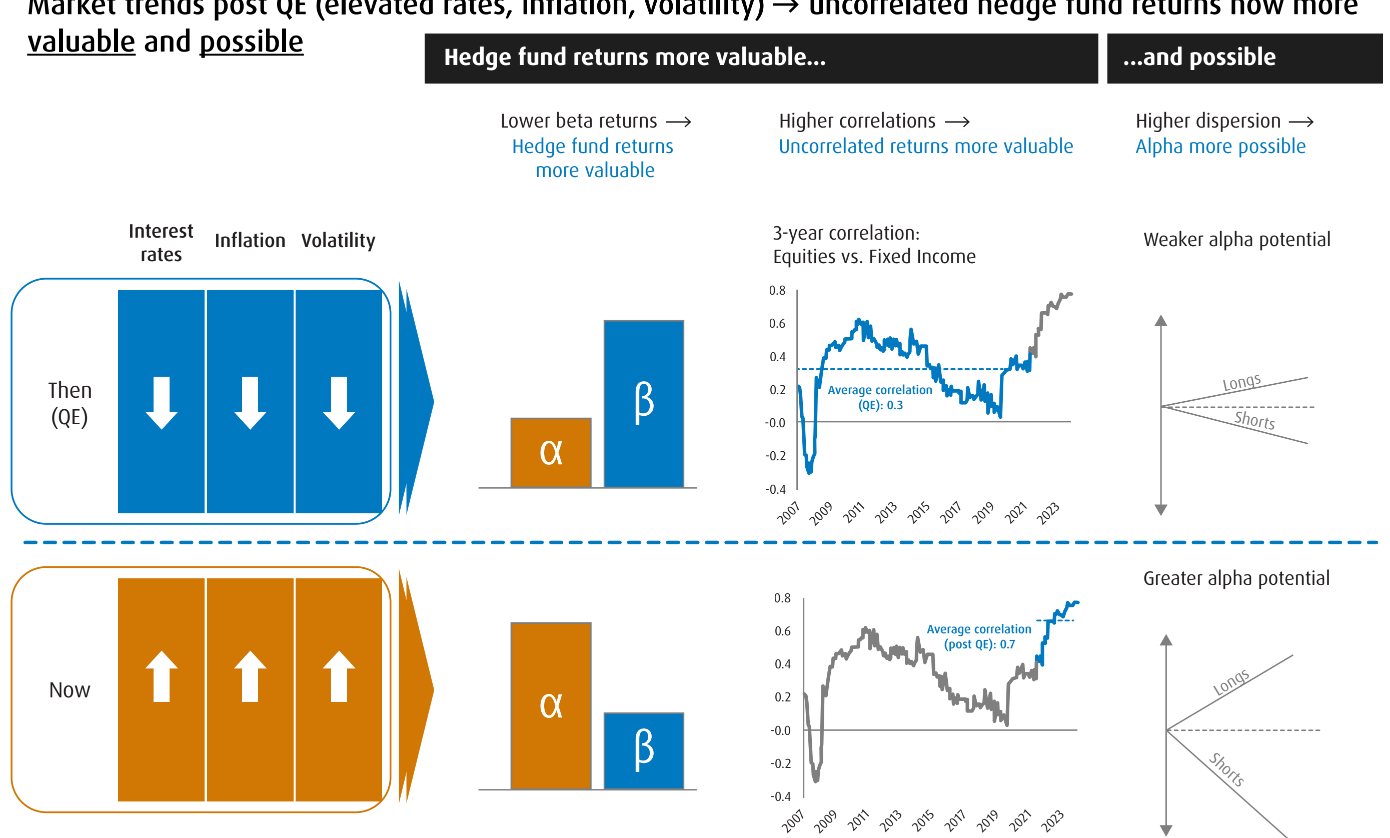
1. There was less need for alternative assets when the global stock market was delivering double-digit returns. (And bonds too were flourishing because every time equities underperformed, the U.S. Federal Reserve responded by slashing interest rates, which in turn caused bond prices to rally.)

2. On an absolute return basis, performance tends to suffer when

Percentage of allocators planning to increase/decrease exposure by asset class



Source: Goldman Sachs Capital Introduction Annual Allocator Surveys, 2022-2024. All data as of July 25, 2024 except where otherwise noted. Past performance is not indicative of future results. This material is for discussion purposes only and does not purport to contain a comprehensive analysis of the risks / rewards of any idea or strategy. Industry-wide information in this material may have been extrapolated solely from data, surveys or observations relating to hedge fund activity conducted solely in Goldman Sachs prime brokerage accounts. Information sourced exclusively from the Goldman Sachs client base or observations of the GS Capital Introduction Team may not be representative of the broader global hedge fund industry.



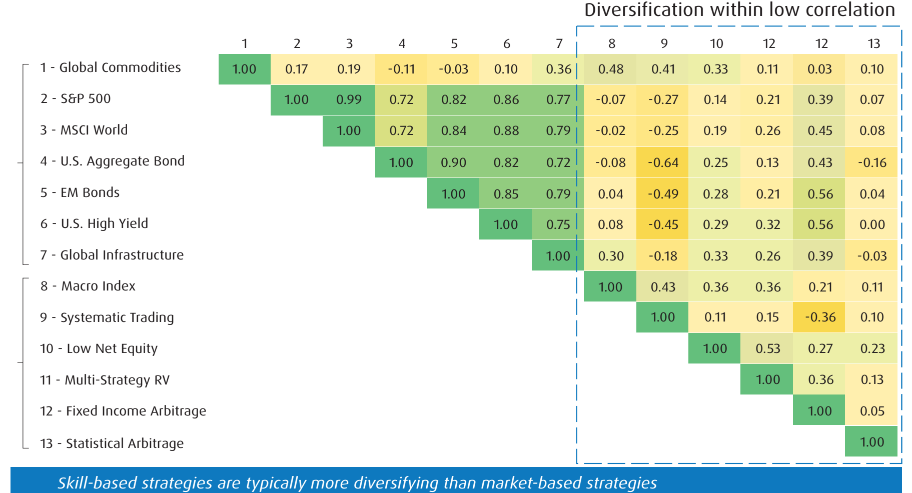
Source: BMO Global Asset Management as of June 30, 2024. Equities = MSCI World NR USD. Fixed Income = Barclays Global Agg. Source: MSCI as of June 30, 2024. Source: Barclays as of June 30, 2024. Post-QE begins January 1, 2022. Past correlations are not indicative of future correlations, which may vary.

there is less volatility on which to trade. Alpha generation (returns above the benchmark) is essentially a function of the manager's talent multiplied by variance within the opportunity set, and since there was less dispersion when interest rates were low, the payoff was also lower. This means the skill-based part of investment returns—in effect, the bread and butter of the hedge funds industry—was somewhat compressed by the investment environment.

Once interest rates started to rise, however, we saw more normalized volatility in the market and greater rewards for active managers who made the right calls. While this sort of cyclicality is to be expected, economists largely agree that the QE-driven environment was a historical anomaly that led to unconventional market dynamics. As a practical example, consider the payoff from a short position. Weaker and underperforming companies found it much easier to refinance during the Zero Interest Rate Policy (ZIRP) era because when the cost of capital is that low, you can almost always secure more liquidity to keep your company going. In a higher rate environment, those laggards often struggle to find funding and eventually file for bankruptcy. In other words, the return on a correct call would differ enormously from one era to the other.

Now let's think of an alternate environment: 2022. This was the inverse of QE—equities and bonds were once again moving in lockstep and both generating negative returns on the year.

If your portfolio only contained stocks and bonds, you were getting hit on both sides and probably searching for a diversified return stream. Many of Canada's Maple Eight pension funds—which collectively pioneered a model that embraced large private markets allocations—did not have to look for alternate sources of



Diversification within low correlation

	1	2	3	4	5	6	7	8	9	10	12	12	13
1 - Global Commodities	1.00	0.17	0.19	-0.11	-0.03	0.10	0.36	0.48	0.41	0.33	0.11	0.03	0.10
2 - S&P 500		1.00	0.99	0.72	0.82	0.86	0.77	-0.07	-0.27	0.14	0.21	0.39	0.07
3 - MSCI World			1.00	0.72	0.84	0.88	0.79	-0.02	-0.25	0.19	0.26	0.45	0.08
4 - U.S. Aggregate Bond				1.00	0.90	0.82	0.72	-0.08	-0.64	0.25	0.13	0.43	-0.16
5 - EM Bonds					1.00	0.85	0.79	0.04	-0.49	0.28	0.21	0.56	0.04
6 - U.S. High Yield						1.00	0.75	0.08	-0.45	0.29	0.32	0.56	0.00
7 - Global Infrastructure							1.00	0.30	-0.18	0.33	0.26	0.39	-0.03
8 - Macro Index								1.00	0.43	0.36	0.36	0.21	0.11
9 - Systematic Trading									1.00	0.11	0.15	-0.36	0.10
10 - Low Net Equity										1.00	0.53	0.27	0.23
11 - Multi-Strategy RV											1.00	0.36	0.13
12 - Fixed Income Arbitrage												1.00	0.05
13 - Statistical Arbitrage													1.00

Skill-based strategies are typically more diversifying than market-based strategies

1. Monthly return data source: XIG. As of June 30, 2024.
2. Pairwise correlations are likely to vary with time and index selection.
3. Albourne Partners Limited© Albourne Hedge Fund Returns Series ("HedgeRS") 2024, https://www-us.albourne.com/. Indices include: 1) S&P GSCI Total Return, 2) S&P 500 Gross Unhedged USD Net, 3) MSCI World Index, Net, 4) Bloomberg Barclays US Agg Unhedged USD, 5) JPM Emerging Markets Bond ETF, 6) Barclays US High Yield Unhedged USD, 7) S&P Global Infrastructure Net Return. 8) HedgeRS EW Directional Global Macro, 9) HedgeRS EW Directional CTA, 10) 60% Fundamental EMN + 40% Quant EMN = [60% * HedgeRS Relative Value Fundamental Equity Market Neutral] + [40% * HedgeRS Relative Value Quant Equity Market Neutral], 11) HedgeRS EW Relative Value Multi-Strategy, 12) HedgeRS EW Relative Value Fixed Income Arbitrage, 13) HedgeRS EW Relative Value Statistical Arbitrage. The index returns used for correlation presented above are net of manager management and incentive fees but exclude XIG GS advisory fees. Other expenses an investor may incur will reduce the net return to the client. Please see Appendix for further explanation of the effect of fees on performance. Past correlations are not indicative of future correlations, which may vary. Diversification does not protect an investor from market risk and does not ensure a profit.

alpha. Those that had done a good job selecting high quality hedge funds in their portfolio, generated positive returns in 2022—thereby providing good diversification to stocks and bonds.

Myth #2: Hedge funds are too risky.

Reality: Skill-based strategies found in hedge funds tend to operate at a lower level of risk than broad market indices, such as the S&P 500, MSCI World or U.S. Aggregate Bond. In fact, the reason hedge funds can be found in so many institutional portfolios is not solely for their alpha, but also because they can help to reduce the portfolio's overall beta (risk relative to the market).

So, where does the association with risk come from? We believe there are four primary drivers of risk with respect to hedge funds:

- **Leverage:** While it is true that hedge funds use leverage to increase returns, it is typically done in a risk-managed way. For example, if a portfolio is equally long and short on equities, then it may not move a great deal with the market's ups and downs. There is very little embedded beta in its construction, and the risk really lies in whether the long and short positions themselves are correct.
- **Illiquidity:** It's important to remember that liquidity varies in the hedge fund space. Some are extremely liquid. Others are not. The key consideration is a proper match in the liquidity profiles of the underlying strategy and the investable vehicle itself. For instance, macro funds invest in Treasuries, equities, commodities, futures and currencies—the most liquid markets in the world. Alternatively, some credit-oriented funds take distressed positions in companies with a view to the long term, and will therefore have different constraints on redemptions.
- **Concentration:** Hedge funds rarely invest in a whole index or market. They select only a few positions, albeit with a high degree of conviction, in order to optimize returns and minimize overlap with other, more conventional strategies. That said, concentration risks can be mitigated at the portfolio level by allocating to multiple hedge funds doing different things with low correlation to one another.
- **Complexity:** Lastly, it's crucial to work with a team that really understands the underlying strategies and does the necessary due diligence. With a vast number of available options, the ability to track and accurately compare a firm's intangibles in a matter of experience.

Despite its reputation, the hedge fund industry has evolved through the years to have among the most sophisticated risk management teams, resources and technology in the investment universe. This is especially true when looking at a portfolio of hedge funds, where the composition of styles allows for a more diverse return package.

Despite its reputation, the hedge fund industry has evolved through the years to have among the most **sophisticated risk management teams, resources and technology in the investment universe.**

Myth #3: Hedge funds have lock-ups and high fees.

Reality: There is no archetypical hedge fund anymore—it's more of a broad spectrum, from those that offer the flexibility to fully redeem every month to others where it takes two to three years. What we believe is non-negotiable, however, is the need to take an unconstrained approach when investing in hedge funds. If you apply too many restrictions, say, by only choosing highly liquid or low fee hedge funds, you are in effect narrowing the investment universe based on a factor other than quality. Our suggestion is always to look for the highest quality managers and then adjust for fees and liquidity, bearing in mind that market dynamics will always be at play. While some funds do charge high fees and have less liquid terms, if they are delivering exceptional levels of skill-based returns, the performance experience for clients can still be highly compelling.

Like most industries, there are market forces at play in the hedge fund space, meaning the space has evolved since the early days of the original "two and 20" model being applied across managers and strategies. Fees and terms can vary significantly based on the quality of returns being delivered to clients. As with any industry, the best-in-class tends to command higher fees.

In the investing world, this sometimes means lengthier lock-up periods because managers have proven their skills and earn the trust to demand a longer commitment from investors. In some situations this can ultimately benefit investors, as organizations with longer duration capital are able to reinvest in their business, build world-class infrastructure, invest in technology and data analytics, hire leading experts in their fields, optimize the talent within their firms, and so on. The very best firms are able to re-deploy higher revenues to ensure their competitive positions are sustainable.

An asset class unlike all others

Over the next decade, there is much debate about the outlook for equity returns and other traditional investments in a more normalized interest rate environment with inflationary pressures. In a historical context, some suggest this typically leads to lower returns for traditional assets than have been experienced over the last decade's low-rate regime, with higher portfolio volatility.

In such an environment, hedge funds have the ability to provide an attractive diversifying source of return. But this depends significantly on the ability to identify and access the higher quality managers in the universe, as it is one of the most competitive parts of the asset management industry.

Philosophically, we often compare hedge fund investing to standing on a downward escalator: if you are static and do the same thing as you did in the past, you risk falling behind because the competition is always getting better. There's unceasing pressure on hedge funds to innovate, to evolve, and to continuously improve in order to maintain the advantage over their peers. You have to keep walking up the escalator, constantly moving, in order to stay at the top. This requires an active and dynamic approach designed to reap the benefits the asset class offers over time.

For more information, contact your Regional BMO Global Asset Management Representative or the BMO GAM Alternatives Team at bmogamalts@bmo.com.

Note: The above article is not necessarily representative of the risks and characteristics associated with hedge fund products that may be sponsored or manufactured by BMO GAM. Before investing in such a product, investors are strongly advised to consult the product's offering documents to understand the applicable risks and features, and to contact their financial advisor to determine whether such a product is suitable for them. A hedge fund product is not without risk.

Jack Springate
Co-Head of External Investing Group (XIG),
Hedge Fund Strategies Business, Goldman Sachs

Definitions:

Quantitative easing (QE): A program where central banks seek to stimulate the economy by increasing the supply of money and purchasing financial assets.

Disclaimers:

For Advisor, Accredited Investor and Institutional Use Only.

"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.

BMO Global Asset Management (BMO GAM) is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate. Certain of the products and services offered under the brand name, BMO Global Asset Management, are designed specifically for various categories of investors in Canada and may not be available to all investors. Products and services are only offered to investors in Canada in accordance with applicable laws and regulatory requirements.

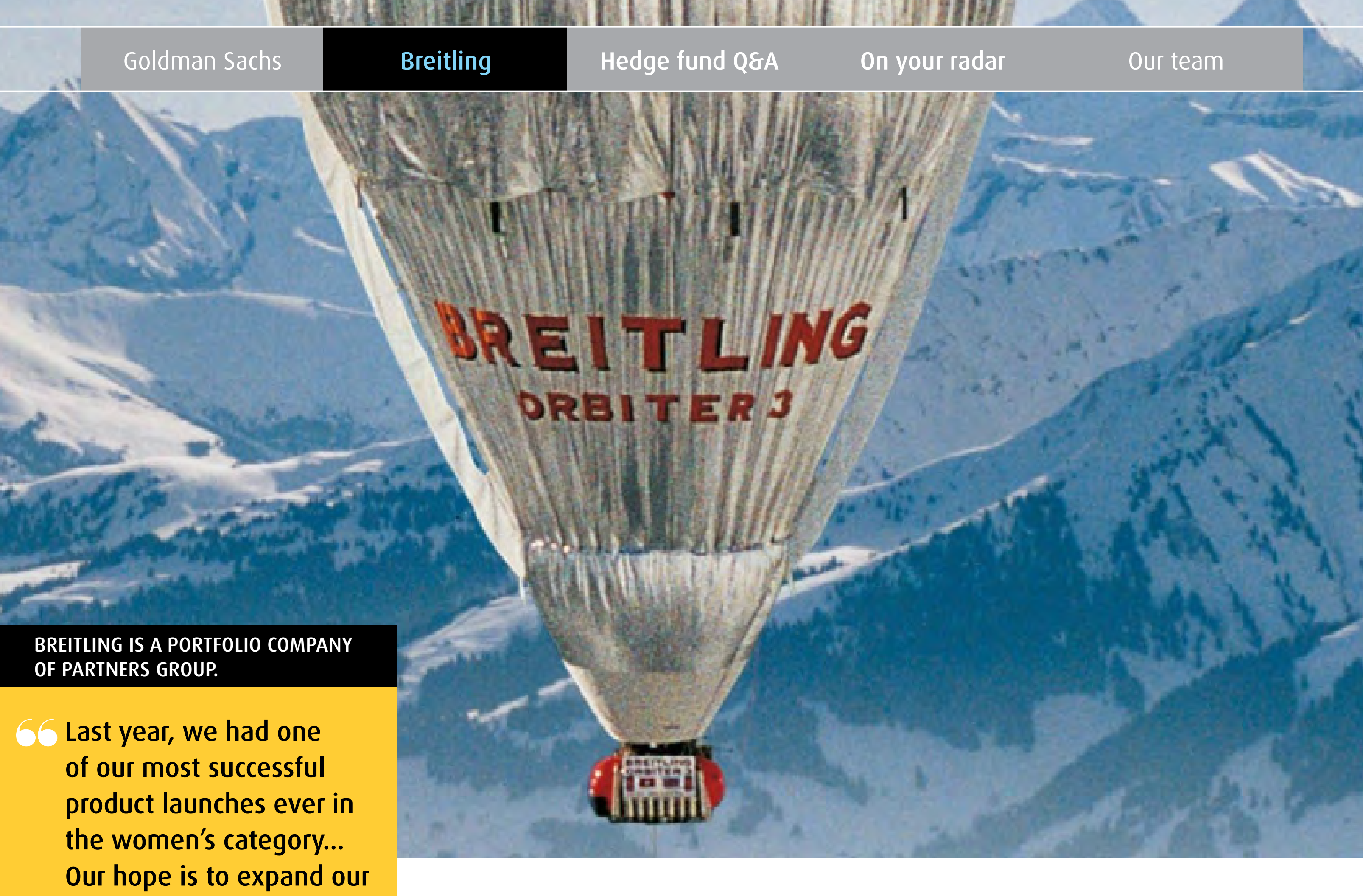
The information contained herein: (1) is confidential and proprietary; (2) may not be reproduced or distributed without the prior written consent of BMO GAM; and (3) has been obtained from third party sources believed to be reliable but which have not been independently verified. BMO GAM and its affiliates do not accept any responsibility for any loss or damage that results from the use of this information. This article has been prepared solely for information purposes by BMO GAM.

The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results.

Certain statements included in this material constitute forward-looking statements, including, but not limited to, those identified by the expressions "expect", "intend", "will" and similar expressions. The forward-looking statements are not historical facts but reflect BMO GAM's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Although BMO GAM believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, readers are cautioned not to place undue reliance on such statements due to the inherent uncertainty therein. BMO GAM undertakes no obligation to update publicly or otherwise revise any forward-looking statement or information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

BREITLING
1884
140 YEARS OF FIRSTS

PARTNERS GROUP



BREITLING IS A PORTFOLIO COMPANY OF PARTNERS GROUP.

> Last year, we had one of our most successful product launches ever in the women's category... Our hope is to expand our women's collection to represent at least 15–20% of our business.

Investing in the **private luxury market**

The behind-the-scenes story of how Partners Group is establishing a storied Swiss watch brand in the top league of luxury watchmaking—and how Canadian accredited investors can take part in this exclusive growth opportunity.

Insights from Luke Chapman | Senior Investment Leader, Industrial & Consumer, Partners Group

In the retail business, and especially the luxury goods industry, understanding your consumer is key. Today's most globally relevant consumer trends include the expansion of the middle class, particularly in emerging markets such as China and India, and generational wealth transfer, which has expanded the consumer base for luxury goods to a new and younger cohort. Within the portfolio of the BMO Partners Group Private Markets Fund, these themes are represented by a storied name in the luxury space: ***Breitling****.*

Founded in 1884, the Swiss watch maker has undergone a significant transformation under Partners Group's ownership, leveraging the asset manager's global resources to support Breitling's continued growth and maturity. Here, Luke Chapman, Partners Group's Senior Investment Leader, Industrial & Consumer, shares the owner's perspective on the historic brand—including what made Breitling a perfect fit for Partners Group, the importance of storytelling in the brand's appeal to both new and dedicated consumers, and how Breitling and the BMO Partners Group Private Markets Fund offer accredited investors the opportunity to tap into private equity's unique value-creation model.

Why Breitling?

Partners Group's investment in Breitling began with our purchase of a minority stake in 2021, followed a little over a year later by our
of majority owne
the start, there w
primary motivatio
drove these inves
decisions. The firs
is our firm's focus
on thematic
tailwinds—we
strongly believe
in delivering
access to globally
relevant themes.

Given evident
demographic me
including the eme

Inventor of the modern wrist Chronograph: Breitling's first chronograph, with an independent pusher, circa 1915.

Advertisement for Breitling's lineup of watches, circa 1946.

of a global middle class that is increasingly interested in expressing themselves through luxury brands, we became convinced that the luxury watch space was a thematically compelling place to invest. In particular, our research revealed Breitling to be very well-positioned to capitalize on what we call the "neo-luxury" theme. Consumers, who are responsive to this "neo-luxury" concept—a more casual, relaxed and sustainable interpretation of luxury—are younger, informal and more digitally-engaged than traditional luxury consumers. With our deep focus on consumer insights, we realized that there is a strong overlap between Breitling's identity and this new cohort's self-image, making Breitling an excellent fit for this evolving marketplace.

Secondly, we view watches as a uniquely attractive category within the broader luxury market. In fashion, for instance, there are always winners and losers in any given year—it's difficult for a brand to remain consistently relevant and successful when consumer preferences

In an industry led by 100-plus-year-old companies, including Breitling, **brand-building isn't a short-term exercise.**

change with each passing season. The luxury watch industry, on the other hand, is less volatile—an established legacy of over 100 years is practically a requirement for operating in the category, and successful brands tend to remain relatively stable and consistent over time.

Of course, they also need the necessary watchmaking know-how and ability to engineer unique timepieces, and Breitling is one of the few watchmakers in the world that has excelled in that respect for decades. More than a century ago, it was Breitling that invented the first wrist-worn chronograph, a stopwatch with a push button separate from the crown. It is that spirit of innovation that makes the company special, enabling it to maintain a sterling reputation across decades while fuelling a thriving secondary market for its watches.

Investing in an aspirational market

The luxury watch industry represents an attractive investment opportunity, but it is not easy for individual investors to gain direct exposure to it. The reality is that many of the largest and most widely known brands are either owned by families or private foundations, or they sit within groups comprised of many different kinds of luxury goods companies. With Breitling, Partners Group recognized an opportunity to provide such exposure to our clients. That is ultimately what motivated our investment in the category.

As an asset manager working with an established consumer brand, we've learned that numbers cannot dictate everything. With Breitling, we spend a higher-than-typical percentage of revenues on marketing in order to invest in the brand's success. It is not always easy to identify the direct connection from this marketing spend to sales. Ultimately, that's because, in the most literal sense, Breitling and other luxury watch makers do not sell a product that is essential—everyone already has a phone that can tell the time, so instead they sell a dream. It is incumbent on us, then, to stoke consumers' desire for the product—hence our focus on marketing.

As investors, we like to try and convince ourselves to make decisions informed by hard data. However, the luxury watch space can make this more challenging. It's the intangible, unquantifiable aspect of the business that makes Breitling and this industry uniquely fascinating.

From a historic watch brand to a leading global player

In an industry led by 100-plus-year-old companies, including Breitling, brand-building isn't a short-term exercise. Historically, the brand's marketing largely focused on aviation and automobile enthusiasts. Balancing this existing image with a refreshed and informal identity has been a challenge, but we consider creative storytelling to be one of the hallmarks that sets us apart from our peers. Ads for other well-known watch brands are most often found in high-profile, exclusive settings that quickly run up an expensive tab—major global sporting events like yachting, golf's major championships, and tennis' Grand Slam tournaments, for instance. Breitling in finds ways to build engaging and pers stories that resonate with specific aud

One recent example is Breitling's partnership with professional surfer Kelly Slater. When Slater was younge his father had an orange-coloured watch that he lost while surfing. With this in mind, Slater worked with the Breitling team to create the Superocean Automatic 42 Kelly Slater.

Breitling Superocean Automatic 42 Kelly Slater

As the caretaker of a historic brand, we continually look for creative ways to **integrate the richness of Breitling's history with modern tastes and sensibilities.**

Launched in 2022, it features an orange design and is an ideal timepiece for water-based activities like surfing and scuba diving, with water resistance to a depth of 300 metres. Within the past 18 months, we have also launched campaigns with celebrities and organizations that have built strong communities within their following—including the NFL, Six Nations Rugby, Charlize Theron, Erling Haaland and Victoria Beckham.

As the caretaker of a historic brand, we continually look for creative ways to integrate the richness of Breitling's history with modern tastes and sensibilities. One of the forward-thinking initiatives introduced by Breitling's CEO, Georges Kern, is a design aesthetic we call "modern retro."

These watches, which feature classic designs drawn from the company's 140 years of history, satisfy consumers' desire for a timeless feel while also incorporating cutting-edge materials, movements and innovation. We've also begun to use artificial intelligence (A.I.) tools to monitor consumer preferences and industry trends, combining those findings with our own historical sales data and publicly available data from competitors to ensure that we are crafting timepieces that appeal to contemporary consumers.

Navigating short-term trends in the luxury watch space while remaining focused on long-term growth can be challenging. Our answer is a coherent brand and product strategy—one that reflect the ways that Breitling's values differ from the rest of the industry.

Most luxury watch companies, especially at the very top, trade off of exclusivity. Breitling trades off of inclusiveness. From supporting our "squad of ambassadors" in our retail storefronts—Breitling Boutiques—to our external partnerships, we always strive to foster a sense of community and belonging.

Perhaps the best expression of this spirit is the design and layout of our stores. If you walk into other luxury watch boutiques, you're likely to be greeted with white gloves and a very formal sales presentation, almost as if you were buying an engagement ring. At Breitling Boutiques, on the other hand, the walls are often made of exposed brick, and you might see a surfboard on the wall or a motorbike at the centre of a display. The intention is to create a retail experience unlike any other seen in the luxury watch industry—one that reflects our consumers' more casual form of self-expression.

Growth opportunities: China, women, and Universal Genève

When Partners Group first acquired an ownership stake in Breitling, numerous opportunities for growth were identified. First among them is China. Under previous ownership, the Chinese market was not prioritized, and as a result, Breitling is underrepresented in the country relative to other luxury watch makers and to its market share in other regions. Many of our competitors have at least 20% of their sales in China, while Breitling currently stands below 5%. That creates a tailwind for us relative to our peers, as the low baseline means that we have plenty of room to grow.

In fact, in 2024, while some of the top luxury watch brands were struggling in the Chinese market due to the sluggish economy, we were the only company whose sales in the country grew. Achieving a position in the Chinese market that is commensurate with our standing in other markets globally will take time, but Partners Group is in a position to accelerate that process, including through our relationships with wealthy Chinese investors who have connections in real estate or other areas that may be beneficial as Breitling expands its retail footprint in the country.

Another category where we are under-represented is the women's segment. In the decades leading up to its relaunch, Breitling concentrated primarily on men's watches, building on its strong heritage among aviation and automobile enthusiasts. In order to balance out the gender mix of our consumer base, we are devoting significant resources to developing products and a brand that appeals to women.

Advertisement for Universal Genève's iconic Ideo watch, also known as the "Cabriolet," first patented in 1933.

Last year, we had one of our most successful product launches ever in the women's category by collaborating with Victoria Beckham's fashion label. Earlier in the year, we also launched the new Navitimer 36 with Charlize Theron as face of the campaign. Our hope is to expand our women's collection to represent at least 15-20% of our business.

Breitling and Partners Group also recently acquired ownership in the iconic—and largely inactive—Swiss watch brand Universal Genève. In the early to mid-20th century, the company's groundbreaking timepieces helped to establish an enviable reputation for artistry and innovation. In recent decades, however, the company has faced significant challenges. We aim to restore the brand to its former glory while tapping into the super-luxury watch segment, with prices expected to range from CHF 10,000 (approximately $11,000 USD) to CHF 200,000 ($227,000 USD) compared to an average price point of approximately $6,500 USD for Breitling. The first new collection of Universal Genève watches will be unveiled in the fall of 2026.

The road to exit

We remain relatively early in our ownership tenure of both companies; Partners Group's majority investment in Breitling closed in May 2023 and the deal to acquire Universal Genève was announced in December of that year. While it is too soon to speculate on what an exit may eventually look like, our focus is on building the levers that could eventually drive an exit case.

From growth in China and the women's segment to the re-launching of Breitling's back catalogue and the revival of Universal Genève, we are excited about the future. We believe the scarcity of investible options in this sector—luxury watch brands' inaccessibility via public markets—will fuel a very attractive exit for Partners Group and our investors.

Accredited investors can access Breitling via the BMO Partners Group Private Markets Fund. For more information, contact your Regional BMO Global Asset Management Representative or the BMO GAM Alternatives Team at bmogamalts@bmo.com.

Luke Chapman
Senior Investment Leader,
Industrial & Consumer, Partners Group

Disclaimers:

For Advisor, Accredited Investor and Institutional Use Only.

"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.

BMO Global Asset Management (BMO GAM) is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate. Certain of the products and services offered under the brand name, BMO Global Asset Management, are designed specifically for various categories of investors in Canada and may not be available to all investors. Products and services are only offered to investors in Canada in accordance with applicable laws and regulatory requirements.

The information contained herein: (1) is confidential and proprietary; (2) may not be reproduced or distributed without the prior written consent of BMO GAM; and (3) has been obtained from third party sources believed to be reliable but which have not been independently verified. BMO GAM and its affiliates do not accept any responsibility for any loss or damage that results from the use of this information. This article has been prepared solely for information purposes.

The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results.

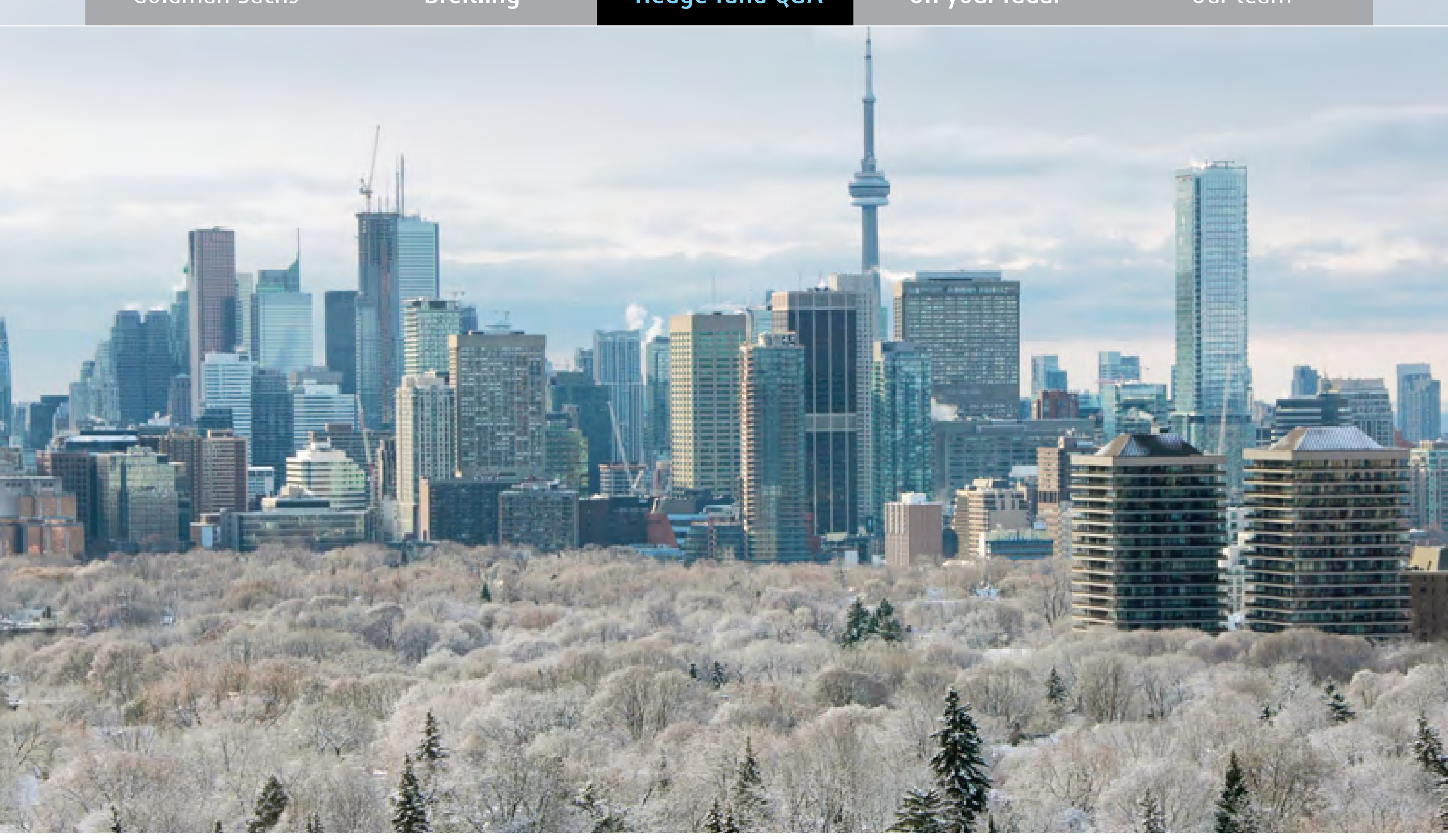
Certain statements included in this material constitute forward-looking statements, including, but not limited to, those identified by the expressions "expect", "intend", "will" and similar expressions. The forward-looking statements are not historical facts but reflect BMO GAM's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Although BMO GAM believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, readers are cautioned not to place undue reliance on such statements due to the inherent uncertainty therein. BMO GAM undertakes no obligation to update publicly or otherwise revise any forward-looking statement or information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

The attached material is provided to you on the understanding that you will understand and accept its inherent limitations, you will not rely on it in making or recommending any investment decision with respect to any securities that may be issued. An investment in the BMO Partners Group Private Markets Fund (the BMO PG Fund) or any other alternative fund securities described hereby is speculative. A subscription for units of the BMO PG Fund or any other alternative fund securities should be considered only by persons financially able to maintain their investment and who can bear the risk of loss associated with an investment in the BMO PG Fund or an investment in any other alternative fund securities. Prospective investors should consult with their own independent professional legal, tax, investment and financial advisors before purchasing units of the BMO PG Fund or any other alternative fund securities in order to determine the appropriateness of this investment in relation to their financial and investment objectives and in relation to the tax consequences of any such investment. Prospective investors should consider the risks described in the confidential offering memorandum (OM) of the BMO PG Fund or in the relevant documentation for the offering of any alternative fund securities before purchasing units of the BMO PG Fund or any other alternative fund securities. Any or all of these risks, or other as yet unidentified risks, may have a material adverse effect on the BMO PG Fund's business, another alternative fund's business and/or the return to investors. Among other things, see "Investment Objective, Investment Strategy and Certain Risks" in the OM of the BMO PG Fund.

In addition to the risks described in the OM of the BMO PG Fund, the BMO PG Fund will bear the risks associated with the Partners Group BMO Master Limited (Master Fund) in proportion to the amount of the BMO PG Fund's investment in the Master Fund. Prospective investors in the BMO PG Fund should therefore carefully consider the risks described under "Certain risk factors", "Business and structure related risks", "Adviser related risks", "

Investment-related risks" and "Limits of risk disclosure" in the OM of the Master Fund.

There is no guarantee that the BMO PG Fund will indirectly be invested in portfolio companies such as those described herein. All logos and trademarks of other companies are the property of those respective companies.



Canadian hedge fund strategies: **A primer**

Author: Lillian Ferndriger | Director, Alternatives Distribution
BMO Global Asset Management

Interview with Claire Van Wyk-Allan, CAIA, Managing Director, Head of Canada & Investor Engagement, Alternative Investment Management Association (AIMA)

Alternative assets are at a unique crossroads in Canada. Through a combination of innovation and regulatory changes, what were once walled off investments for all but a few, mostly large investors are becoming ever more accessible to clients across the wealth spectrum. This evolution includes hedge funds and the underlying strategies they employ to provide a portfolio-stabilizing source of diversified, uncorrelated, and in many cases elevated risk-adjusted return.

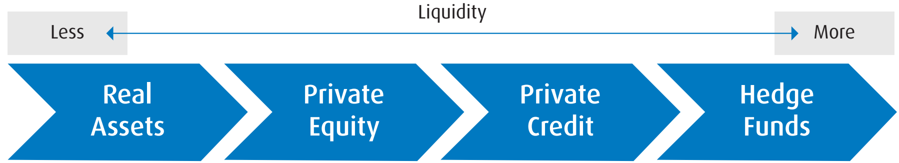
For many Advisors and private wealth clients, the shift offers the opportunity to better understand what hedge funds do, the range of investment strategies offered, and the role they can play in comprehensive portfolio construction.

Lillian Ferndriger, Director, Alternatives Distribution, BMO Global Asset Management, sat down with Claire Van Wyk-Allan, Managing Director, Head of Canada & Investor Engagement, AIMA, to discuss the state of hedge funds in Canada, their evolution as investable vehicles, as well as some due diligence perspectives for investors and Advisors to consider.

LF Let's first answer the question of what a hedge fund is—and isn't, and how it differs from other allocations in public and private markets.

CV Hedge funds are an asset class of alternative investments to traditional public market securities such as long-only strategies like you might find in a conventional balanced portfolio of stocks and bonds. Within the hedge fund asset class, there are a variety of strategies. These strategies invest in a host of predominantly publicly traded assets, and might include derivatives, shorting and leverage in order to achieve specific risk/return objectives. Hedge funds should not be viewed as a single asset class given their diverse mix of exposures and investment techniques, much like you would not consider all equity funds to be the same. Based on the strategy, managers may have more investment latitude or flexibility to magnify return potential or to protect through volatility. As performance data shows, investors have benefitted from these expertly managed investments by providing diversification, non-correlated returns and downside protection over time.

Typically, hedge fund managers are also significant investors in their own funds, demonstrating alignment of interest with their clients. Often, hedge funds charge a fixed fee to manage the fund as well as a performance fee to further align interests. Among alternative assets overall, hedge funds tend to be more liquid than private markets (credit or equity) or real assets such as infrastructure or real estate. Depending on the fund structure, redemptions may be available weekly, monthly (most common) or quarterly, though there is usually a minimum notice period of 30 days advance notice prior to the applicable redemption date. While gating is not often used, when it is employed, it is done so thoughtfully to treat all investors of the fund fairly.[1]



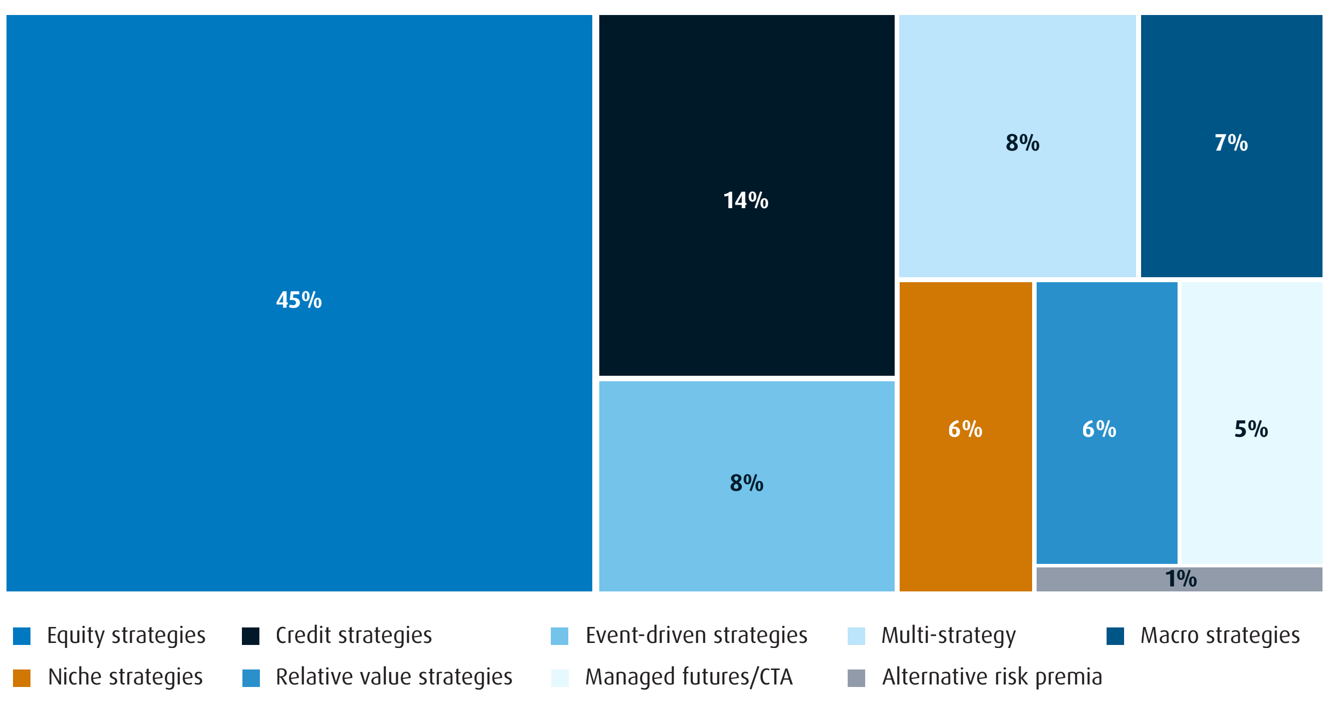
LF Let's pull back the veil on the Canadian hedge fund market. What is the state of play for the industry—and what are the opportunities?

CV Hedge funds have been available in Canada for more than two decades and the opportunity set is only increasing with more products becoming available. At present, total reported assets under management is approaching $200 billion, according to Preqin,[2] while the market is home to more than 246 funds managed by 130 different managers.[3] That positions Canada's weighting in the global hedge fund space at approximately 2.4%,[4] closely aligning with the country's 3.06% weight in the MSCI World Index.

However, Canadian private wealth clients are generally far less invested in alternative investments, including hedge funds, compared to U.S. and other global counterparts; a recent study found that American wealth clients hold

[1] Fund gating: A restriction on the amount of capital that can be redeemed from a fund at any given time.
[2] CAD, as of September 30, 2024. Non-reported AUM is estimated to be higher given approximately 50% of Canadian funds do not disclose financial assets under management.
[3] Fundata, 2024.
[4] AIMA, September 30, 2024.

Table 1. Proportion of global active hedge funds by strategy



Source: Preqin, 2023.

on average about 11% in alternatives.[5] Canadian private wealth allocations are much, much lower by comparison, but we are continuing to see positive change. Managers and dealers generally are increasing not only the number of products on their shelves, but working to educate investors and advisors about the benefits and risks of these strategies, and what products might be best suited for them. There is a great opportunity for Canadian investors to use hedge fund strategies for diversification, non-correlated returns, and downside protection benefits they provide through market cycles.

LF Let's go under the hood. As we've briefly alluded to, hedge funds are not viewed as a single asset class but rather a diverse set of strategies that differ considerably according to the method of portfolio construction and risk management technique. What are some to be aware of?

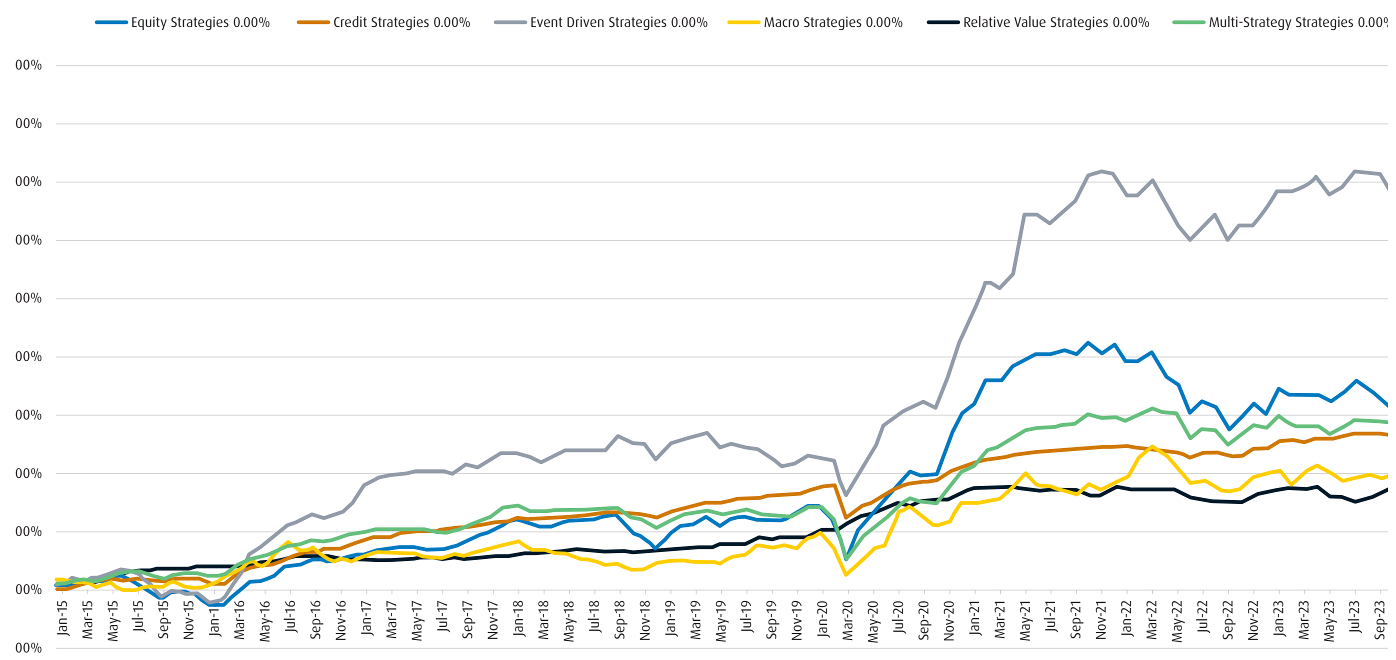
CV While no two hedge funds are identical, each generates returns by investing in line with a specific, carefully considered strategy as outlined in the offering memorandum. To name a few, for example:

- Equity long/short strategies buy equities that are expected to go up in value and sell short equities expected to fall.
- Global macro strategies invest in securities around the globe to capitalize on macroeconomic or geopolitical themes.
- Relative value arbitrage strategies buy and sell securities based on an educated view on a price discrepancy.
- Event-driven strategies take advantage of pricing inefficiencies before or after a corporate event, like an earnings call or merger.
- Market-neutral equity strategies have neutral investment exposure to equities by sector, market cap or region, often employing pair trading, which matches a long position with a short position with high correlation.
- Multi-strategy funds are a combination of several hedge fund strategies, meant to provide a more balanced approach.

Strategy execution will vary greatly by manager, with differing parameters for managing things like shorting, leverage, liquidity, counter-parties, concentration, currency and more. In Canada, funds focused on equity, credit, and relative value strategies are the most prevalent. Table 1

[5] Bank of America Private Bank, June 18, 2024.

Chart 1. Cumulative returns, Canadian hedge funds by strategy: January 2015 – December 2023



Source: Prequin, as of April 30, 2024.

shows us that equity and credit strategies are the two most popular globally. Multi-strategy is among the most in-demand as well, given its flexibility to tie together different exposures.

LF Let's look at performance in terms of risk-adjusted return. Decades ago, hedge funds may have been perceived as the "Wild West," delivering big but volatile alpha.[6] Since the GFC, that seems to have switched, with these funds being risk diversifiers and more ballast-oriented. How have these strategies performed over more recent cycles?

CV Many hedge funds act as portfolio insurance, a ballast as you say to the portfolio though of course, every manager and strategy will be different. In general, the industry overall has provided positive risk-adjusted returns over the past two decades, but there has been a gradual move to emphasis diversification, downside protection, and lower correlation to traditional markets. As an example, the Scotiabank Canadian Hedge Fund Asset-Weighted index over that time exhibited less than two-thirds of the volatility of the S&P/TSX Composite and only a 0.29 correlation to the S&P 500.[7] More recently, as public markets whipsawed at times violently through COVID-19 and the aggressive monetary tightening cycle in 2022-23, we saw both the three- and five-year Sharpe ratios of Canadian hedge funds slightly outperform the S&P 500 PR Index in both time intervals.[8]

Since 2015, cumulative returns from domestic hedge fund strategies reporting to Preqin have been positive (see Chart 1). It underscores the fact that these kinds of investments can consistently demonstrate an

[6] Alpha: The excess return of an investment compared to its expected return, adjusted for risk.
[7] The Scotiabank Canadian Hedge Fund Asset-Weighted index, as of January, 2024.
[8] The Sharpe ratio compares the return of an investment with its risk, dividing a portfolio's excess returns by a measure of its volatility to assess risk-adjusted performance. Excess returns are those above an industry benchmark, or the risk-free rate of return.

What is paramount for investors and Advisors, in our view is this: **they are buying the manager first, and the strategy second.**

ability to mitigate downside risk by participating less in market downturns, while generating gains across market cycles.

LF Hedge fund strategies can come in different wrappers, including liquid alternative funds and offering memorandums (OMs). BMO GAM considers both formats important to overall portfolio composition. What are some Know Your Product (KYP) and Know Your Customer (KYC) considerations to be aware of?

CV As you know, AIMA has provided industry-standard guidance through our Due Diligence Questionnaires (DDQs) dating back to 1997, including our public 2-page DDQ for advisors to help them assess fund managers and their funds. When we're assessing structure, whether its OM or an alternative ETF or mutual fund, it's important to understand what constraints or rules bind each. There are liquidity considerations with mutual funds and liquid alts, while OMs may have more levers to pull and greater investment flexibility. But at a high level, what we're really talking about is just the vehicle. What is paramount for investors and Advisors, in our view is this: they are buying the manager first, and the strategy second. Manager pedigree, operational controls, culture, and expression of strategy over the time are extremely important. Use the due diligence tools available to assess the strategy and those operating it; lean into what's in the portfolio. There's going to be a lot more transparency than investors or Advisors may likely imagine, even if reporting isn't readily searchable online. Historical data clearly shows these investment strategies can offer diversification, risk reduction and non-correlated returns across portfolios.

LF How should advisors think about hedge fund allocations in their portfolios?

CV Many Advisors consider adding an alternatives sleeve to complement an existing balanced portfolio. They may create this bucket by taking both from their equity and fixed income, or from one or the other. Using U.S. private wealth clients as a proxy with their approximate 11%[5] allocation in alts, this might be a great similar starting point for Canadian wealth clients, again depending on KYC/KYP alignment. The Canada Pension Plan (CPP) is another great comparison. Not only is CPP Investments significantly invested in alternatives in general, it has over $14 billion invested with external managers, including an allocation to hedge funds—meaning Canadians are already investing in the strategies through their national retirement portfolio.

For more information, contact your Regional BMO Global Asset Management Representative or the BMO GAM Alternatives Team at bmogamalts@bmo.com.

Claire Van Wyk-Allan
CAIA, Managing Director, Head of Canada and Investor Engagement, Alternative Investment Management Association (AIMA)

Lillian Ferndriger
Director, Alternatives Distribution, BMO Global Asset Management

Disclaimers:

For Advisor, Accredited Investor and Institutional Use Only.

"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.

BMO Global Asset Management (BMO GAM) is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate. Certain of the products and services offered under the brand name, BMO Global Asset Management, are designed specifically for various categories of investors in Canada and may not be available to all investors. Products and services are only offered to investors in Canada in accordance with applicable laws and regulatory requirements.

The information contained herein: (1) is confidential and proprietary to BMO GAM; (2) may not be reproduced or distributed without the prior written consent of BMO GAM; and (3) has been obtained from third-party sources believed to be reliable but which have not been independently verified. BMO GAM and its affiliates do not accept any responsibility for any loss or damage that results from the use of this information. This article has been prepared solely for information purposes by BMO GAM.

The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results.

Certain statements included in this material constitute forward-looking statements, including, but not limited to, those identified by the expressions "expect", "intend", "will" and similar expressions. The forward-looking statements are not historical facts but reflect BMO GAM's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Although BMO GAM believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, readers are cautioned not to place undue reliance on such statements due to the inherent uncertainty therein. BMO GAM undertakes no obligation to update publicly or otherwise revise any forward-looking statement or information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

On Your **Radar**

Resources for the alternative investor

BMO PARTNERS GROUP PRIVATE MARKETS FUND

Introducing the BMO Partners Group Private Markets Fund ▶

MARKETING

Web Page Overview
Presentation (Investor)
Client Aid A (Series F)
Client Aid A (Series F | Chinese)
Client Aid B (Series F)

LEGAL

Subscription Agreement (Series F)
Subscription Agreement Tool
Subscription and Redemption Schedule

PRODUCT

Monthly Commentary (October)
Monthly Commentary (September)
Investment Case Studies (Client)
Common Due Diligence Questions (Client)

BMO CARLYLE PRIVATE EQUITY STRATEGY PARTNERSHIP

MARKETING

Web Page Overview
Press Release
Presentation (Investor)
Client Aid A (Series F)
Client Aid B (Series F)
Client Aid B (Series F | Chinese)

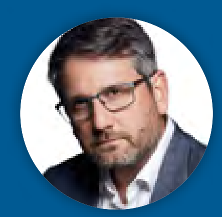
LEGAL

Subscription Agreement (Series F)
Subscription Agreement Tool
Subscription and Redemption Schedule

PRODUCT

Monthly Commentary (Series A | October 2024)
Monthly Commentary (Series F | October 2024)
Monthly Commentary (Series A | September 2024)
Monthly Commentary (Series F | September 2024)

BMO GAM's Alternatives distribution team



Guillaume Lagourgue
Managing Director,
Alternatives Distribution
guillaume.lagourgue@bmo.com
416-779-7205

Natalie Camara
Managing Director,
Strategic Account Management
natalie.camara@bmo.com
604-616-5485

Lillian Ferndriger
Director,
Alternatives Distribution
lillian.ferndriger@bmo.com
437-332-0734

Adam Abitbol
Vice President,
Alternatives Distribution
adam.abitbol@bmo.com
514-242-1702

Kylie Fung
Head of Strategy,
Alternatives Distribution
kylie.fung@bmo.com
416-706-7357