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In conver- sation with

Storms in paradise –
a case for ‘all-weather’
portfolios in a rising
rate environment



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In conversation with



Maxime Laurent-Bellue
Head of
Tactical Strategies



Clément Jeanmaire
Deputy Portfolio Manager,
Multi-Asset Solutions

The brutal end of the paradisiacal low interest rate era constitutes a paradigm shift for investors. As a result, we see that the prevailing market volatility has intensified the hunt for investment opportunities with the benefit of enhanced downside protection. In addition to return optimisation, inflationary related concerns are topping the list of considerations for investors reallocating away from public market uncertainty. Furthermore, while there is clearly a place for traditional fixed income and equity holdings for most LPs, with an estimated 80% of the S&P 500¹ now being driven by 7 stocks alongside an expanding pool of both small and mid-cap opportunities in alternatives, diversification equally strengthens the case for investing across the full

spectrum of today's private markets, especially for those unperturbed by additional illiquidity. When blended in varying ratios within a portfolio, we consider that these asset classes aim to meet the need to simultaneously deliver yield for income and maximise capital gains as the portfolio matures.

Here, Maxime Laurent-Bellue (MLB), Tikehau Capital's Head of Tactical Strategies and Clément Jeanmaire (CJ), Deputy Portfolio Manager within Tikehau Capital's Multi-Asset Solutions Strategy discuss the market dynamics driving investor appetite for blended, 'all-weather' portfolios, in the context of this symbiotic need to balance risk and harness opportunity – a need which is

¹ Source: spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/just-7-companies-are-carrying-the-s-p-500-in-2023-75823741

inevitably more pronounced amid cycle dips. They each explain, through the lens of private market allocations, why preparedness for such dips becomes even more critical as these periods are now widely anticipated by macro commentators to occur more frequently, albeit for shorter durations.

Q: What is the primary motivation for investors currently looking to allocate to multi-asset strategies?

MLB: We perceive that return optimisation, downside protection and diversification remain the common motivators for private market allocators worldwide. However, for some larger institutional investors, there is a single factor underpinning the decision-making process in terms of asset allocation and that is the desire to be involved in the fund design alongside GPs and maintain an element of flexibility in capital deployment.

We commonly witness the prevalence of this type of sentiment during times of market dislocation. Customised solutions enable our clients to navigate

different market conditions through tailor-made investment structures and asset allocations. The partnership approach of these SMAs (Segregated Managed Accounts) has shown demonstrable resilience in terms of fund performance and enhanced our GP-LP relationship in a difficult market environment.

CJ: With regards to creating bespoke investment solutions, we perceive that investor clients increasingly value GP relationships that offer both a global network/presence as well as deep local insights. Tikehau Capital recently opened its 15th office which has further extended its global reach. Simultaneously, while realising ambitions for global growth, we have deepened our local investor knowledge and investment expertise with sales coverage and senior investment professionals operating within each region worldwide. The combination of a deep appreciation and understanding of local dynamics and an extensive global network is highly valued by investors in the tactical strategies and bespoke multi-asset solutions managed by Tikehau Capital².

AN INVESTMENT SOLUTION ADAPTED TO EACH LP CATEGORY

- Evergreen structure with liquidity option or term fund
- Bespoke, tactical and diversified allocation across asset classes, seniority, sectors and geographies
- Active cash management to enable fully paid-in structures
- Set up of a dedicated governance
- Mix of flagship funds, direct investments and secondaries providing strong granularity
- Cost-effective structure with a single layer fee
- Streamlined operational efficiency, consolidation in a single line & customised reporting

THIS GRAPHIC IS PROVIDED FOR ILLUSTRATIVE PURPOSES ONLY. Source: Tikehau Investment Management, September 2023

² Funds managed by Tikehau Investment Management, Tikehau Capital's main management company

Q: What are the main considerations for investors looking for a customised alternatives investment solution?

MLB: With private markets AuM set to double by 2027 to \$18.3tn globally according to latest Preqin data³, the number of managers in the market continues to grow. This makes it increasingly challenging for LPs to identify best-in-class managers, given similarities in product offering, client servicing and breadth of assets. However, in our view, the area where certain GPs stand a cut above the rest lies in the depth of their understanding around the specificities of each client-type across different geographical markets. This deep understanding equips managers with the ability to propose bespoke investment solutions with a dedicated structure and portfolio allocation adapted to their unique situations.

Our own response to this growing LP demand for differentiated products has been the application of our own three pillared approach to portfolio construction based on a fundamental understanding of client priorities and objectives from the outset. This deep dive analysis involves careful consideration of return expectations, risk appetite, liquidity tolerance, age/portfolio maturity, ESG considerations, tax implications and any additional differentiated criteria. This solid understanding of each client profile enables us to address various investor-types ranging from private wealth advisors to large financial institutions.

Implementing and maintaining a diverse, inherently robust private markets portfolio is an intricate and complex process, requiring deep expertise, a broad investment platform and an appreciation of unique market characteristics including precursors to periods of dislocation. Investor clients may potentially benefit from this, particularly in hostile market conditions.

1 CO-DESIGN THE PORTFOLIO	Co-define portfolio objectives and constraints
2 DEPLOY CAPITAL	Invest across defined underlying strategies
3 REALLOCATE CAPITAL TACTICALLY	Rebalance the portfolio to navigate market cycles

³ Preqin data, October 2022



Q: What are the three key tenets of our value proposal in dedicated managed accounts?

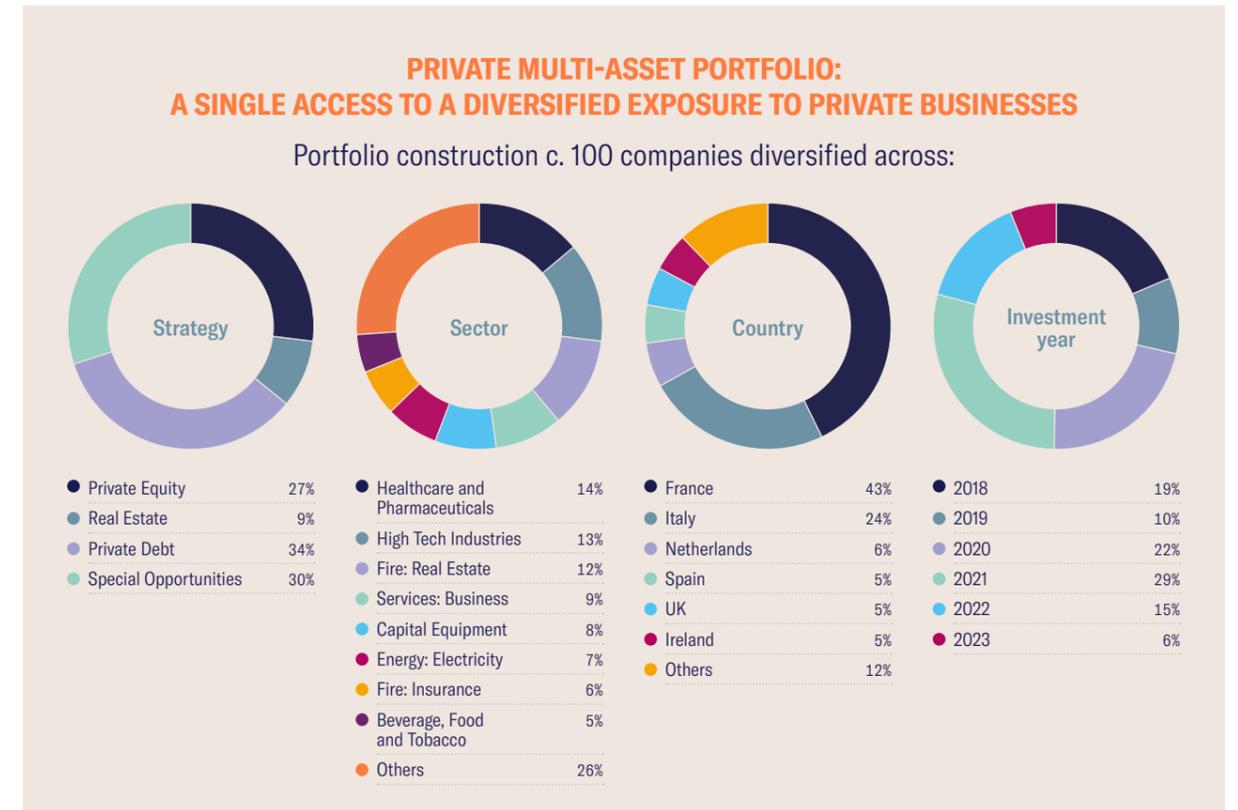
CJ: For most investor clients, we aim to generate performance through **a combination of strategic and tactical allocations** depending on client requirements, appetite for risk, market conditions and our investment convictions. Indeed, we aim to drive cash yield from private credit, special opportunities and core/core plus real estate exposures. Simultaneously it is possible to realise capital gains over the long term from private equity and value-add real estate deals by being exposed to structural trends such as energy transition, cybersecurity, etc. No forced sales and patient capital are best allies to long-term value creation. These characteristics have the potential to shield investors from behavioural biases and the attempt to time the market in an uncertain financial environment. This is why we advocate portfolio diversification with strong risk-adjusted return potential asset classes that benefit from

an “illiquidity premium” on the back of market dislocation. This environment brings tactical strategies to the fore – accentuating special opportunities and additional areas of value to capture, for example in secondaries markets.

The second tenet of our value proposal is **the vehicle structuring options** and alignment of interest with our LPs. In practice, it means careful crafting of a solution that considers several factors including illiquidity tolerance, cash flow/income requirements, tax considerations and overall appetite for risk in the context of top-level portfolio objectives.

Finally, the third aspect of our proposal stems from **our collaborative and joint governance approach** in the portfolio construction. Indeed, we provide a large spectrum of discretionary mandates with dedicated governance where the LP can be involved in the key strategic decisions of the fund (asset class rebalancing, large co-investments, etc.). As part of this, we also offer dedicated portfolio reviews, reporting and operational services as standard.

Q: Can you provide an example of a typical bespoke multi-asset solution?



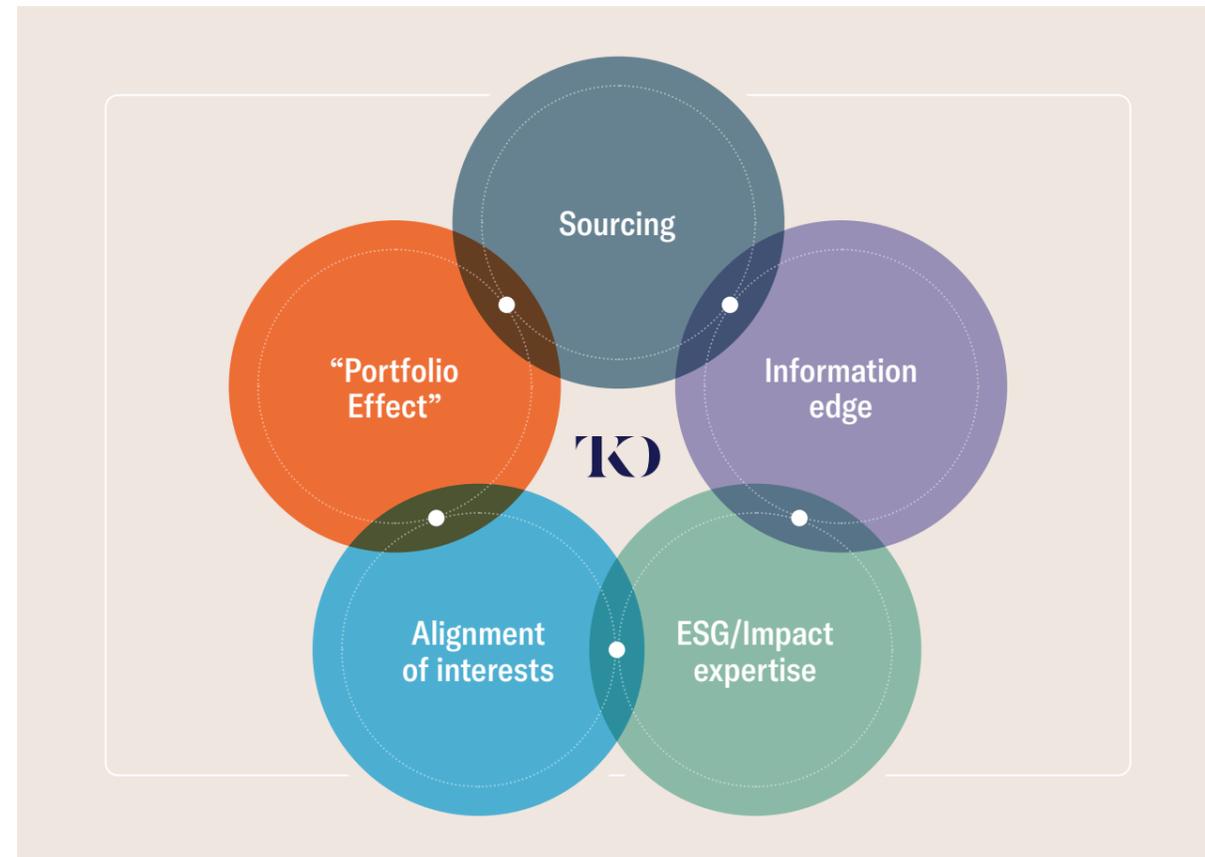
Source: Tikehau Investment Management as of Q2 2023



Q: What differentiates the Tikehau Capital multi-asset platform from its peer group?

MLB: Tikehau Capital benefits from its symbiotic investment platform across public and private markets, various strategies, and geographies. With 15 offices worldwide (as of 30 June 2023), we have managed to build a global investment platform with deep roots in Europe driving solid performances across strategies on the back of the following elements:

1. **Global sourcing and proprietary deal** flow through our multi-local coverage approach
2. **Information edge** through cross-platform and ecosystem collaborations and information sharing
3. **“Portfolio effect”** providing pipeline of new activity as a result of long-standing relationships with companies, sponsors and advisors
4. **Recognised ESG and impact framework** across all private markets strategies
5. **Strong alignment of interests with LPs**



Our dedicated Private Multi Asset Strategy team combines fund structuring and portfolio allocation expertise with a transversal approach to leverage the Tikehau Capital's symbiotic investment platform.

Additionally, we rely on the solid investment expertise provided by a dedicated Allocation Committee including all CIO investment professionals within the firm. Finally, we are recognised for our ability to develop innovative, flexible solutions for our clients in the form of

custom-made solutions with an option to combine commingled funds and co-investments, capital gain and cash yield objectives. We take a bespoke approach to fund structuring and reporting and integrate sound governance at every stage of the journey.

Q: Can you summarise the strategy in three words?

CJ: Bespoke, versatile and collaborative

Maxime
LAURENT-BELLUE

HEAD OF TACTICAL STRATEGIES

Maxime Laurent-Bellue joined Tikehau Capital in 2007 and serves as Head of Tactical Strategies and Head of Structured Credit Strategies. Since 2008, he has contributed to establishing and developing the Group's Private Credit division and has been involved in new investments, as well as fundraising and strategic launches for several segments, including special situations, direct lending and leveraged loans. From 2012, he established and ran the senior loan business for the Group and was responsible for portfolio management, whilst also playing an active role in deal sourcing and execution for both senior loans and direct lending opportunities.

Clément
JEANMAIRE

DEPUTY PORTFOLIO MANAGER, MULTI-ASSET SOLUTIONS

Clément Jeanmaire joined Tikehau Capital in 2013 and currently serves as Deputy Portfolio Manager in Tikehau Capital's Multi-Asset Solutions Strategy. Clément joined the Group as Head of Compliance of Tikehau IM. He started his career in 2006 as a financial auditor at Mazars, before joining the Autorité des marchés financiers (AMF) in 2010 in the asset management division.

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