GCM Grosvenor

STRATEGIC INVESTMENTS

In Brief

MARCH 2021

Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its objectives or avoid losses. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion.

Select risks include: market risk, macroeconomic risk, liquidity risk, interest rate risk, and operational risk.

How Rigid Asset Allocations Can Challenge Excess Return Generation

We all gravitate naturally to category thinking – the urge to group "like" and separate "unlike." The process is central to human intelligence. Yet, categories are not always the best solution to the problem of sorting and understanding inputs. Sometimes, categorizing works against us. We see such a phenomenon among alternative investments.

THE LIMITS OF CATEGORIES IN INVESTOR ALLOCATIONS

Alternative investments have rapidly gained traction within investment programs as sources of diversification and complementary income to traditional asset classes. As institutional investors adopted "alts," they also embraced new classifications for these investment types, sorting them into categories of hedge funds, private equity, alternative credit, infrastructure, and real estate.

Managers with flexible mandates can access unique sources of return by taking advantage of opportunities that strict-mandate managers cannot.

For asset allocation purposes, categories are highly effective. By identifying the long-term characteristics of individual asset classes, institutional investors can allocate to help optimize their specific goals – minimizing loss, managing volatility, maximizing return, or diversifying income, according to their priority.

But that allocation-optimizing system does not work quite as perfectly when a category encompasses a varied range of characteristics, as happens in multi-asset investing. Facing a category that is harder to pinpoint in terms of characteristics, some institutional investors lump multi-asset strategies in an "opportunistic" bucket, while others avoid them altogether.

CATEGORY BOUNDARIES CAN STYMIE OPPORTUNITIES

While the institutional investor might struggle to see the fit for strategies outside the usual asset class categories, portfolio managers face a different problem – asset class categories can block opportunities.

When strict category lines are applied in investing, compelling opportunities are inevitably left on the table. Or to put it another way, when strategies are unconstrained from traditional boundaries, they can seek to generate excess returns.

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SEEKING EXCESS RETURNS THROUGH MULTI-ASSET CLASS INVESTING

Managers with flexible mandates can access unique sources of return by taking advantage of opportunities that strict-mandate managers cannot, in three key areas.

First, investors who employ a multi-asset class approach have flexibility with respect to position in the **capital structure**. For example, an investment may be more attractively structured as a debt offering or hybrid security as opposed to an equity stake. The ability to capture opportunities such as these is a key advantage in the marketplace.

In addition, flexibility with respect to an investment's **duration** can also be advantageous. Because of the liquidity profiles of hedge funds and private equity funds, investments that fit into a more intermediate-duration profile can often be challenging to execute. A multi-asset class mandate can capture these opportunities. Likewise for short-term investment opportunities created by market dislocations that are often overlooked by managers who can only consider long-term, illiquid opportunities.

Finally, an investor utilizing a multi-asset approach to portfolio construction may be more **tactical** and can quickly adapt to changing market environments. A flexible mandate relaxes constraints on exposures, security types, strategies, and other factors to allow a manager to better adapt and access opportunities.

Multi-Asset Class Investing: Sources of Excess Return

✓ Capital structure flexibility. Investments are driven by a need for capital – not for a specific need to package capital as equity or debt. Managers who are constrained to a single portion of the capital structure will inevitably miss compelling opportunities.

✓ Intermediate duration. The traditional liquidity profiles of hedge fund and private equity managers create a gap in intermediate-duration opportunities. Allowing for more flexibility in mandates can drive excess return based on a unique duration profile.

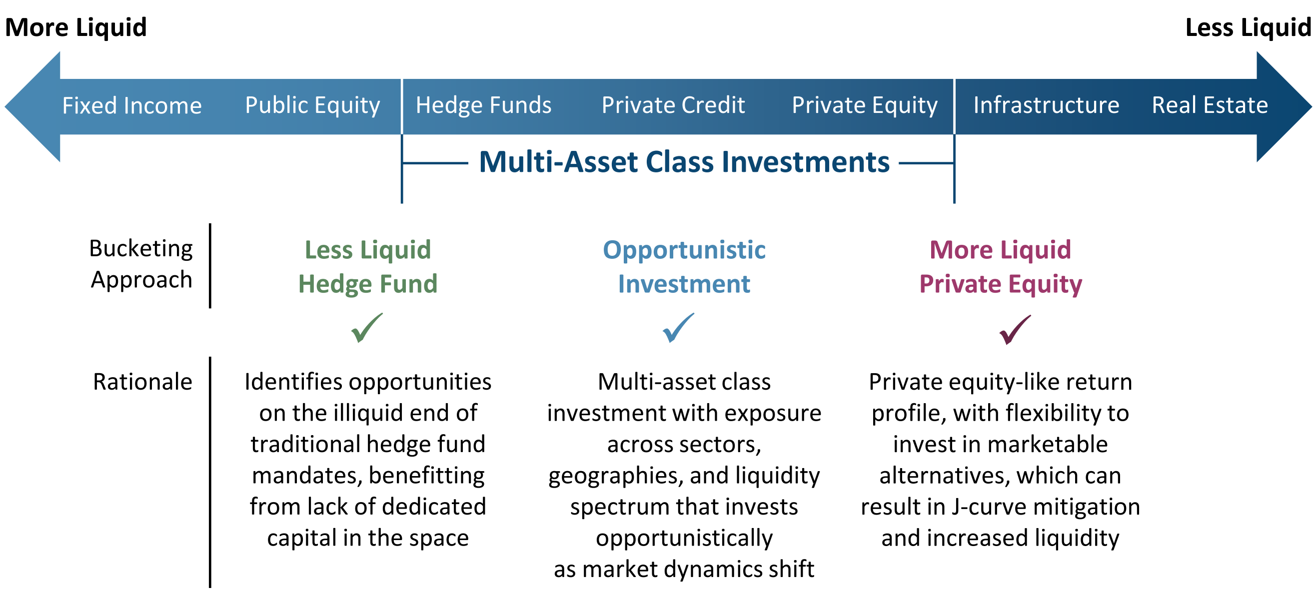
✓ Tactical opportunities. With a relaxed constraint on portfolio composition, multi-asset class investors can quickly adapt to the changing market environment and lean into the most compelling opportunities, whereas traditional alternatives investors may be somewhat siloed to their strategy.

HOW TO ALLOCATE FOR OPPORTUNITY

It is true that multi-asset strategies can be harder to categorize. Still, it is possible to assess the profile of such strategies. While they may not follow the usual asset class delineations, they are typically managed with limits and boundaries. Those limits just take a different shape – targets. Because each investment decision can be modeled for its specific characteristics, the portfolio as a whole can be managed to targeted measures, whether that's volatility, loss-limit targets, concentration limits, etc.

Many institutions who have embraced the multi-asset approach have created opportunistic buckets within their portfolios to take advantage of this exposure profile. Liquidity profiles of multi-asset programs tend to fall between hedge funds and private equity. Therefore, other approaches frequent among institutional investors are to model these strategies as either a less-liquid hedge fund or a more-liquid private equity allocation. Regardless of classification, the intention of multi-asset investing remains to be unconstrained and agile in accessing alternative investments.

There are multiple approaches to bucketing a multi-asset class investment



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MULTI-ASSET CLASS INVESTING AT GCM GROSVENOR

We believe multi-asset class investing is best achieved through a co-investing and direct investing approach that leverages our key competitive advantage in the marketplace: our platform. Our Strategic Investments Group is built to leverage this advantageous position in the industry through:

- Deep and established platform: Tenured player in alternative investing with $62 billion invested with over 600 general partner (GP) relationships.
- High-quality deal flow: 1,000+ tangible investment opportunities annually from pre-vetted managers across strategies and regions.
- Comprehensive diligence and execution capability: Dedicated team with direct investment experience and in-house operational infrastructure to process and execute multi-asset deal flow.

The GCM Grosvenor multi-asset approach leverages our competitive advantages in seeking to deliver excess returns for clients.

MULTI-ASSET INVESTING: A STRATEGY FOR ANY MARKET ENVIRONMENT

The advantages of multi-asset investing in alternatives are not limited to a specific macroeconomic environment. Indeed, the changing cycle from one environment to the next is one of the dynamics that drives the opportunity set for multi-asset investing. We see multi-asset strategies as a strong option for institutional investors whose alternative asset allocation covers the traditional categories but lacks the flexibility to capitalize on the opportunities summarized here. ■

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ABOUT GCM GROSVENOR

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately $62 billion in assets under management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm is in its 50th year of operation and is dedicated to delivering value for clients in the growing alternative investment asset classes.

GCM Grosvenor's experienced team of approximately 500 professionals serves a global client base of institutional and high net worth investors. The firm is headquartered in Chicago, with offices in New York, Los Angeles, London, Tokyo, Hong Kong, and Seoul.

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Important Disclosures

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For any questions, please contact GCM Grosvenor Investor Relations at investorrelations@gcmlp.com.

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