

Time to Consider Alternatives? The Case for Absolute Return Strategies

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The Challenge: The current market landscape has highlighted important challenges regarding the role of fixed income as the current low yield environment is likely to produce less compelling returns (see Fig. 1) and diversification benefits moving forward. While bonds have often exhibited negative correlation to equities, especially over the past two decades, this hasn't always been the case (see Fig. 2) and stock/bond movements are becoming increasingly linked, as we witnessed during the March market collapse. Looking ahead, if fixed income is less capable of delivering material returns and diversification to an equity portfolio, it will be important to allocate to strategies that are able to provide these benefits.

Fig. 1: Low Rates Portend a Bleak Outlook for Bonds
January 1980 to December 2020

Based on Data Compiled by the Robert Shiller Database

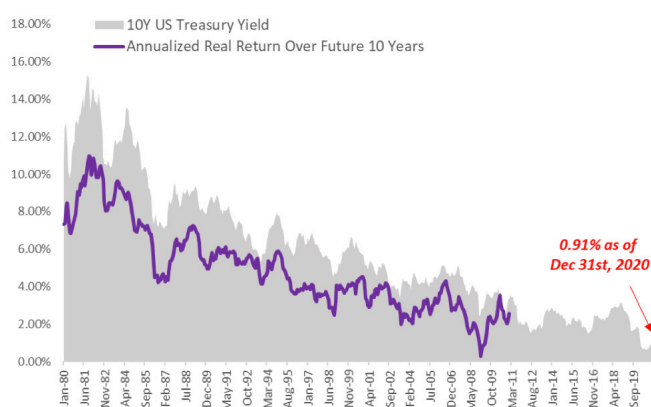
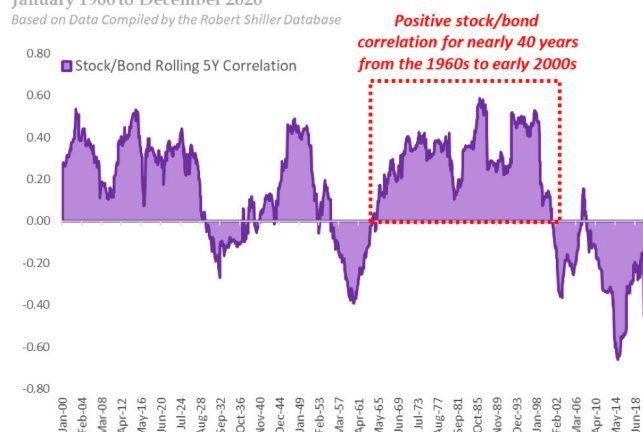


Fig. 2: Stock/Bond Correlation Not A Constant
January 1900 to December 2020

Based on Data Compiled by the Robert Shiller Database



A Solution: The Cidel Relative Value Fund is composed of a mix of underlying alternative investment strategies including, but not limited to, equity market neutral, credit long/short, merger arbitrage, and global macro. Each of the underlying strategies can provide meaningful returns and diversifying characteristics over the long-term. When combined in a multi-strategy portfolio, it creates a robust and versatile investment designed to perform across a variety of market environments – including environments characterized by low or rising interest rates. Ultimately, the Cidel Relative Value Fund serves to help investors diversify their fixed income exposure by offering a capital defensive, low volatility, absolute return performance profile that is generally uncorrelated to traditional investments such as stocks and bonds.

Why Now?: While the Cidel Relative Value Fund is an attractive, long-term solution as a portfolio diversifier, the current environment is a particularly attractive one for the strategy. In this post-crisis environment, markets are experiencing elevated levels of volatility which has churned up a rich opportunity set that offers the potential to generate compelling, above average returns. While each underlying strategy benefits from this environment in different ways, we have summarized the opportunity set as the 4 D's:

- **Dislocation:** Dislocation occurs when markets move without sufficient distinction between the quality of the various underlying businesses and their related securities (equities, bonds, derivatives, etc.). Relative value strategies can exploit these mispricings by buying securities at a material discount to their intrinsic value, while shorting others at a premium.

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- **Dispersion:** Dispersion refers to the market differentiation between the 'winners' and 'losers' and the spread that results from relative performance. The 'winners' will likely be the securities of companies with better balance sheets and business models, while the 'losers' will likely be those facing more persistent financial strain. Traditional passive strategies will be exposed to both 'winners' and 'losers' alike, but active relative value strategies can profit from the spreads created from this dispersion.
- **Dysfunction:** Market volatility breeds various forms of dysfunction such as a) lower levels of liquidity which can greatly impact merger situations, ETFs, and SPACs causing deviations from their NAV, and b) changing relationships between related securities (i.e. bonds -v- equities, equities -v- options, bonds -v- CDS). Relative value strategies can profit from the spreads and arbitrage opportunities that result from these volatility-driven market dysfunctions.
- **Distress:** An economic shock that comes from a crisis can create existential problems for certain sectors and companies. This leads to a rise in default rates and forces some companies to liquidate or restructure. Distressed focused investors can benefit from these scenarios by purchasing heavily discounted bonds and taking control of the assets in the restructuring process to achieve a recovery value well in excess of the price they paid.

Thus Far: 2020 has been a banner year for performance and a proof statement for the fund's ability to meet its objectives. First, the Fund defended extremely well in Q1 when risk assets plummeted and interest rates bottomed (Q1 2020: RV -1.3% vs. Global Equities -21.4%). Then, in the wake of the market crash, the Fund captured significant upside return, producing nine consecutive positive months

into year end, outperforming traditional fixed income by over 700bps during that time (see Fig. 3). In addition, the Fund also outperformed bonds on a full year basis by 250bps (see Fig. 4). Overall, this year clearly illustrated that the fund can serve its intended purpose - defending against market volatility, generating consistent performance, and offering competitive returns versus traditional fixed income (not to mention, in a more tax-efficient way).

Alternative investing may benefit many investor types. Cidel Wealth Consultants can work with you to review the advantages and disadvantages to determine if alternatives should be part of your investment portfolio.

Fig. 3: Outperformance Since Interest Rates Bottomed in March

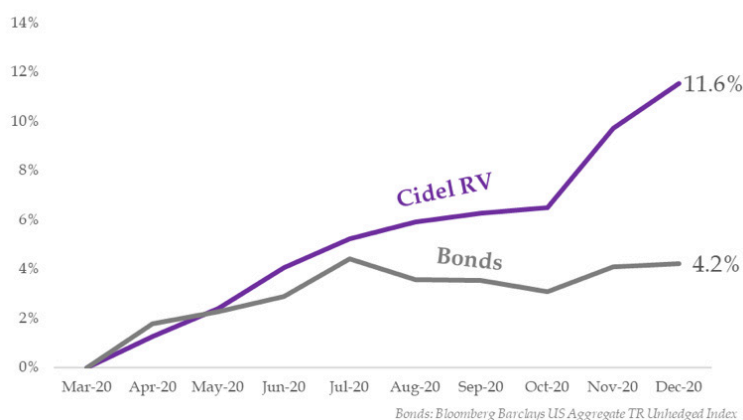
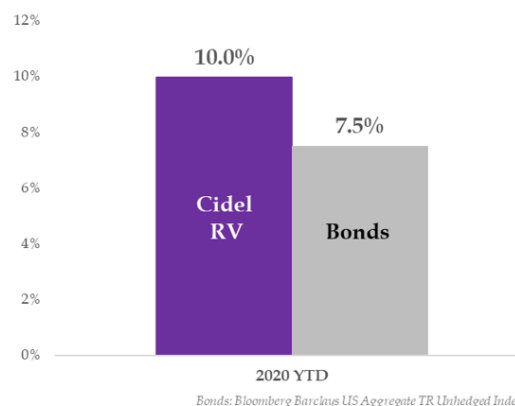


Fig. 4: FY2020 YTD Outperformance Over Bonds



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Conclusion: While investors will face the challenges brought on by low interest rates in the years to come, we are pleased to present the Cidel Relative Value Fund as a compelling alternative solution. The Fund can both play a strategic role in one's overall asset mix in the long-term, and can also offer the opportunity to tactically add value in your portfolio today in a particularly attractive environment for this strategy. Cidel takes pride in its ability to be flexible and provide innovative investment solutions for clients that adjust with the ever-changing market conditions. We believe this solution further enhances our aim of assisting you in protecting and growing your wealth.

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ⁱ Global Equities are represented by the MSCI ACWI Net TR USD Index

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