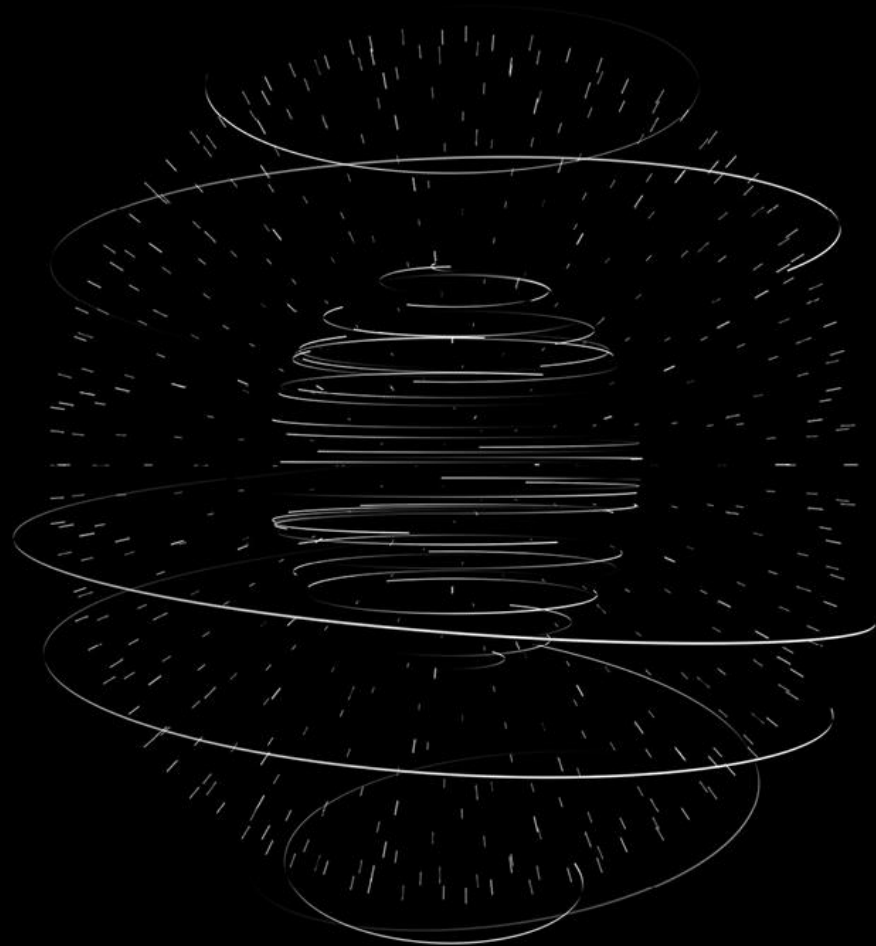
ITERAM



Financial Disintermediation in International Markets : What about Portfolio Construction?

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September 2017

Agenda

Financial Markets Performance

Equities

Index	Performance (Total Return)			Volatility (annualized)	
	YTD (31.08.17)	3Y	5Y	Vol 3Y	Vol 5Y
S&P 500 ($)	11.9%	31.4%	95.2%	10.1%	9.5%
Euro Stoxx 600 (€)	6.3%	20.5%	65.2%	13.2%	11.3%
MSCI EM ($)	28.6%	8.2%	31.0%	15.8%	14.5%
IBOVESPA (BRL)	17.6%	15.6%	24.1%	22.2%	20.9%

Source : Bloomberg. Volatility figures are calculated using monthly returns.

Bonds

Index	Performance (Total Return)			Volatility (annualized)	
	YTD (31.08.17)	3Y	5Y	Vol 3Y	Vol 5Y
Bloomberg Barclays US Agg Value Unhedged ($) (≈6 yrs duration)	3.6%	8.1%	11.4%	2.9%	2.8%
Bloomberg Barclays Emerging Markets Brazil Unhedged ($) (≈6 yrs duration)	10.9%	13.2%	19.0%	11.4%	9.8%

Source : Bloomberg. Volatility figures are calculated using monthly returns.

Portfolio Construction Basic Rules

- There is a rule to always follow. A rule which is in fact derived from common sense. One of those good old rules that comes from the days when the countryside still dominated our economy. A rule that is the leitmotiv of this whole article. A rule that is the axiom from which we have developed all our reasoning: **"do not put all your eggs into one basket"**.

- The key points about portfolio construction are :
  1) Not to put all your eggs into one basket
  2) To mix diverse sources of return
  3) To achieve an uncorrelated mix of returns

- Bonds : **credit risk**

- Equities : **capital partner risk**

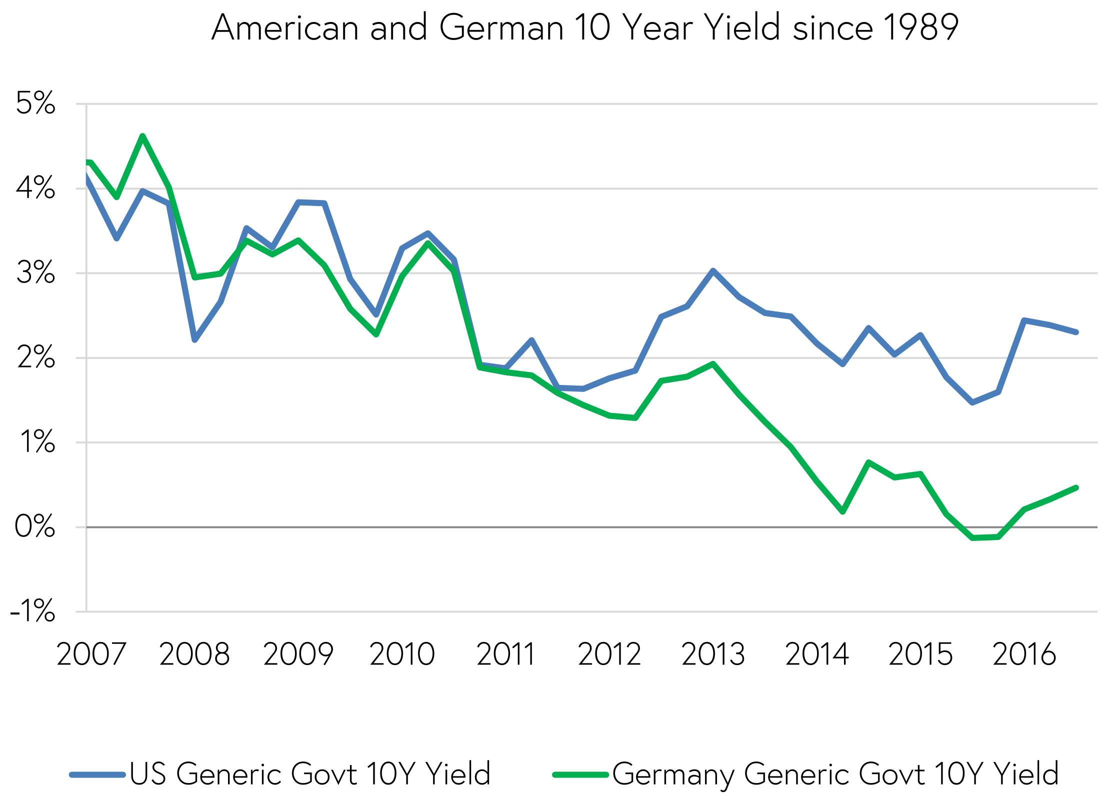
Such a description obviously implies that these two categories are thought **in the long term**. At least on the horizon of the maturity of the loan with regard to the credit risk, and the realization of good returns regarding the risk of partnership.

It is therefore necessary to add, when introducing the **short-term dimension**, a risk common to both categories: **market risk**. That is to say the assessment that all players in the financial market make of the credit risk and the risk of partnership at a specific moment.

→ liquidity risk is inevitable

Therefore :

- Equities = Partnership Risk + Market Risk
- Bonds = Credit Risk + Market Risk



- The bond allocation after being so rewarding is not what it used to be anymore
- Search for yield and **diversification**

Source : Bloomberg

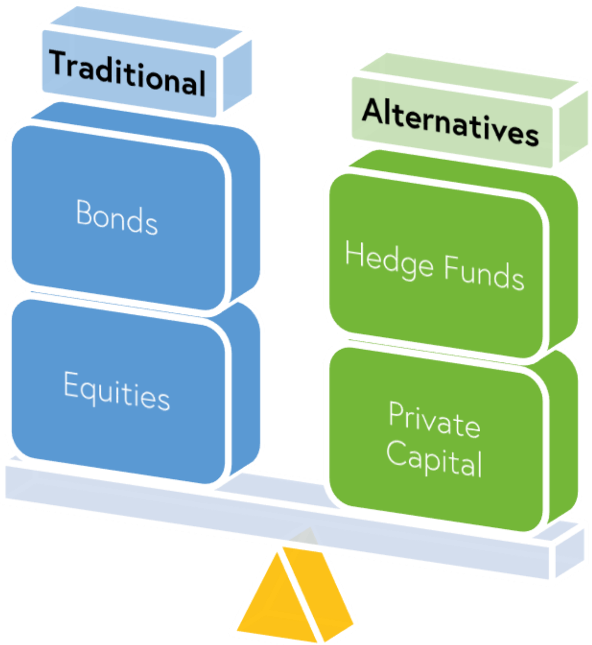
The Complementary Allocation Grid : Alternative Investments

- Diversification cannot be thought of in binary terms:

  Traditional management *vs/&* alternative management

TRADITIONAL

Equities	**Bonds**
Large caps Mid caps Small caps Value Growth Country allocation etc.	Sovereign Investment grade High Yield Duration Country Allocation etc.



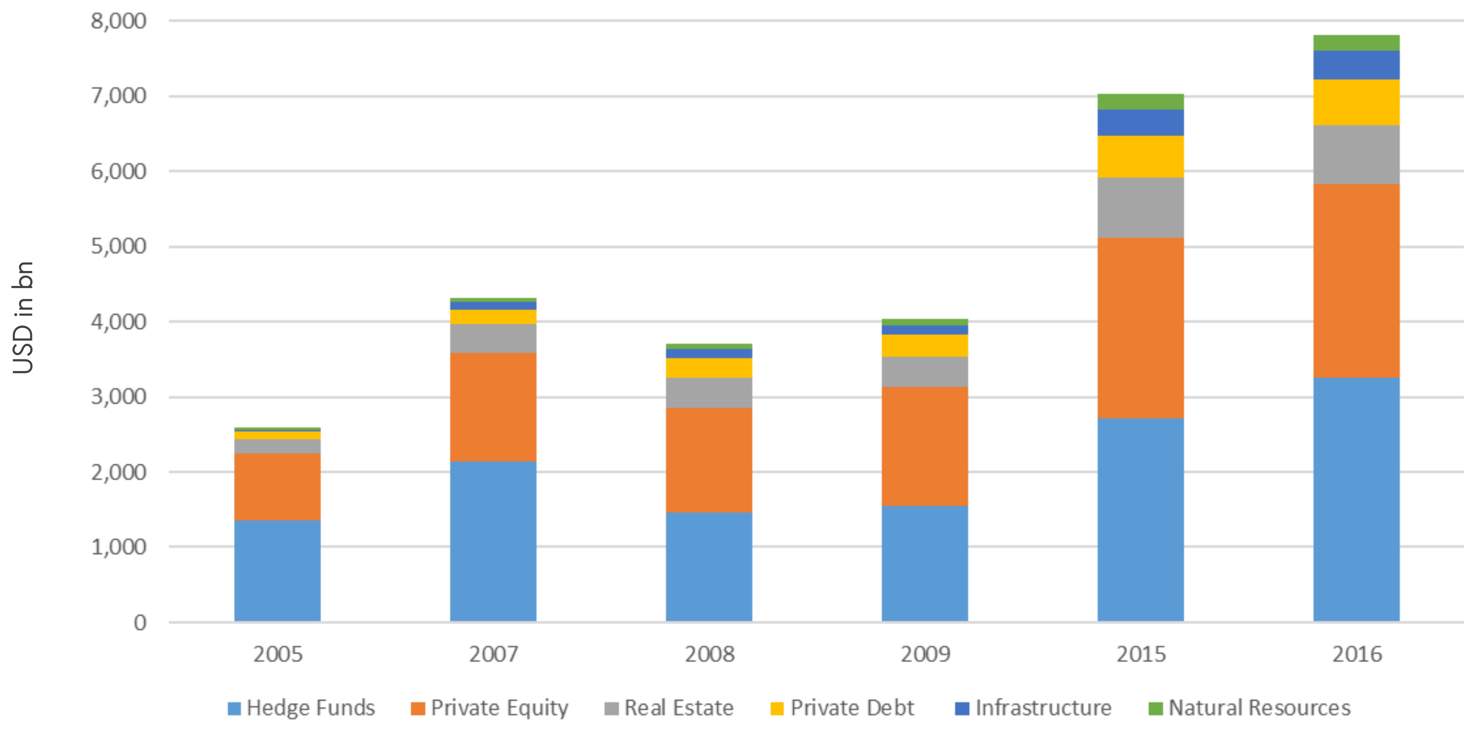
Portfolio Asset Allocation Models

- Hedge Funds and Private Capital instruments led to more sophisticated portfolio construction

Traditional	Hedge Funds		Private Capital			Natural Resources
Asset Class	Strategy		Private Equity	Private Debt	Real Estate / Infrastructure	Strategy
Equities	Long-Short Equity	Event Driven	Buyout	Direct Lending	RE Residential	Energy
Bonds	Macro	Systematic	Venture	Distressed Debt	RE Commercial	Agriculture
Gold	Multi-Strategy / Arbitrage	Distressed	Growth	Mezzanine	RE Development	Metals / Mining

Offer meets Demand

- Total alternative assets in the industry are at historical highs with more than **$7.7tn in hedge fund and private capital assets** managed globally



Source : Preqin and BarclayHedge

Institutional Investors' Allocation in Alternative Asset Classes

- Participation in multiple alternative asset classes is now the norm for the majority of investors, with alternatives portfolios becoming more and more diverse

Proportion of institutional investors allocating to each alternative asset class

Source : Preqin Alternative Report, 2017

Structural Changes : Disintermediation

- The Rise in demand for private debt has been aided by **an ultra-low yield** environment.

- In the years since the financial crisis, a short-term **freeze in bank lending** to the real economy in the crisis of 2008/2009 was followed by a prolonged period of retrenchment by banks, particularly from longer-dated or riskier lending, in order to deleverage and meet stringent new capital requirements imposed by **regulators**.

- The post financial crisis shift from traditional bank funding models towards alternative lenders has been particularly rapid in the mid-market as **SMEs continued to need fresh capital** to refinance their existing loans and raise new ones to fund their business growth, hence a dislocation and funding opportunity presented itself.

- Credits through the corporate **bond market** allow some loans to be conducted directly between borrowers and savers without the involvement of banks.

- The Corporate bond market and the **Shadow banking** both reduce the aggregate shortage of bank capital in the financial intermediation process.

The Alternative Players (non-bank institutions) : Private Equity and Hedge Funds Convergence

- Both industries, **hedge funds and private capital funds are at a juncture** where they are aggressively looking for new opportunities in order to satisfy their investors' demands to deploy ever larger amounts of capital, and as a result many of the largest private equity and hedge funds are expanding their traditional horizons and offering both investment classes under one roof.

- With significant capital to deploy, they represent both **a fertile alternative source of financing** for companies.

- Additional creative angles to deals.

- Hedge funds' entry into the subordinated debt market for LBOs has created **more intense competitive and pricing pressures** on existing sponsor-focused mezzanine funds.

- A type of hybrid vehicle has emerged, it includes private equity investing, but more a hedge fund structure.

The Alternative Lenders (non-bank institutions)

New forms of lending and threats for Financial Banks

The Alternative Lenders (non-bank institutions)

- Key advantages of using Alternative Lenders to fund a buy and build strategy may include :

  - Accelerate the growth of the company and exponentially grow the shareholder value in a shorter time period.

  - No separate equity raising required as Alternative Lenders can act as a one stop solution providing debt and minority equity.

  - Significant capital that Alternative Lenders can lend to a single company (€150-300m) making Alternative Lenders ideal for long term partnership relationships and follow on capital for multiple acquisitions.

Source: Deloitte Alternative Capital Solutions Q1 2017

Private Equity : 2017 sees another Private Equity Landmark

- Apollo Investment Fund IX becomes the largest ever private equity buyout fund at $24.7bn
- Two of the top 10 largest private equity funds ever, have closed within the past two months

Top 10 Largest Private Equity Funds Ever Closed

Fund	Firm	Final Size (mn)	Year of Final Close	Geographic Focus
Apollo Investment Fund IX	Apollo Global Management	24,714 USD	2017	North America, West Europe
Blackstone Capital Partners V	Blackstone Group	20,365 USD	2006	Global
GS Capital Partners VI	Goldman Sachs Merchant Banking Division	20,300 USD	2007	Global
TPG Partners VI	TPG	18,873 USD	2008	Global
Apollo Investment Fund VIII	Apollo Global Management	18,380 USD	2013	North America, West Europe
Blackstone Capital Partners VII	Blackstone Group	18,000 USD	2015	Global
CVC Capital Partners Fund VII	CVC Capital Partners	16,000 EUR	2017	Central America, Europe, North America, South America, West Europe
Apax Europe VII	Apax Partners	11,204 EUR	2008	Brazil, Europe, India, Israel, North America, West Europe
KKR Fund 2006	KKR	17,642 USD	2007	Global
TPG Partners V	TPG	15,372 USD	2006	Global

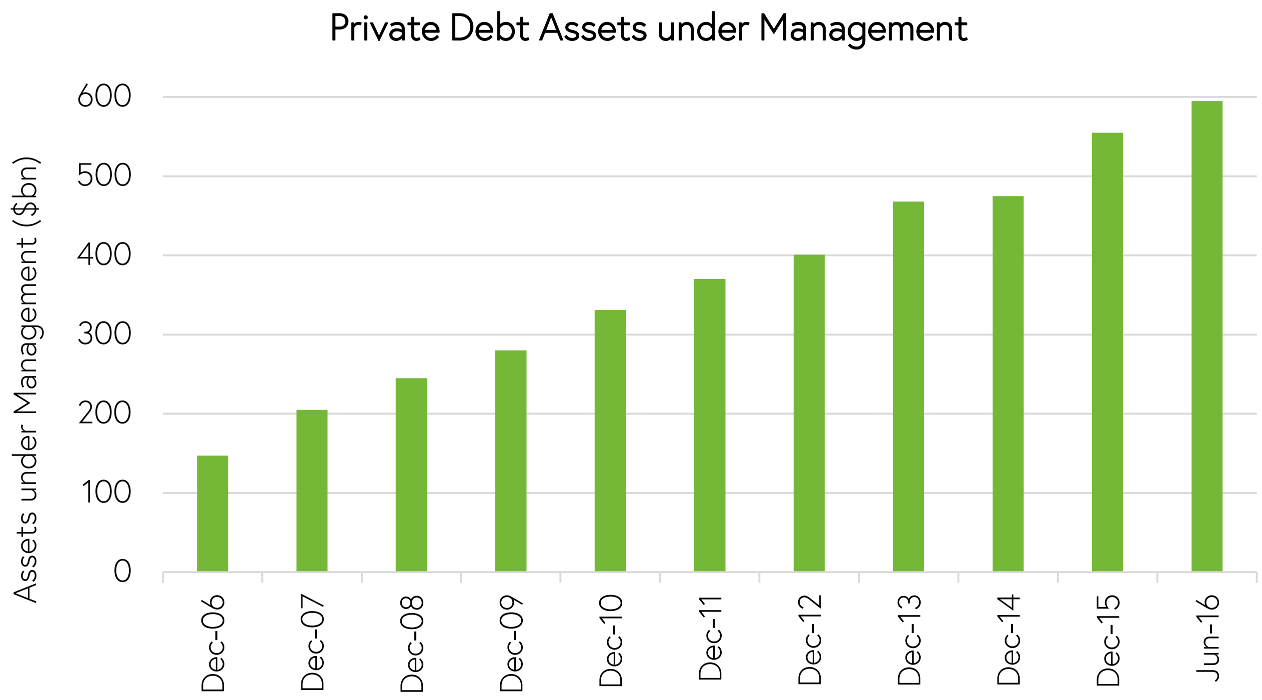
Source: Preqin Private Equity Online

- Buyout fundraising is at a record pace – $184bn has been raised in 2017 YTD, on course to surpass 2007's full-year record of $249bn
- Private Equity fundraising in 2017 YTD now stands at $269bn, and is on track to exceed the $413bn record set in 2007

Source : Preqin Alternative Report. Data as of June 2017

Private Debt : Assets have quadrupled in the last 10 years

- There are 316 private debt funds currently in market, targeting an aggregate $150bn in capital



Source : Preqin Alternative Report, Preqin Private Debt Online. Data as of June 2016

Non-Bank Lending Deals in Europe are Increasing

Difference between Europe and US markets :

- In Europe, 80% of corporate financing is still provided by bank loans and 20% by capital markets using bonds

- In the US, it is the opposite, where capital markets provide the majority of corporate financing

Source : Deloitte Alternative Capital Solutions Q1 2017

Regulations : Offer meets Demand

Offer side

New regulations for banks

- Banks balance sheet: less risk
- Market access for capital

Demand side

New European regulations about investment vehicles

- Alternative Investment Fund Managers Directive, "AIFMD"
- Reserved Alternative Investment Fund, "RAIF"

DISINTERMEDIATION

A brand new way to raise capital

Investors have access to a new world of investment opportunties

Key Issues for Private Capital Fund Managers

Private Equity	Private Debt	Real Estate
Deal Flow		
Fundraising		
Valuations		
Ongoing Volatility / Uncertainty in Global Markets		
Exit Environment		

Source : Preqin Alternative Report

- "Hybrid" fund vehicles combining characteristics of both open and closed-end funds is new.
- Creatively structured vehicles that address relevant investment objectives, or regulatory, tax or similar issues, are becoming available.
- A new number of tools that managers can use to effectively manage assets with different liquidity characteristics, while also addressing investors' liquidity expectations and capital raising issues.
- As more creative fund structures are adopted that go beyond the traditional structure, some measures of investors' education will be necessary.
- For example, to venture into private equity-style illiquid investments (many not listed on exchange or widely traded at all), the use of special purpose vehicles (SPVs), master-feeder structures, Delaware companies, Cayman feeder, securization companies, and RAIFs to address tax or regulatory concerns can become important.

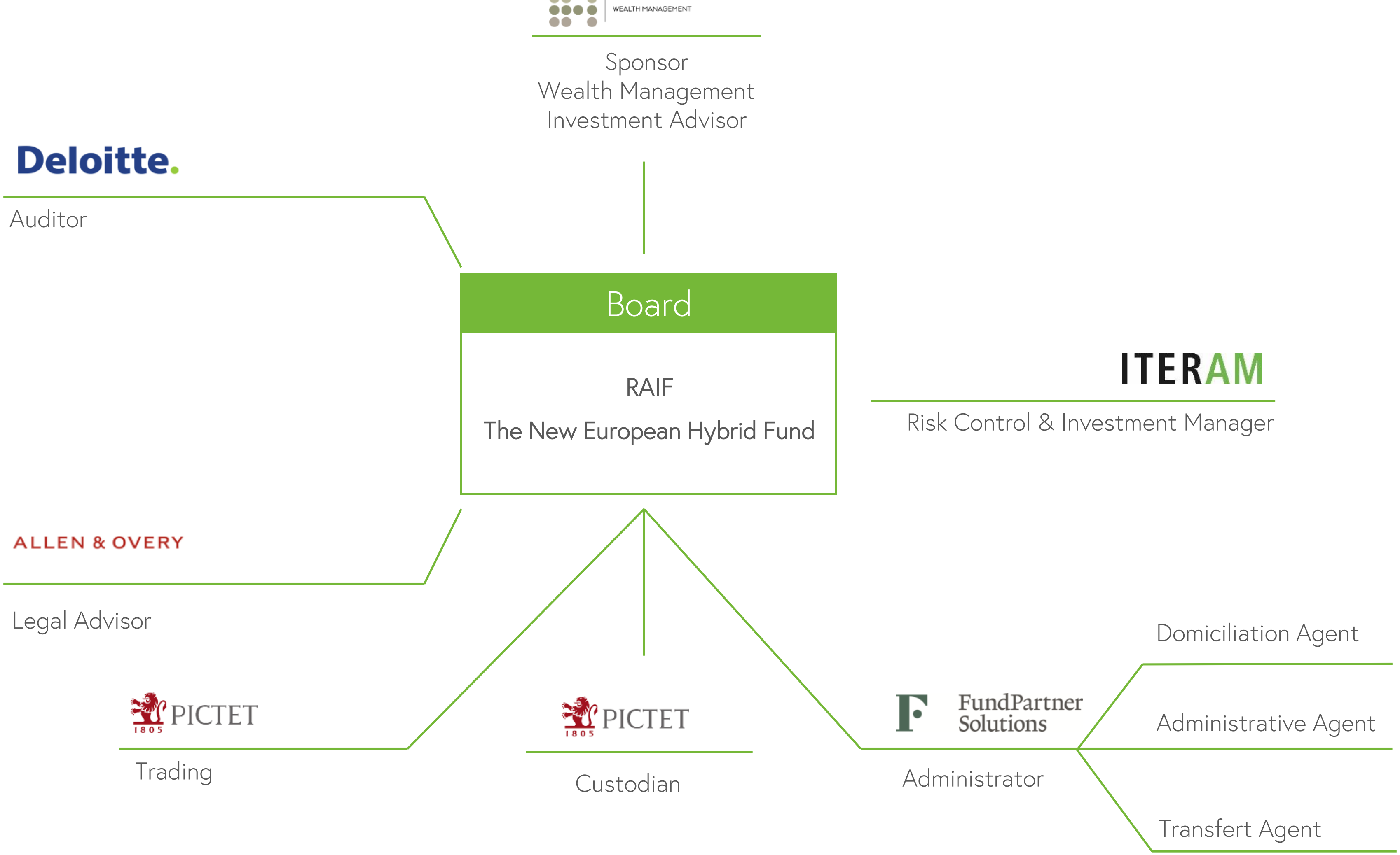
The Providers Importance

- Providers to hybrid vehicles have to adjust their internal systems (risk control).
- The Valuation of fund assets has become increasingly complicated, a third party valuation expert may be needed.
- Managers will need to consider how to address different tax rates that may apply to short-term investments versus longer-horizon assets.
- Portfolio managers need to work with their auditors to address tax issues that will arise from holding assets with varying investment horizons in the same portfolio. Managers will need to consider how to address different tax rates that may apply to short-term investments versus longer-horizon assets.
- Managers need to plan for tax liabilities that may arise from certain assets that have not yet distributed cash to the fund but nonetheless allocate income to the fund, which will accrue related tax liability.

Hybrid funds drive strategic operational partnerships

- Fund administrators need to be solutions-oriented to support their clients.
- There's a significantly higher bar to investing in the alternative business for asset servicers.
- A mind-set among fund managers to outsource functions in such a way that enables them to partner and run their businesses cheek by jowl with their service providers.
- Deliver the right solutions as a valued partner.
- Being a strategic partner as opposed to an administrator include :
  - Drive innovation
  - Collaborative problem solving
  - Mutual Trust
  - Solutions versus services
- Move towards a partnership-orientated business model rather than a product-based business model.
- Multi-service type business

Fund Structure

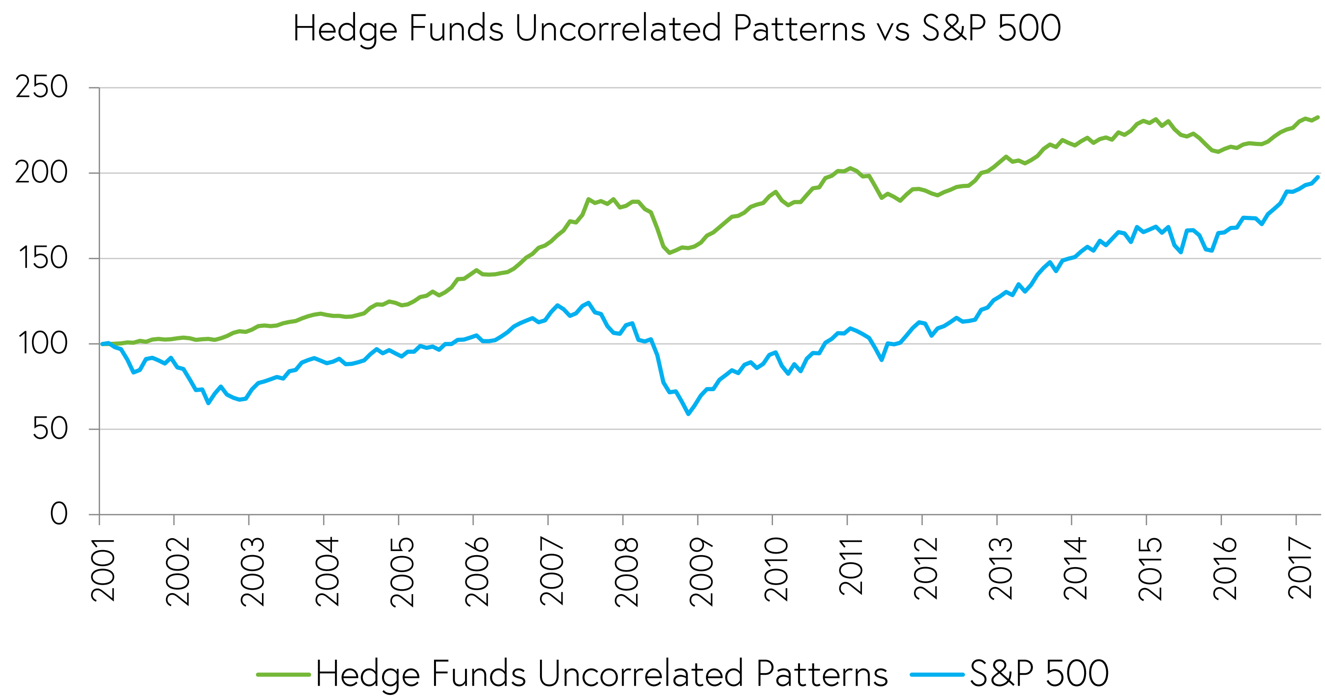


Alternative Investment Ideas

Investments	Description	Region
Portfolio of Hedge Funds	Substitute to traditional bonds, portfolio of best of breed hedge fund managers, dynamic asset allocation across alternative strategies	Global
US Real Estate	Residential U.S. multifamily housing properties, for low to moderate income households in markets with steady employment and population growth	US
Spanish Real Estate	Focus on residential projects, both through refurbishment of existing assets and new development.	Spain
Italian Real Estate	Blend of income producing assets and distress situations in the Italian real estate market with a special focus on non-performing loans. NPL market had an exponential growth over the last years driven by the Italian government reforms.	Italy
Private Investments	Invests in selected club-deals in income generating opportunities with identifiable sources of return, cash flow visibility and recurrence (asset leasing, bridge financing, royalties, private debt)	Global

Source : Iteram Investments. Target portfolio for illustration purposes only.

Portfolio of Hedge Funds



Annualised Volatility	
S&P 500 ($)	14.4
Hedge Funds Uncorrelated Patterns	4.9

A substitute to bonds

US Real Estate

Strategy Highlights

- Sector : Residential
- Subsector : Multifamily, mid-to-lower income
- Return Strategy : Income
- Targeted Gross IRR : 12 %
- Yield : 8%-10% p.a.

Investment Rationale

- US multifamily housing is gaining presence as a real estate asset class in the last years
- Focus on cities with constrained supply, continued demand from middle/low class combined with strong population and employment growth

Sundance Point, Jacksonville, Florida

Woodbridge, Fort Collins, Colorado

Source : Iteram Investments. For Illustration purposes only.

Spanish Real Estate

Strategy Highlights

- Sector : Residential and opportunistic
- Return Strategy : Capital gain
- Targeted Gross IRR : 15%

Investment Rationale

- Historic Real Estate rebound from the depths of post-crisis
- Macro outlook improvements, Spanish GDP grew +3.0% in 2015 and 2016
- Window of opportunity in to next 12-18
- Value creation through a combination of attractive entry price, development/renovation and targeted exit strategy

22@ Luxa, Barcelona

Source : Iteram Investments. For Illustration purposes only.

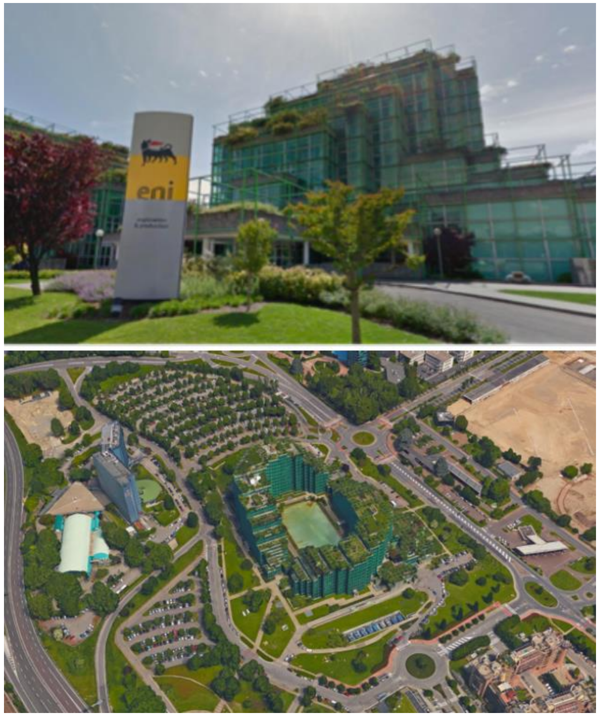
Italian Real Estate

Strategy Highlights

- Sector : Offices, Commercial Real Estate
- Return Strategy : Development and Rent, long-term lease
  Targeted Gross IRR : 18.1%
- Gross Yield 2017 : 6.6%
- Leverage : 75%

Investment Rationale

- Real estate commercial asset long-term leased with a hold and sell strategy after completion of refurbishment CAPEX (€20M)



Milan, Italy

Source : Iteram Investments. For Illustration purposes only.

Locomotive asset-leasing

Deal	Portfolio of 32 locomotives (28 shunting and 4 freight locomotives) built by Vossloh (European leading manufacturer)
Strategy	Locomotives leasing
Region	Europe (Germany, Netherlands, France, Belgium)
Gross Target	≈10% p.a. coupon (paid quarterly) IRR: 10% with a 65% LTV ratio
Term	5-7 years
Structure	Luxembourg securitization vehicle
Security Package / Collateral	Ownership of the assets, recurrence of revenues, strong visibility over assets valuation

OPERATING PARTNERS

northrail technical service

Technical asset manager: fifth lessor in continental Europe with a portfolio of over 100 locomotives. Will ensure remarketing of these assets and secure lease extensions. Management of the maintenance program with the desired service quality.

MILLET

French company specialised in operating railcars in Europe. Will provide premium access to the French railway market for both shunting and freighting operations. Millet is also co-investing in the transaction.

STRATEGY

Acquisition of the assets: with a discount of 12-14% to market value as the seller is selling non-core assets. The portfolio will be acquired from Mitsui Rail Europe. The main competitor of Vossloh, Voith, has stopped producing locomotives. Operators in the 5 largest countries of continental Europe own/lease together about 75% of the total shunting fleet. Current lessee are Deutsche Bahn, SNCF Group, SBB Group and CFL Cargo.

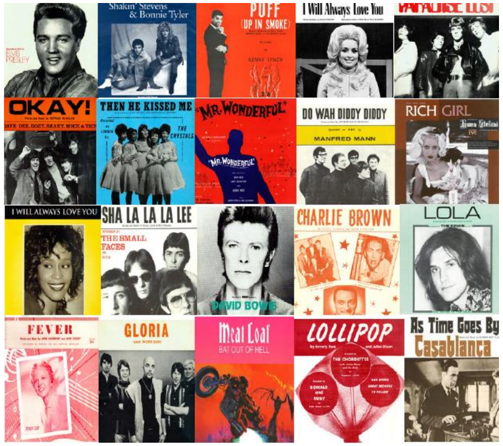
Value Enhancement: through optimization of operations through better lease, maintenance and access to the more profitable French market thanks to its partner Millet. All financing done with a German bank.

Exit strategy: All assets will be sold (individually or globally) to industrial or financial player. The relatively deep discount of 12-14% should significantly mitigate downside risk as well as the recurrence of the revenues should quickly de-risk the investment.

Source : Iteram Investments. For Illustration purposes only.

Music Royalties

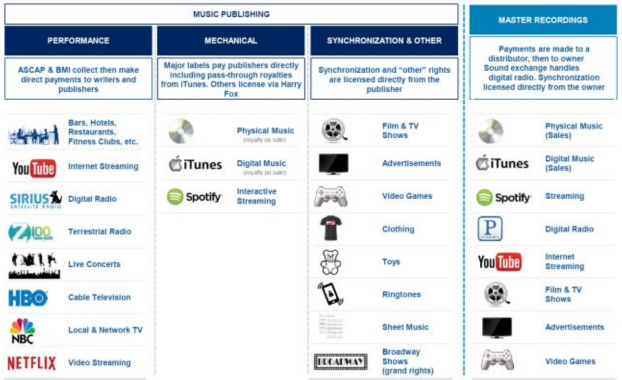
Deal	Catalog of Music Royalties (100'000+ songs)
Genre[1]	Jazz, Country, R&B, Soul, Pop, Rock and Dance
Artists[1]	Frank Sinatra, James Brown, Madonna, Whitney Houston, Elvis Presley, David Bowie, Johnny Cash, Dolly Parton, The Kinks, Van Morrison, Louis Armstrong, Barbra Streisand, Bonnie Tyler
Greatest Hits[1]	I Will Always Love You (Whitney Houston); Missing You (Tina Turner); Spread A Little Happiness (Sting); What A Wonderful World (Louis Armstrong); Santa Baby (Eartha Kitt); Great Balls of Fire (Jerry Lee Lewis); I Feel Good (James Brown)
Gross Target	≈10% p.a. coupon (paid quarterly) 14% IRR with a LTV of 30%
Acquisition Price	$245M
Structure	Co-investment



STRATEGY

- Diversified stream of royalty income
- Long duration rights
- High Quality, Predictable, Cash Flows
- Longevity of Relationships with Writers & Composers
- Significant Upside Potential from Licensing & Collection

<u>Exit strategy:</u> Sale to Financial or Strategic player (Sony, BMG, KKR); Initial public offering (company or trust); Securitization (floated as bonds)



Source: Categories of content revenues

Source : Iteram Investments. For Illustration purposes only. [1]Not the exhaustive list.

ITERAM

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STONEWEG

Iter (latin) : way, walk, journey, travel

AM : Asset Management

- ITERAM is active in asset management, wealth management and asset services. In 2016, ITERAM Investments **celebrated its 15 years** in Luxembourg. The company was founded in July 2001 and was renamed ITERAM Investments to the occasion of its new AIFM licensing agreement. The companies ITERAM Capital and Stoneweg have been founded in 2015 in Geneva.

- ITERAM stands for a **holistic vision of investment**, blending asset allocation, active management and structuring capability in the portfolio management as well as in the real estate field.

- This allows ITERAM to deliver **tailor-made solutions** to its customers. Through its experience and flexibility, ITERAM delivers solution-based services within a world of complex financial and real estate challenges.

- ITERAM's **open architecture** philosophy allows the company to partner with any specialist in any field necessary, in order to carry out the mandate agreed upon with our clients.

Our edge: What makes us different

Extensive expertise in niche Investments and proven track record

Hedge Funds, Real Estate, Private Equity, Specialty Finance

Capabilities to structure and optimize client assets and investments

Investment vehicles, Securitization, Regulatory/Legal framework

Flexible, tailor-made solutions, holistic approach

Portfolio Management, Fund Management, Advisory

Group Core Activities – «One stop shop»

ITERAM - STONEWEG

GROUP

Assets €3 billion

50+ employees

Asset Management	Asset Services	
Traditional and Alternative Financial Assets Fund Management/Advisory	AIFM ManCo Risk Management	Fund Distribution Third Party Managers
Real Estate Fund Management/Advisory	AIFM ManCo Fund Engeneering	Fund Representation in Switzerland
Investment Research	AIFM ManCo Social Life	Securitization

LUXEMBOURG (CSSF Regulated)
GENEVA (FINMA Regulated)

Source : Iteram Investments as of September 2017

Alexandre COL

Alexandre Col holds three degrees and two masters in the fields of business management, economics, political sciences and sociology.

He was with the Edmond de Rothschild Group for twenty years, as a member of the Executive Committee of Banque Privée Edmond de Rothschild, head of the Asset Management division for Switzerland, including the real estate asset management sub-division and head of the Multi-management division for the Group.

In 2001, he launched a fund of hedge funds, which became one of the largest of its kind in the world, with more than 3 billion USD AUM.

Alexandre also launched the first ever Swiss real estate SICAV, of which he was Chairman of the Board until he left the Group in 2014. The total AUM under his responsibility reached more than 10 billion euros, over one billion of which was dedicated to real estate.

He has been on the board of many Luxembourg and Swiss regulated investment funds, management and advisory companies.

In 2015 he joined ITERAM Investments and founded ITERAM Capital and STONEWEG, these three companies are present in the European Union and in Switzerland and are involved in the fields of Asset Management, Wealth Management and Real Estate.

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