# Why Institutions Are Allocating to Alternatives

## And a Structure That Gives Main Street Investors Similar Access

# Introduction to Griffin Capital

Privately-held alternative investment asset manager

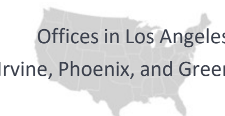
- A reputation for industry leadership
- Innovative investment strategies and solutions
- Depth and expertise of management
- Insight into macro economic trends and capital markets
- 650 transactions totaling in excess of $21 billion in value
- In-house expertise in real estate and portfolio management
- Best-in-class institutional partners
- Over $300 million co-invested since 1995

Griffin Capital established in
**1995**

Owned, managed, sponsored and/or co-sponsored over*
**$18B**

Collectively completed transactions over
**$21B**

Senior management team with average experience over
**25 years**



Offices in Los Angeles, Irvine, Phoenix, and Greenwich

Griffin, executive and employee investment of over
**$300M**

Leveraging a complementary skillset of
Investment Insight | Asset & Fund Management Global Capital Markets | Endowment Advisory

Data as of June 30, 2020.

# Invest Like an Institution

Institutional investors such as pensions and endowments are allocating a higher percentage of capital into real-estate and alternative credit based on relative investment opportunities.

Source: BlackRock, "2019 Global Institutional Rebalancing Survey," January 14, 2019.

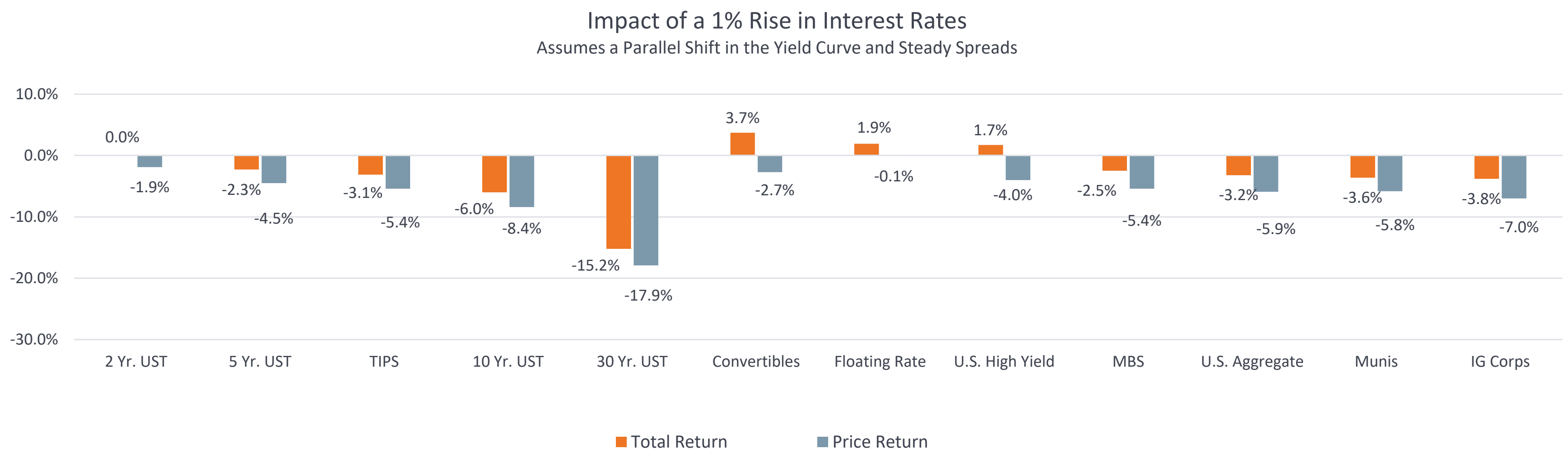
# Why Are Institutions Moving Money Into Real Estate and Alternative Credit?

- Potential for greater diversification (additional sources of return)
- Prospect of better risk-adjusted portfolio performance (stable returns with lower drawdowns)
- Negative impact of volatility on withdrawal rates (sequence of return risk)
- Hedge for inflation
- Slowing global growth
- Traditional fixed income not as attractive (correlation and yield)

Diversification does not eliminate the risk of experiencing investment loss.

Sources: BlackRock, "2019 Global Institutional Rebalancing Survey," January14, 2019; Preqin, "Investor Update: Alternative Assets," H2 2018; BNP Paribas Asset Management, ”Asset Allocation Quarterly," January 10, 2019.

# Rising Interest Rates Threaten Traditional Fixed-Income Investments




Past performance is no guarantee of future results. This chart is intended for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index, which is unmanaged and has returns that do not reflect any trading, management or other costs. Source: J.P. Morgan Asset Management, Guide to the Markets 1Q 2018. Barclays, U.S. Treasury, Standard and Poor's, FactSet, J.P. Morgan Asset Management. Sectors shown above are provided by Barclays and are represented by – Broad Market: U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; Corporate: U.S. Corporates; Municipals: Muni Bond 10-year; High Yield: Corporate High Yield; TIPS: Treasury Inflation Protection Securities (TIPS). Floating Rate: FRN (BBB); Convertibles: U.S. Convertibles Composite. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield to worst. Correlations are based on 10-years of monthly returns for all sectors. Change in bond price is calculated using both duration and convexity according to the following formula: New Price = (Price + (Price * -Duration * Change in Interest Rates))+(0.5 * Price * Convexity * (Change in Interest Rates)^2). Chart is for illustrative purposes only.

# Taking Higher Risk for Lower Returns

The higher a bond's duration, the more sensitive it is to changes in interest rates. Long-dated bonds have higher durations than those with short maturities. Generally, durations and yields are inversely related.

| | Average | June 30, 2019 |
|---|---|---|
| Duration | 4.9 years | 5.7 years |
| Yield | 6.61% | 2.49% |


**Past performance is no guarantee of future results**. This chart is intended for illustrative purposes only and not indicative of any investment. Investment-grade bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index. An investment cannot be made directly in an index. Sources: Barclays, Bloomberg, FactSet, J.P. Morgan Asset Management. Duration measures sensitivity of the price of a bond to a change in interest rates. The higher the duration, the greater the sensitivity of the bond is to movements in the interest rate. Yield is yield-to-worst or the lowest possible yield an investor would receive if the bonds were redeemed by the issuer. J.P. Morgan Asset Management, Guide to the Markets 3Q 2019. Data as of June 30, 2019.

# How Are Institutions Positioning Portfolios?

Portfolio asset allocation by endowment funds based on their size

| Size of Endowment | Domestic Equities | Fixed Income | Non-U.S. Equities | Alternative Strategies* | Short-Term Securities/ Cash/Other |
|---|---|---|---|---|---|
| Over $1 Billion | 13% | 7% | 19% | 58% | 3% |
| $501 Million to $1 Billion | 22% | 10% | 22% | 41% | 5% |
| $251 Million to $500 Million | 24% | 12% | 22% | 38% | 4% |
| $101 Million to $250 Million | 31% | 15% | 22% | 27% | 5% |
| $51 Million to $100 Million | 34% | 19% | 22% | 22% | 3% |
| $25 Million to $50 Million | 39% | 22% | 18% | 16% | 5% |
| Under $25 Million | 45% | 24% | 15% | 11% | 5% |

Endowments typically do not invest in Non-Traded REITs and ‘40 Act Interval Funds and they tend to pay much lower fees than retail investors.
Source: 2018 NACUBO-TIAA Study of Endowments.
Data represents asset allocations as of June 30, 2018 and is not intended to represent institutional allocations to Griffin affiliated products.
*Alternative strategies include: private equity (Leveraged buyouts, mezzanine, M&A funds and non-U.S. private equity); marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives); venture capital; private equity real estate; energy and natural resources; commodities and managed futures; distressed debt.

# What Alternatives Are Institutions Investing In?

Insurance companies, considered one of the more conservative investors, are increasingly using real estate and credit to provide income and diversification.

Year-Over-Year Change in Asset Allocations

| Manager Type | Private Equity | Real Estate | Direct Infrastructure | Alternative Credit | Natural Resources/ Commodities/Other |
|---|---|---|---|---|---|
| Top 25 Sovereign Wealth Funds | 18% | 31% | 9% | 4% | 38% |
| Top 25 Fund of Funds | 45% | 6% | 3% | 2% | 43% |
| Top 100 Pension Funds | 25% | 41% | 8% | 8% | 18% |
| Top 100 Total Assets | 29% | 35% | 4% | 9% | 23% |
| Top 25 Insurance Companies | 6% | 51% | 7% | 35% | 1% |
| Top 25 Wealth Manager Assets | 7% | 54% | 6% | 3% | 29% |

Source: Willis Towers Watson – "Global Alternatives Survey 2017," July 2017. Figures for some of these managers were obtained from publicly available sources and using data derived from the Global Billion Dollar Club, published by Hedge Fund Intelligence. Allocations may not sum to 100% due to rounding.

# The Griffin Platform is an Access Point

While individual investors may have different investor profiles than large institutions, they too can participate in some of the same pools of assets, utilize some of the same strategies, and have their money managed by some of the same managers as the institutions. How?

# What Is An Interval Fund?

- Interval funds are professionally-managed, pooled investment vehicles.
- Have been used by institutional money managers and investment companies for the past thirty years.
- Offer limited liquidity to shareholders by offering to repurchase a limited amount of the shares at certain "intervals," typically every three months.

**Endowments typically do not invest in Interval Funds as they usually have direct access to the underlying assets, and they tend to pay much lower fees than retail investors due to the size of their investments.**

# Interval Funds Offer **ACCESS**

| | Open-End Mutual Fund | Interval Fund | Closed-End Fund |
|---|---|---|---|
| **Access to private investment assets** | Up to 15% | ✓ | ✓ |
| **Direct offering of shares by fund at net asset value (NAV)** | ✓ | ✓ | IPO, then structured and traded on a stock exchange |
| **Ability to continually offer shares** | ✓ | ✓ | No |
| **Direct redemption (repurchase)** | ✓ | ✓ At specific intervals | Shares are sold in the secondary market |
| **Redemption at NAV** | ✓ | ✓ | No: shares sold at market price |

# Interval Funds Offer ACCESS

- Can provide individual investors access to a diversified portfolio of public and private securities.
- Able to allocate more than 15% of portfolio to private securities—a strategy institutional investors have utilized for years to:
  - Help reduce volatility
  - Potentially increase income
  - Lower correlation to the public markets

Diversification does not eliminate the risk of experiencing investment losses. There is no assurance that the investment process will consistently lead to successful investing.

# Attractive Features Of Interval Funds

Interval funds provide many of the key features of both closed-end funds and open-end funds including:

| | |
|---|---|
| PORTFOLIO MANAGEMENT FLEXIBILITY | Ability to invest in private securities alongside publicly traded securities that work together to provide strong risk-adjusted returns and periodic liquidity. |
| TRANSPARENCY | Highly regulated and subject to disclosure and reporting requirements. NAV is reported daily. Purchase and redemption price are both at NAV. |
| ACCESSIBILITY | Open to all types of investors–from individuals to institutions and retirement plan accounts. |

# Attractive Features of Interval Funds

| | |
|---|---|
| MULTIPLE SHARE CLASSES | Different share classes are available to help meet the varying investment objectives of individual investors. |
| LOW MINIMUMS | Typically require a low minimum investment relative to a similar portfolio that includes private as well as public securities. |
| ONGOING OFFERINGS | Continual share offerings enable investors to purchase periodically over time, which may be more convenient. |
| PERIODIC LIQUIDITY | Periodically offer to repurchase a specific percentage of shares from shareholders at specified intervals of time. |
| 1099 REPORTING | Simplified reporting and tax process. No K-1's. |

# HOW INTERVAL FUNDS **OPERATE**

- Although all interval funds share this basic framework, **not all interval funds are created equal.**
- Different funds may have different investment objectives and underlying securities.
- Some key items to consider include:
  - ✓ The strength of the investment adviser.
  - ✓ Selection of sub-advisers.
  - ✓ Quality of investments and strategies.

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# **STRENGTH** of THE INVESTMENT ADVISER

- Research the fund's investment adviser to determine their strength and reputation. It may be helpful to consider:
  - The amount of assets they have under management (AUM).
  - Their experience in the interval funds market.
  - The overall performance of the interval fund.
- A company that offers interval funds (the sponsor company) can also act as its investment adviser and keep the portfolio management duties "in house." Self-managing the portfolio helps to ensure better risk control and more accountability, and it may lower your overall investment cost.

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## **SELECTION** of SUB-ADVISERS

- Investment advisers who manage interval funds may engage different companies as sub-advisers.
- These sub-advisers may provide additional expertise for researching investments or manage portions of a portfolio's assets.
- Review the selection of sub-advisers the same way you would the strength of the investment adviser. Sub-advisers with strong historic performance that are highly reputable in the industry may have a higher likelihood of providing the fund with expertise that could contribute to better risk-adjusted returns.

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# **QUALITY** of INVESTMENTS and STRATEGIES

- Some interval funds take an institutional approach to portfolio management and adapt it for the unique needs of the individual investor.
- This approach helps ensure access to higher-quality assets with skilled managers, who have the expertise to select effective investments and implement a cohesive strategy.

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# Disclaimer

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# Risk Considerations

Investing in interval funds involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. The ability of an interval fund to achieve its investment objective depends, in part, on the ability of the Investment Adviser to allocate effectively the assets of the interval fund among the various securities and investments in which the interval fund invests. There can be no assurance that the actual allocations will be effective in achieving the interval fund's investment objective or delivering positive returns.

An interval fund's investments may be negatively affected by the broad investment environment and capital markets in which the interval fund invests, including the real estate market, the debt market and/or the equity securities market. The value of the interval fund's investments will increase or decrease based on changes in the prices of the investments it holds. This will cause the value of an interval fund's shares to increase or decrease. An interval fund is "non-diversified" under the Investment Company Act of 1940 since changes in the financial condition or market value of a single issuer may cause a greater fluctuation in an interval fund's net asset value than in a "diversified" fund. Interval funds are not intended to be a complete investment program.

Interval funds only provide limited liquidity to shareholders through periodic repurchase offers for no less than 5% of the fund's shares outstanding at net asset value.

An investment in interval funds involves risk, including loss of principal.

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