

PERU CAPITAL MARKETS DAY 2013

PANEL 4: LIQUID ALTERNATIVE INVESTMENTS,
ALPHA-BETA, RISK MANAGEMENT, DUE DILIGENCE

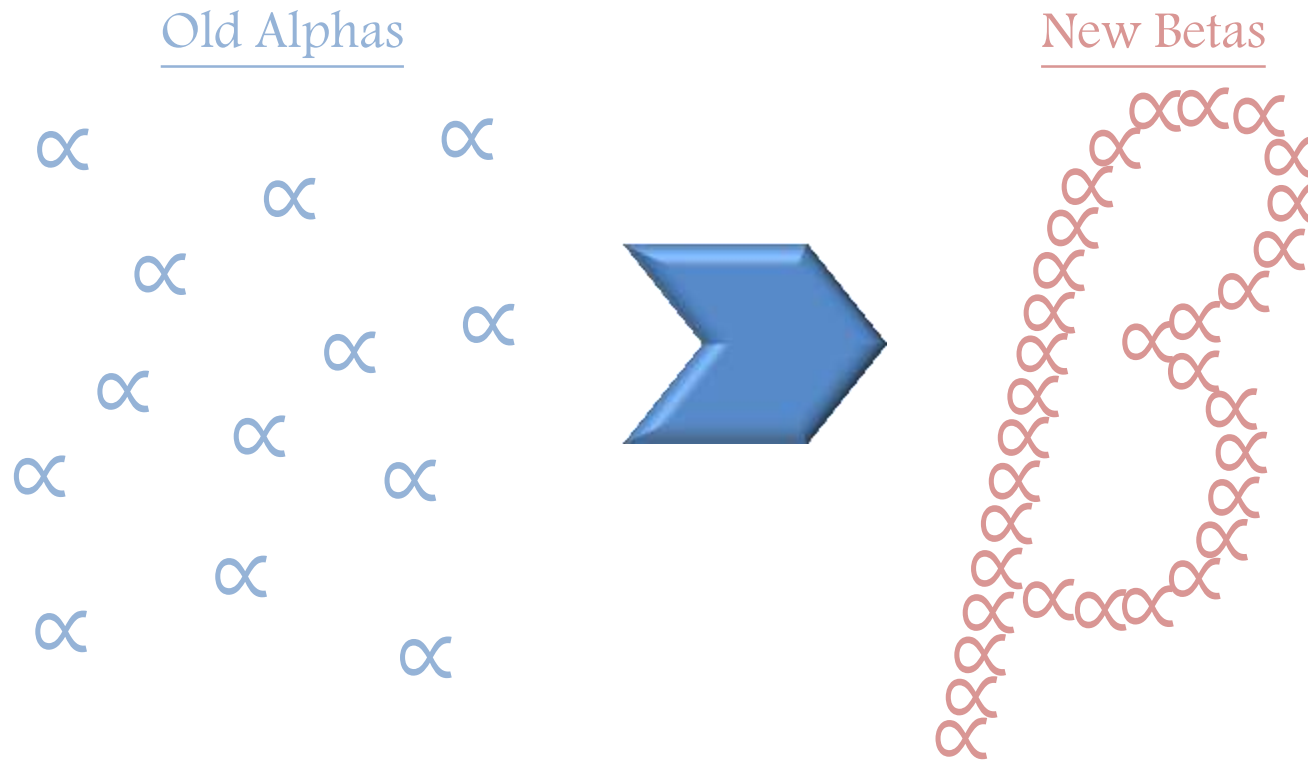
1OAK KEYNOTE SPEAKER: GIOVANNI BONACCORSO, CEO

30 SEPTEMBER 2013



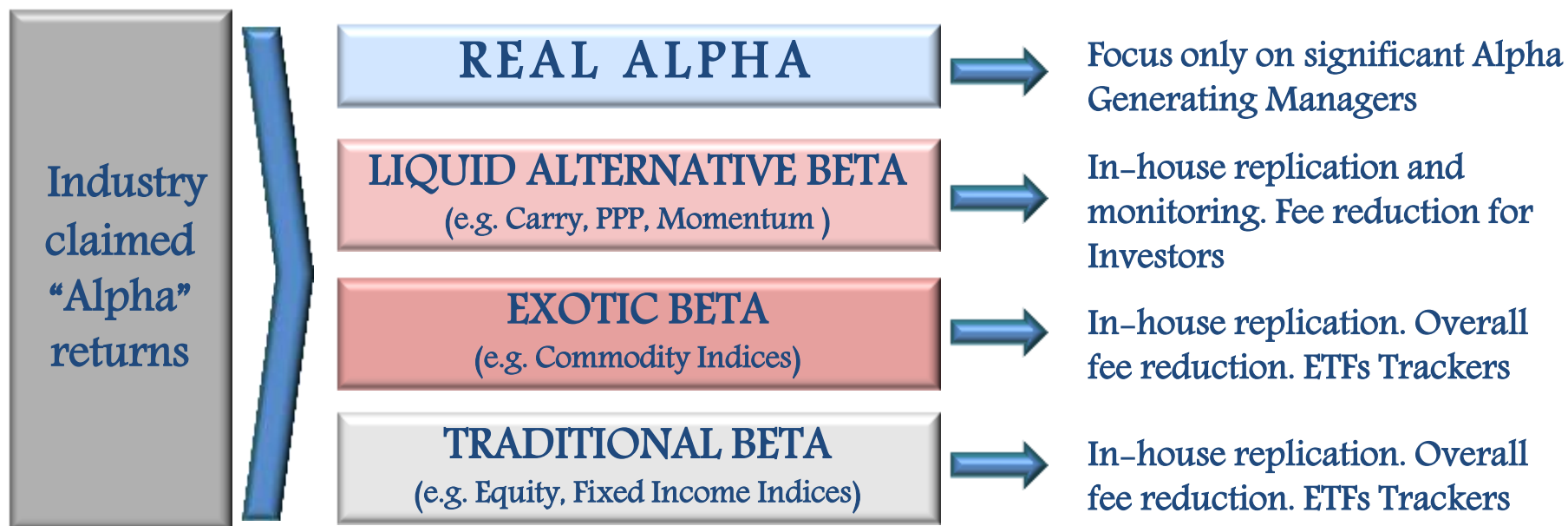
Alpha or Beta?

The alternative investment industry is full of claims of alpha. But what we find is many sources of alpha have become commoditized and are now more accurately described as alternative beta.



Alpha-Beta: Stripping & Replication

The IOAK Research & Investment Management Team has in-house capabilities to strip and replicate most of the liquid drivers of performance.



This results in a better added-value portfolio with fee reduction for investors

Hedge Fund Industry Return Replication also known as: “Alternative Beta”

The hedge fund industry returns or “Alternative Beta” returns can be explained by simple investments and actually replicated very closely with a 4-Factor Investment formula:

\$100 Investment on Mar '03 (the day HFRX Index was created) could have been invested into:

Simplified Replication Formula for Illustrative Purposes ONLY:

$(\$20 \cdot \text{SP500} + \$20 \cdot \text{USD/BRL} + 20 \cdot \text{JPY/AUD} + \$40 \text{ CASH}) = \$100 \text{ in Alternative Beta}$

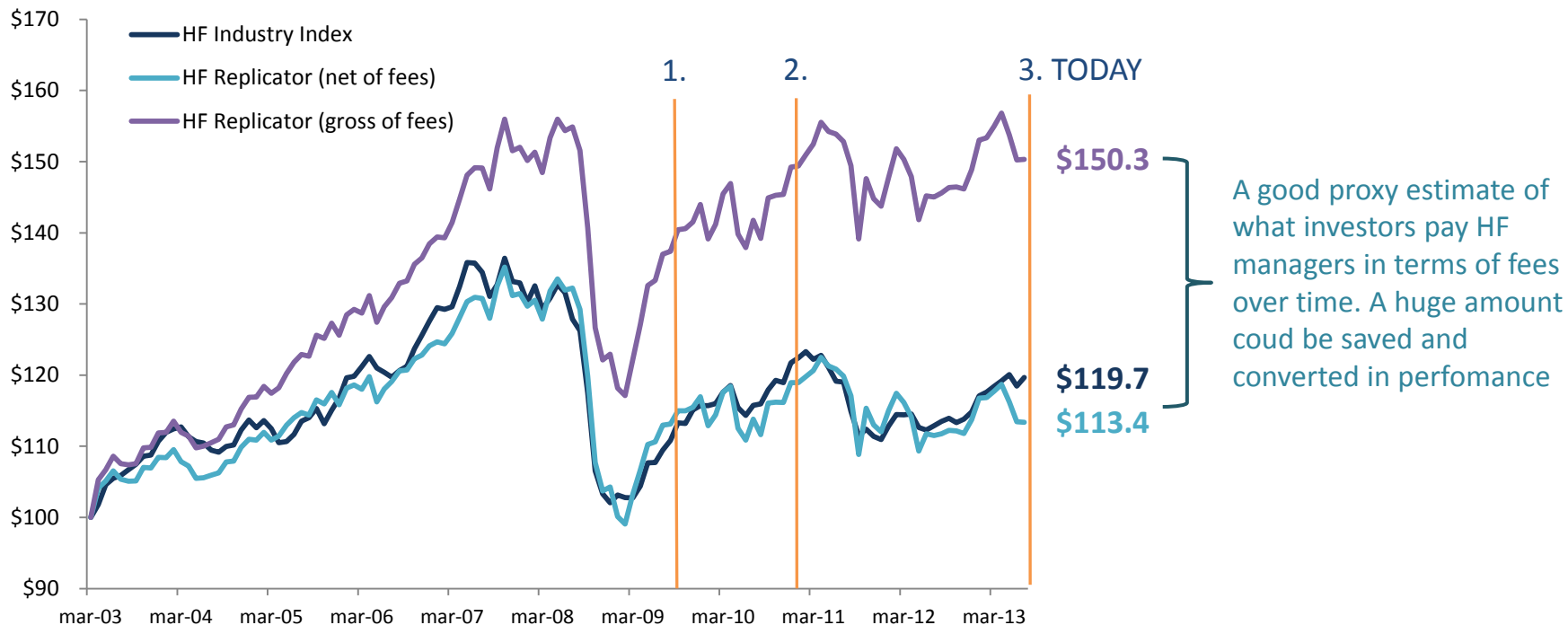


- I. \$20 into SP500 ETF tracker → representing a Generic Equity Market Beta (20% investment)
- II. \$20 into BRL deposit (USD/BRL exchange rate) → representing Emerging Markets (20% investment)
- III. \$20 loan in JPY and invested into AUD → representing Interest Rate + Commodity/Inflation (20% investment)
- IV. \$40 in Cash Overnight Local Deposit → representing RISK FREE Cash Short-Term Rates (40% investment)

SEE NEXT PAGE FOR GRAPH RETURNS AND STATISTICS OF THE AMAZING REPLICATION RESULTS

Hedge Fund Industry Return Replication also known as: “Alternative Beta”

Illustrative example of \$100 invested in Alternative Beta since 1st March 2003



1. Same Formula Presented in October 2009 (London, UK - Family Office Conference)
2. Same Formula Presented in February 2011 (Miami, USA – Latam Conference)
3. Same Formula Presented in September 2013 (Lima, Peru – Capital Markets Day)

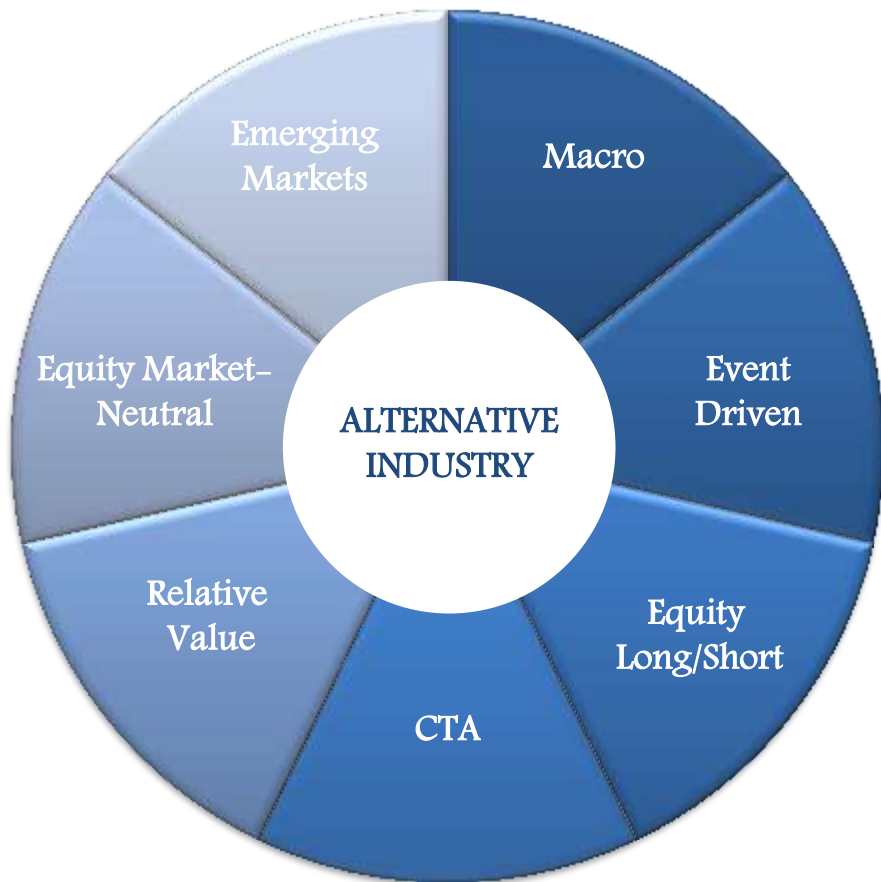
Hedge Fund Industry Return Replication also known as: “Alternative Beta”

	HF Industry	HF Replicator Net (net of 1.5/20% industry fees)	HF Replicator Gross (gross)
Number of components	>1000	4	4
Average Monthly Return (ann.)	1.9%	1.5%	4.3%
Volatility (ann.)	6.0%	7.7%	8.8%
Sharpe Ratio	0.3	0.2	0.5
Correlation to HF Industry (HFRX Index)	n/a	76%	77%

CONCLUSIONS:

- ✓ Alternative Beta is easy to replicate even with just 4 factors.
- ✓ Alternative Beta can be daily liquid without any problems or excuses. Daily liquid like an ETF for Equity.
- ✓ Alternative Beta exposure must cost much less than the Industry is charging (famous 2/20 fees)
- ✓ Portfolio Focus must be on Alpha generating managers (real superior trading skills) where fees are justified

Alternative Investment Industry 5 year correlations to Peru IGBVL Equity, S&P500 and German BUND – Illustrative



Historical Industry Correlations versus:

	IGBVL	S&P500	BUND
Emerging Markets	61%	61%	-26%
Macro	16%	-1%	-6%
Event Driven	62%	75%	-42%
Equity Long/Short	70%	78%	-47%
CTA	-6%	-24%	50%
Relative Value	54%	64%	-37%
Equity Market-Neutral	16%	9%	-39%

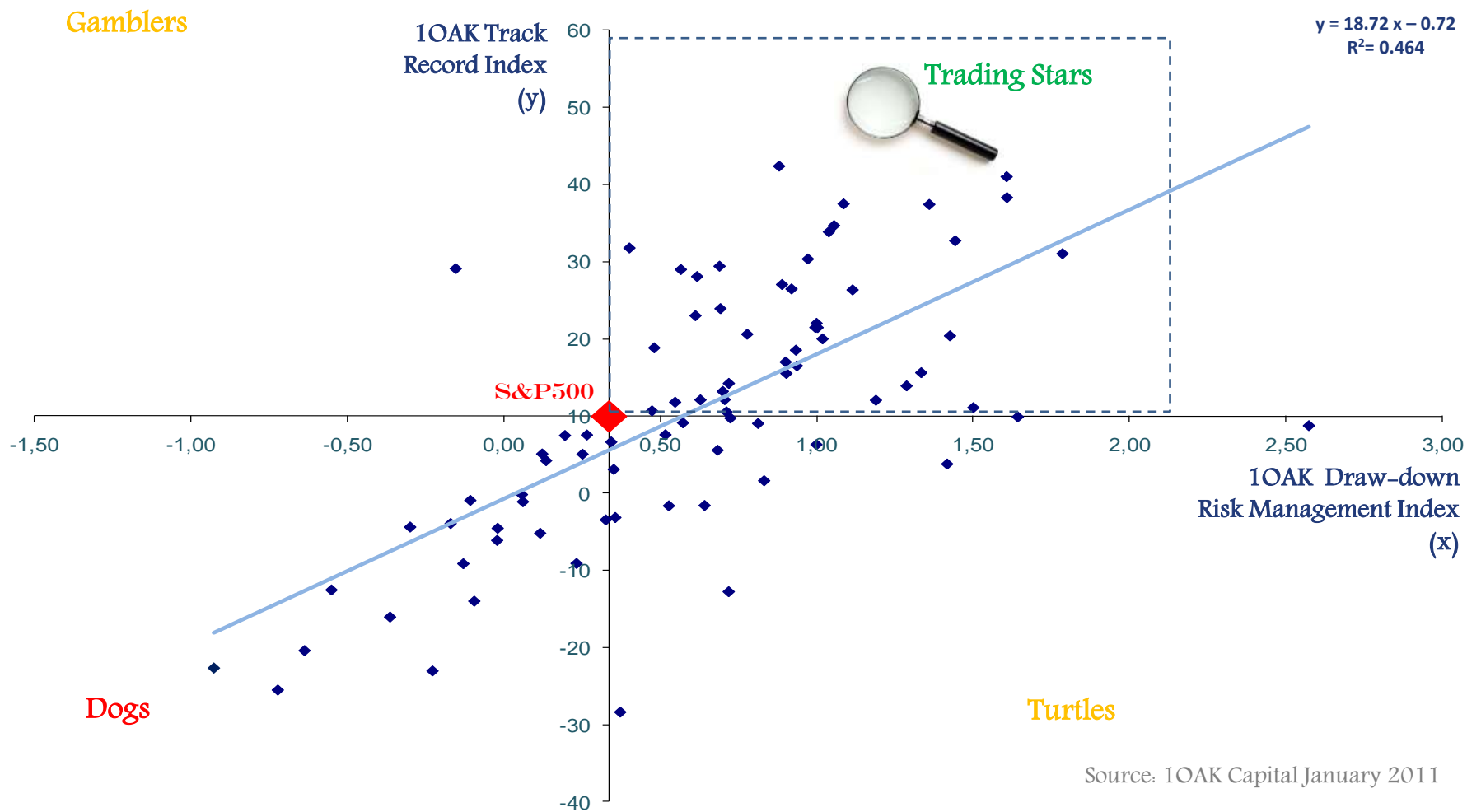
Data Source: HFRX & Bloomberg



Note: Medium/High (>40%) correlation strategies should be avoided because they provide little diversification benefit

Manager Selection by 1OAK

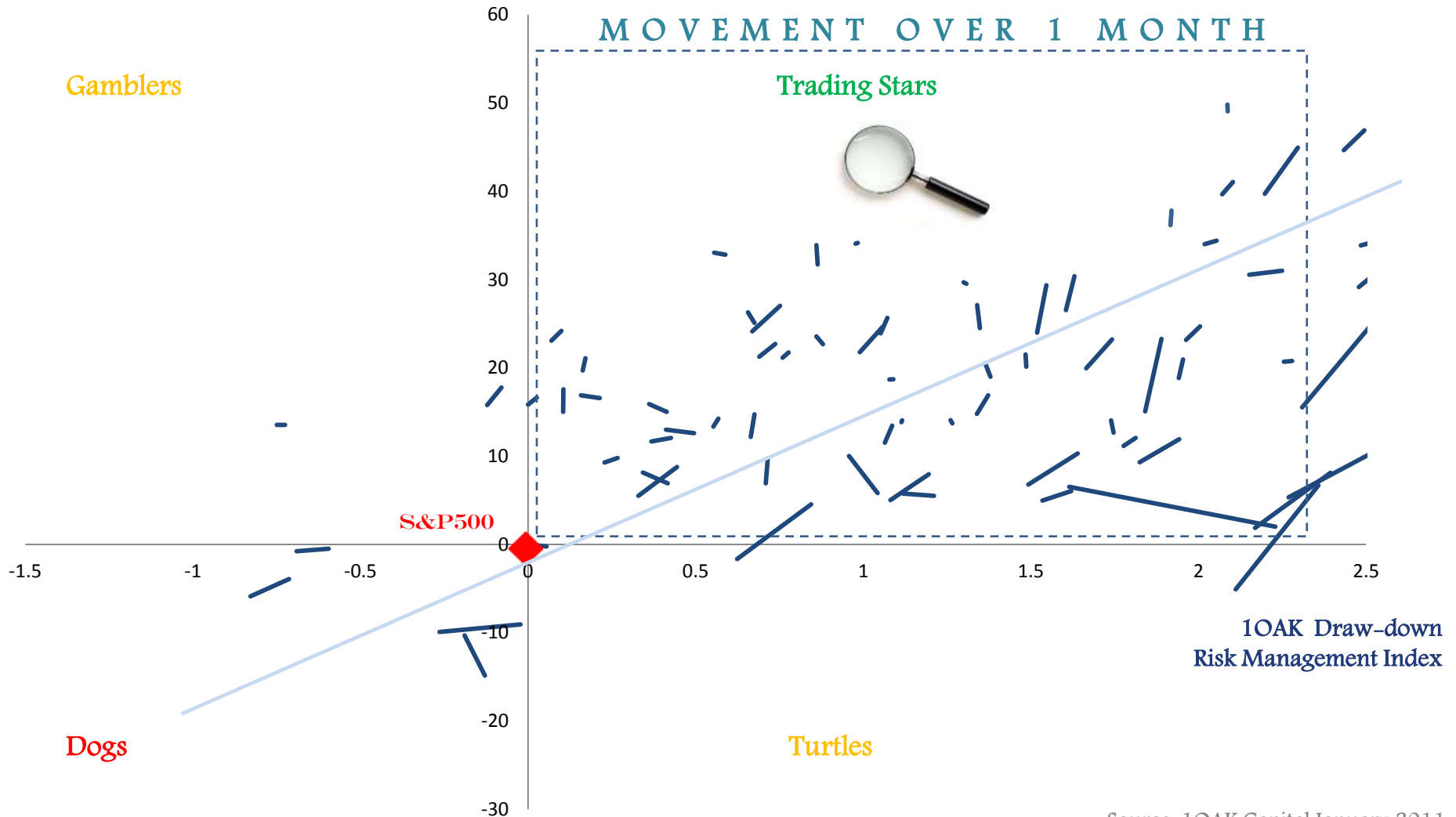
Proprietary Research



Source: 1OAK Capital January 2011

Manager Selection by 1OAK

Proprietary Research



Source: 1OAK Capital January 2011

Peru Capital Markets Day

Finding Real Alpha

IOAK's Investment Management Team decomposes the returns of each Manager revealing the exposure to Alternative Betas using simple statistical proprietary tools. We can then source the alternative betas and the 'Real Alpha' in the most efficient manner.

$$R_i = \alpha_i + \sum_j \beta_{ij} F_j$$

Top 20 Managers ranked by statistical significance of 'Real Alpha':

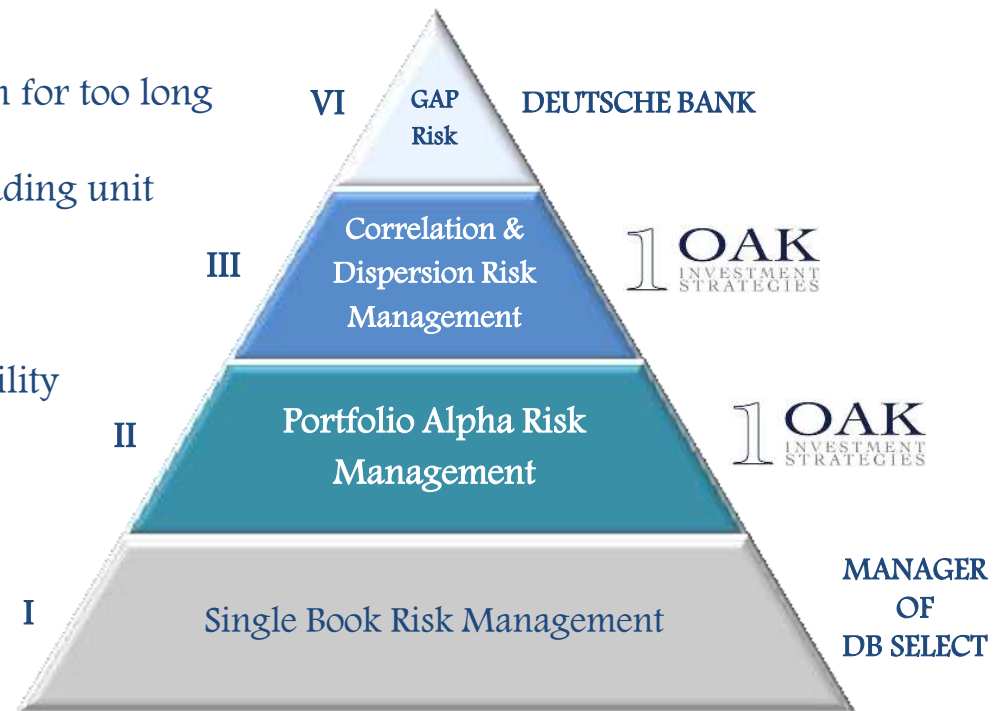
STRATEGY	ALPHA		BETA		CORRELATION			STATISTICS			TRADING STYLE
	Annualized Return	T-Stat	IGBVL	vs. IGBVL	Barrier	Time outside barrier	Platform Track Record (years)	Volatility	Max Drawdown		
TU1	2.5%	4.3	0%	1%	±50%	1%	0.7	2.1%	-1.4%	FX, Systematic	
TU2	8.2%	3.5	1%	0%	±50%	0%	4.2	6.4%	-6.1%	G10 FX, Systematic	
TU3	12.8%	3.4	-13%	5%	±50%	11%	2.6	7.8%	-9.3%	FX & Vol, Discretionary	
TU4	4.9%	3.4	3%	0%	±50%	0%	5.5	4.8%	-7.9%	G10 FX, Discretionary	
TU5	4.8%	2.7	-4%	2%	±50%	1%	2.9	3.7%	-7.1%	Volatility Arbitrage	
TU6	8.2%	2.7	-7%	1%	±50%	3%	5.1	8.7%	-18.3%	FX, Systematic	
TU7	5.4%	2.4	2%	2%	±50%	0%	0.6	4.6%	-5.0%	Hi-Freq	
TU8	3.5%	2.3	1%	0%	±50%	0%	5.5	5.4%	-5.4%	FX, Discretionary	
TU9	15.4%	2.2	-5%	0%	±50%	0%	2.5	13.9%	-22.4%	Macro Quant	
TU10	14.7%	2.0	3%	0%	±50%	1%	2.6	13.5%	-13.2%	Macro Quant	
TU11	30.6%	2.0	-14%	2%	±50%	2%	0.8	10.6%	-7.2%	Commodity	
TU12	5.2%	1.8	3%	0%	±50%	2%	4.3	7.5%	-10.9%	Emerg. Mkt. FX	
TU13	5.2%	1.7	-7%	0%	±50%	1%	5.2	9.1%	-16.0%	FX, Systematic	
TU14	3.8%	1.6	0%	0%	±50%	0%	1.3	3.4%	-2.4%	FX, Systematic	
TU15	7.0%	1.5	0%	0%	±50%	0%	2.2	8.9%	-7.6%	Volatility Arbitrage	
TU16	6.3%	1.5	-11%	3%	±50%	1%	2.5	8.3%	-7.4%	CTA	
TU17	20.4%	1.4	27%	5%	±50%	61%	1.5	15.5%	-20.4%	Macro, Discretionary	
TU18	9.9%	1.4	9%	0%	±50%	1%	3.5	16.5%	-23.9%	CTA	
TU19	6.3%	1.4	-3%	0%	±50%	2%	3.7	11.6%	-10.4%	FX, Systematic	
TU20	14.4%	1.4	5%	0%	±50%	1%	1.7	26.5%	-39.5%	Commodity	

Risk Management Pyramid

4 Levels

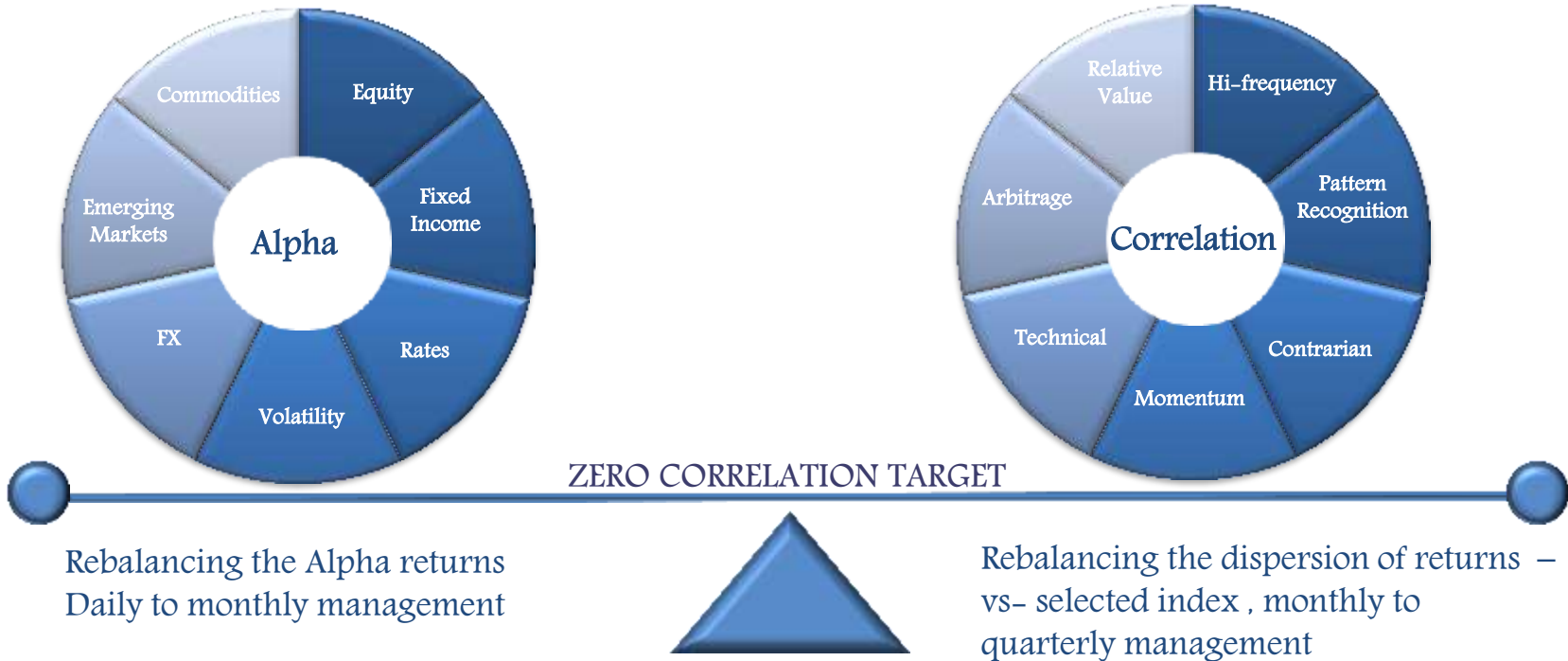
Monitoring:

- The impact of significant negative correlation for too long
- Avoidance of idiosyncratic risk of a single trading unit
- Exposure to asset classes that investors hold
- Correlation benefits: consistency & sustainability
- Real diversification benefit
- Zeroing of correlation benchmark
- Statistically significant alpha



1OAK Multi-Strategy Indexes

Balanced & Diversified Portfolio across Assets and Styles



Balance between the quality of the return and when the returns are generated in the context of purest diversification.

Due Diligence – Unique Multi Level

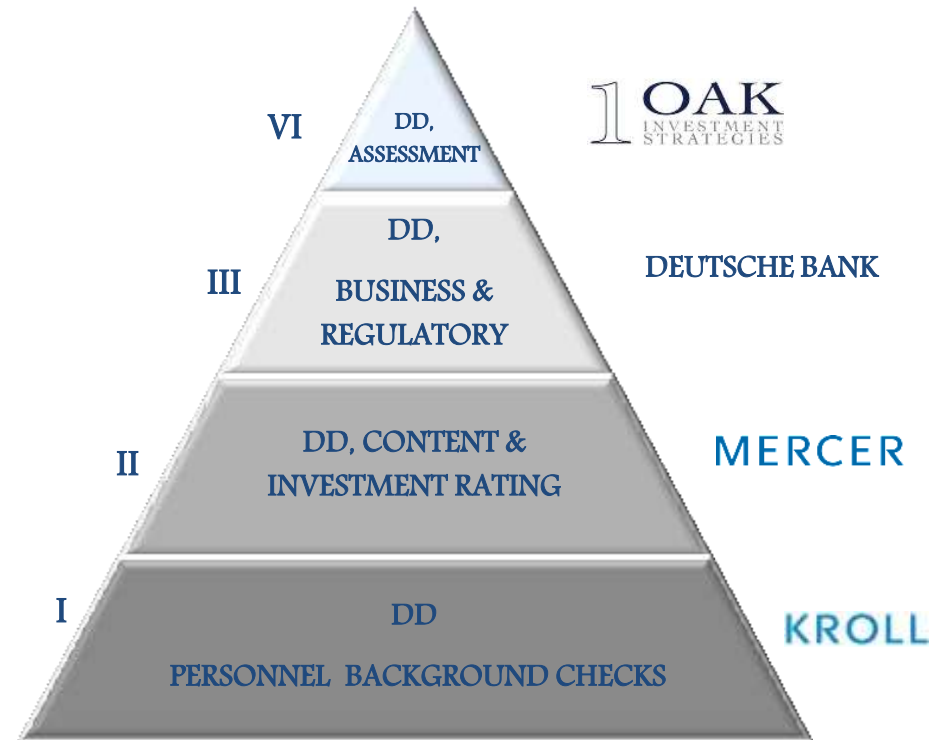
1OAK LIQUID INVESTMENT STRATEGIES have successfully passed multiple due diligence screenings on the Group level and on individual investment strategies. 1OAK Group and its key personnel have successfully undergone background checks as required by 1OAK Group's clients, partners and administrators.

MERCER

Mercer, subcontracted by Deutsche Bank, carried out systematic screening, control on content quality, and investment ratings for 1OAK Group and its trading strategies and professionals. 1OAK Strategies successfully passed Mercer on all due diligence checks.

KROLL

Kroll, subcontracted by Deutsche Bank, carried out independent background checks on key personnel and due diligence on 1OAK funds. To date, 1OAK Group has structured and launched over 50 Financial Securities, 12 Multi-Strategy Indices, 5 stand-alone Single Manager Programs. 1OAK Group successfully passed all Kroll due diligence checks.



1OAK Innovative Business Model

1OAK represents a paramount shift in Hedge Fund Investing.

- To a certain extent, the FoF business model is obsolete, simply because they cannot access daily returns data. Usually returns are made on a monthly basis and even these are lagged by a few days. 1OAK is therefore able to be first to market.
- Thanks to the DB Select platform technology, our team can constantly monitor & manage each single Manager's performance and risk taking, just like in an Investment Bank Proprietary Trading Desk.
- Capital Allocation across Managers is therefore optimized from inception and on an ongoing daily/weekly basis with the sole objective of yielding the highest returns relative to the investor risk profile.
- No unnecessary risk taking; Thanks to DB Select and their stop-loss we have no gap risk. Also, no fraud risk thanks to the managed account approach, hence no Madoff risk.

Fund of Funds Industry vs. 1OAK Multi-Strategy

	FoF	1OAK
LIQUIDITY		✓
TRANSPARENCY		✓
SAFETY		✓
4 LEVEL RISK MGMT		✓
FULL CONTROL OF AUM (No Side Pocketing/Gating)		✓
2 & 20% FEE LAYER		✓
FLEXIBILITY OF INVESTMENT FORMATS i.e. Principal Protected Notes		✓
ACCESSIBILITY IN DIFFERENT CURRENCIES PEN, BRL, MXP, and other G20 currencies		✓
Multi Due Diligence screening level: (Mercer, Kroll, DB and 1OAK)		✓

Thank you for your attention
and for having me as a speaker

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Any questions from the
audience and/or panelists?