

Indian Association of Alternative Investment Funds (IAAIF)

Imagination is more important than
Knowledge

--Albert Einstein

Introduction to Alternative Investments Global Investments & Structured Products

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OMNISCIENCE CAPITAL
SCIENCE OF ALPHA FROM SAFETY

Let's Talk About The Weather

ALTERNATIVE INVESTMENTS

Ideal Alternative Investment



- **Situation1:** If it turns out to be **Sunny**
 - **Strategy1:** I carry **Sunglasses**

 - **Situation2:** If it turns out to be **Rainy**
 - **Strategy2:** I carry an **Umbrella**
-

Ideal Alternative Investment



- **Situation1:** If it turns out to be **Sunny (Bull)**
- **Strategy1:** I carry **Sunglasses (Long)**

- **Situation2:** If it turns out to be **Rainy (Bear)**
- **Strategy2:** I carry an **Umbrella (Short)**

- **Perfect Hedge!**
 - I am so smart!

 - I am taken care off in **ALL** conditions!

Ideal Alternative Investment



- **Actual Situation?**
-

Ideal Alternative Investment



- **Actual Situation?**
 - **Black Swan!!!**
 - **Murphy's Law:**
 - **If anything can go wrong, (sooner or later) it will!**
-

Ideal Alternative Investment



- **Actual Situation:**
 - **Extremely cold!**
 - **Hail storm!!**
 - **Golf-ball sized hailstones!!!**
-

Ideal Alternative Investment



- **Actual Situation:**
 - **Extremely cold!**
 - **Hail storm!!**
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 - **Ideal Strategy?**
-

Ideal Alternative Investment



- **Actual Situation:**
 - **Extremely cold!**
 - **Hail storm!!**
 - **Golf-ball sized hailstones!!!**

 - **Ideal Strategy: I carry**
 - **Warm Jacket**
 - **Helmet**
-

Ideal Alternative Investment



- **Actual Situation:**
 - **Extremely cold! (Liquidity Freeze)**
 - **Hail storm!! (Erratically Volatile)**
 - **Golf-ball sized hailstones!!! (Series of Bankruptcies)**

 - **Ideal Strategy: I carry**
 - **Warm Jacket (Cash, Rental yield real estate)**
 - **Helmet (Hard assets: Gold, Real Estate, Farmland)**
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Ideal Portfolio

- Sunglasses
 - Umbrella
 - Jacket (Alternative for typical Indian weather)
 - Helmet (Extremely Alternative)
-

Ideal Portfolio & Ideal Investor

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- Ideal Portfolio: **Weather Any Storm**
 - Sunglasses
 - Umbrella
 - Jacket (Alternative for typical Indian weather)
 - Helmet (Extremely Alternative)
- Ideal Investor: Always remembers Murphy's Law

Whether Any Storm?

Originality

Character

Patience

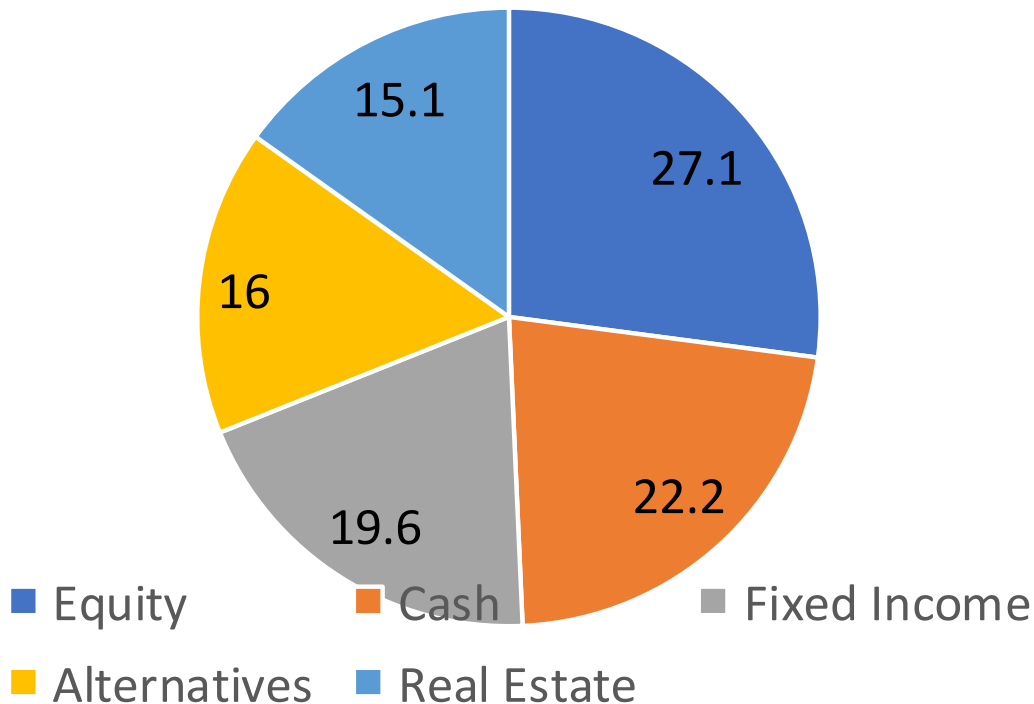
Alternative Investments

- Anything other than conventional portfolio investments is an “Alternative Investment”.
 - For understanding alternative investment, we have to look at what is a conventional portfolio investment
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Conventional Asset Classes

- North American HNWIs

Asset Class (%)

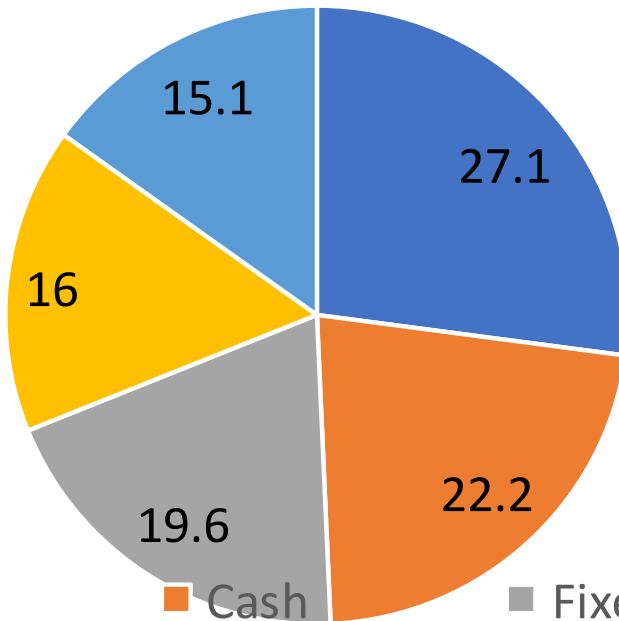


– (Source: Cap Gemini World Wealth Report)

Conventional Asset Classes

- North American HNWIs

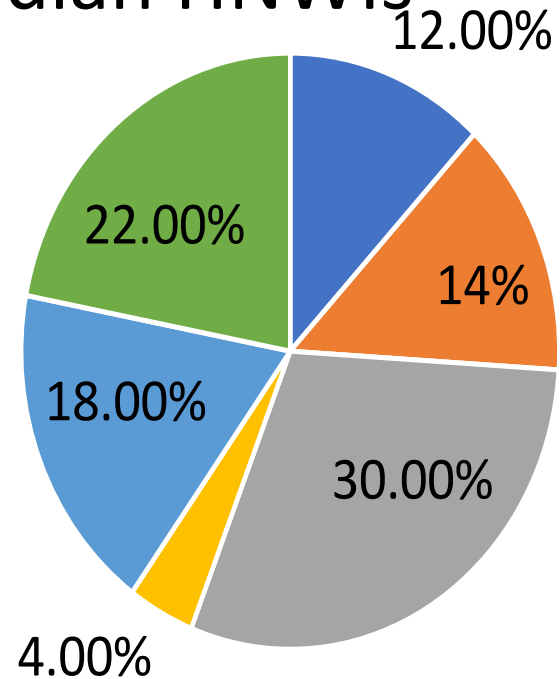
Asset Class (%)



■ Equity ■ Cash ■ Fixed Income
 ■ Alternatives ■ Real Estate

- Indian HNWIs

Asset Classes (%)



■ Equity ■ Cash ■ Fixed Income
 ■ Alternatives ■ Real Estate ■ Gold

– (Source: Cap Gemini World Wealth Report & Karvy Wealth Report)

Alternative Investments



- Global
 - Hedge Funds \$3.22 Trillion
 - Private Equity \$2.5 Tn
 - Real Estate Funds \$2 Tn
 - Infrastructure Funds \$300 Bn
 - Private Debt \$500 Bn
 - Natural Resources \$400 Bn
 - Venture Capital \$2.4 Tn
 - Source: Preqin
-

Alternative Investments



- India
 - CAT III (Hedge Funds):
 - INR 10000 Crores (\$ 1.5 Bn)
 - CAT II (Private Equity & Real Estate):
 - INR 41000 Crores (\$ 6 Bn)
 - CAT I:
 - Venture Capital INR 11,300 Crores (\$1.7 Bn)
 - Infrastructure INR 6,800 Crores (\$1 Bn)
 - Social Venture INR 800 Crores (\$ 120 Mn)
 - SME INR 200 Crores (\$ 30 Mn)
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- Source: SEBI

Alternative Investments



- What is an alternative investment for Indian HNWIs?
 - Fixed Income
 - Cash
 - Gold
 - Domestic Equities
 - Global Equities
 - Private Equity
 - Real Estate Funds
-

Alternative Investments



- What is an alternative investment for Indian HNWIs?
 - Fixed Income Not Alternative
 - Cash Not Alternative
 - Gold Not Alternative
 - Domestic Equities Alternative?
 - Hedge Funds Alternative
 - Global Equities Alternative
 - Private Equity Alternative
 - Real Estate Funds Not Alternative
-

Indian HNWI: Current Scenario

- Fixed Income ~6%-7% returns
 - Gold has negative returns over last 5 years
 - Real Estate is stagnating
 - Domestic Equities are proven and promising (long-term track record)
 - AIFs have a short track record, but promising
-

Alternative Investments

- Alternative Investments have the following characteristics:
 - Different nature of Risk-Return to traditional assets
 - Low returns correlation to traditional assets
 - Typically, complex in nature
 - Typically, low liquidity
 - Typically, high risk-high return
-

Alternative Investments

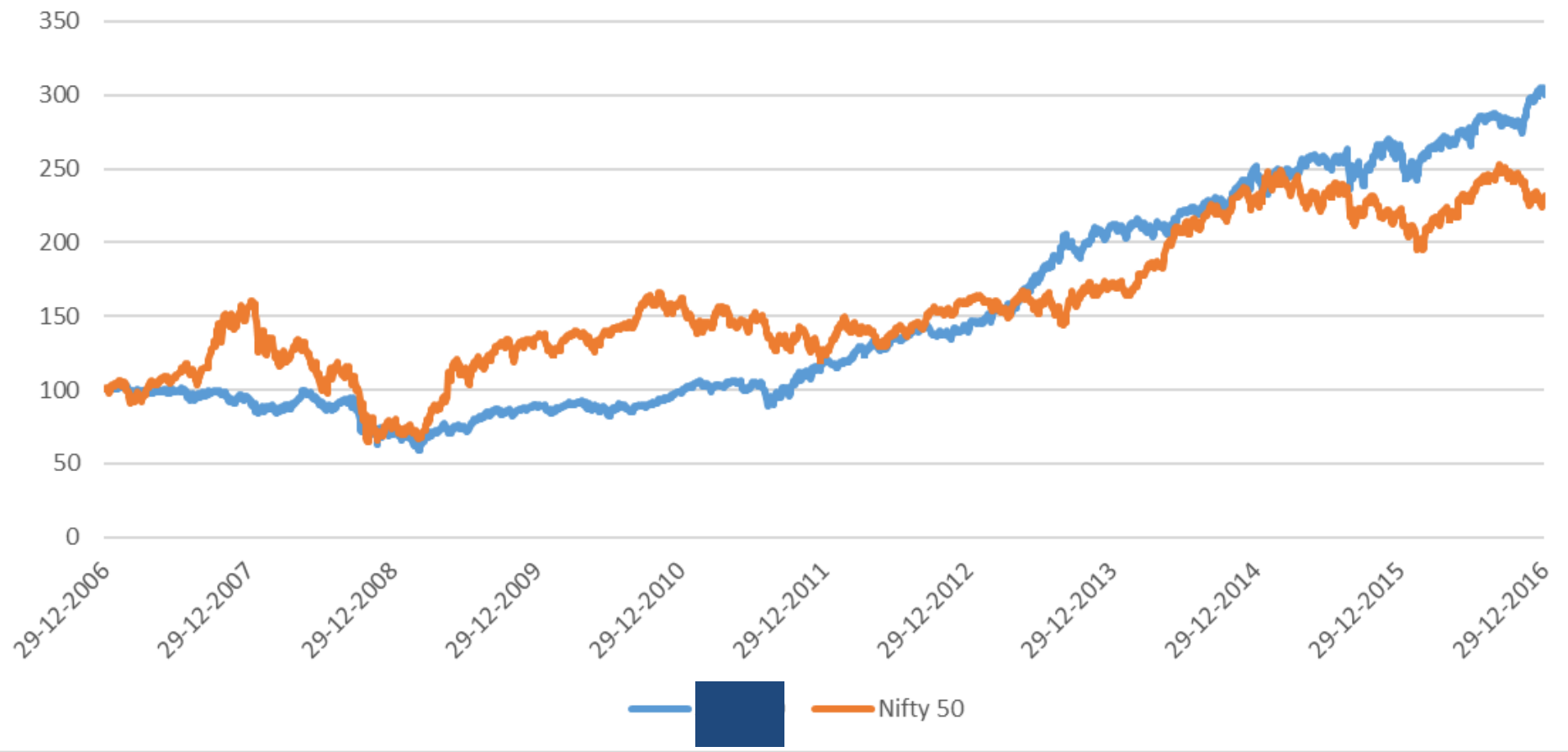


- Can there be an Alternative Investment, which has:
 - Different nature of Risk-Return to traditional assets
 - Low returns correlation to traditional assets
 - Typically, ~~complex~~ SIMPLE in nature
 - Typically, ~~low~~ HIGH liquidity
 - Typically, ~~high~~ LOWER risk-highER return
-

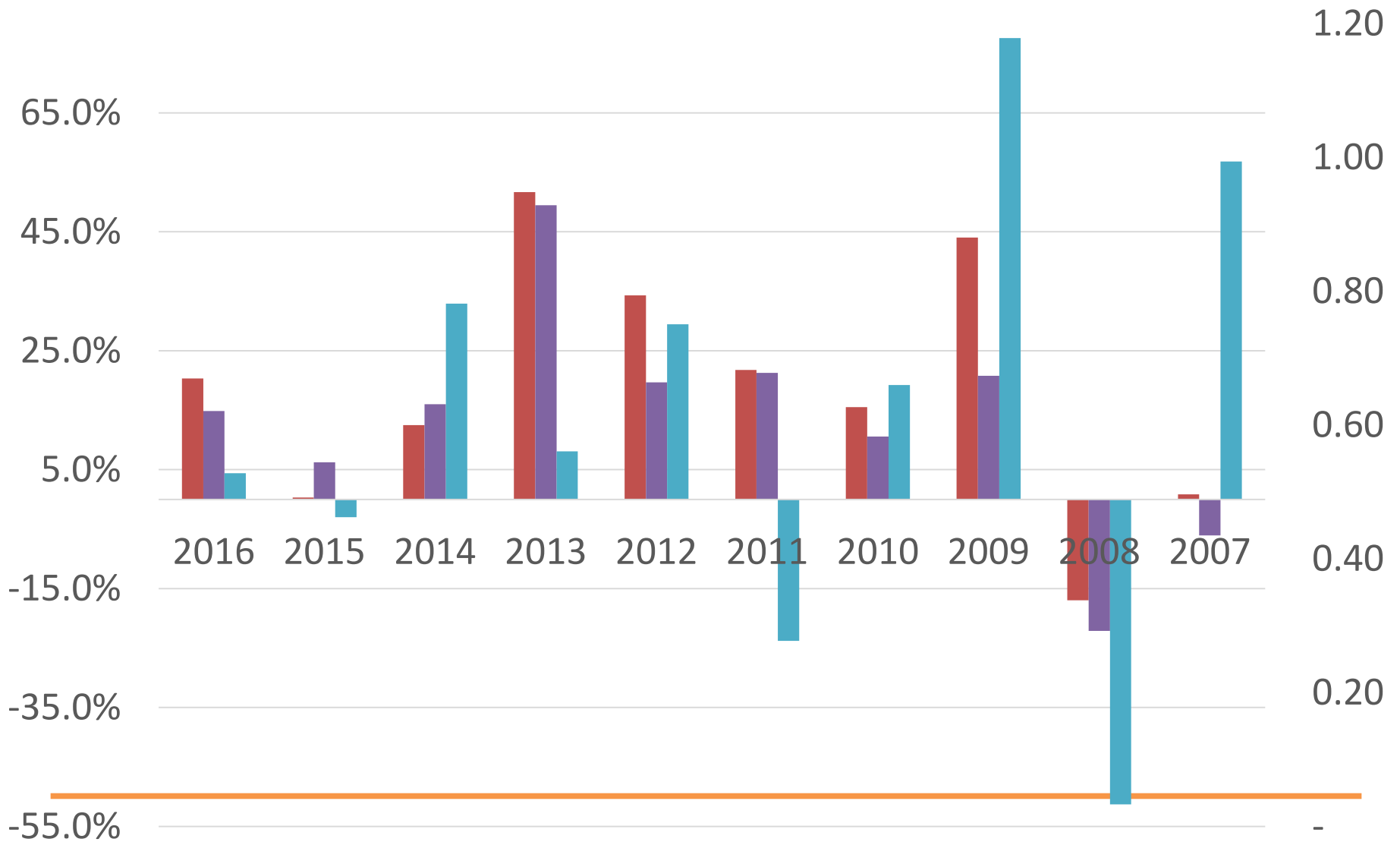
Alternative Investments



Yes



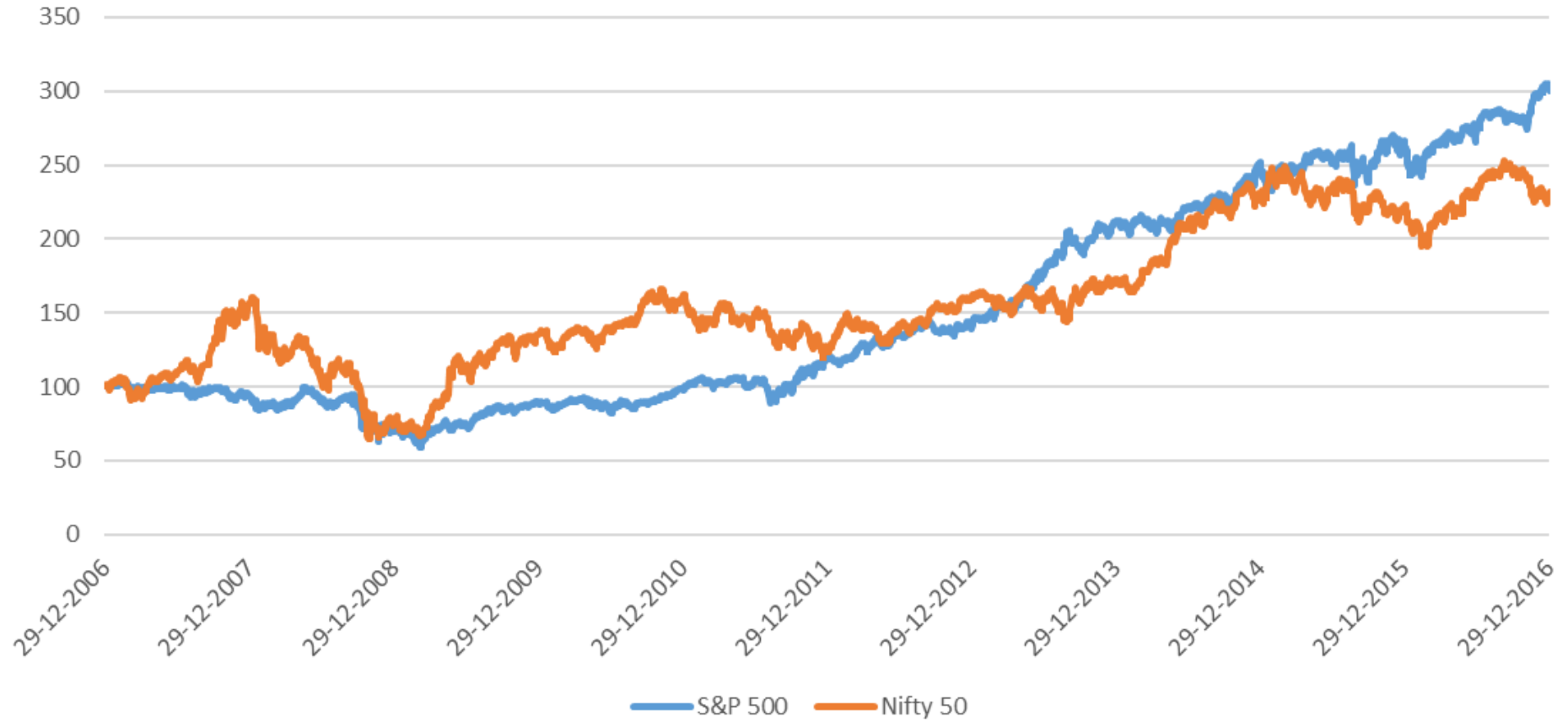
Source: OmniScience Capital Research—Ashwini Shami, Senior Portfolio Manager



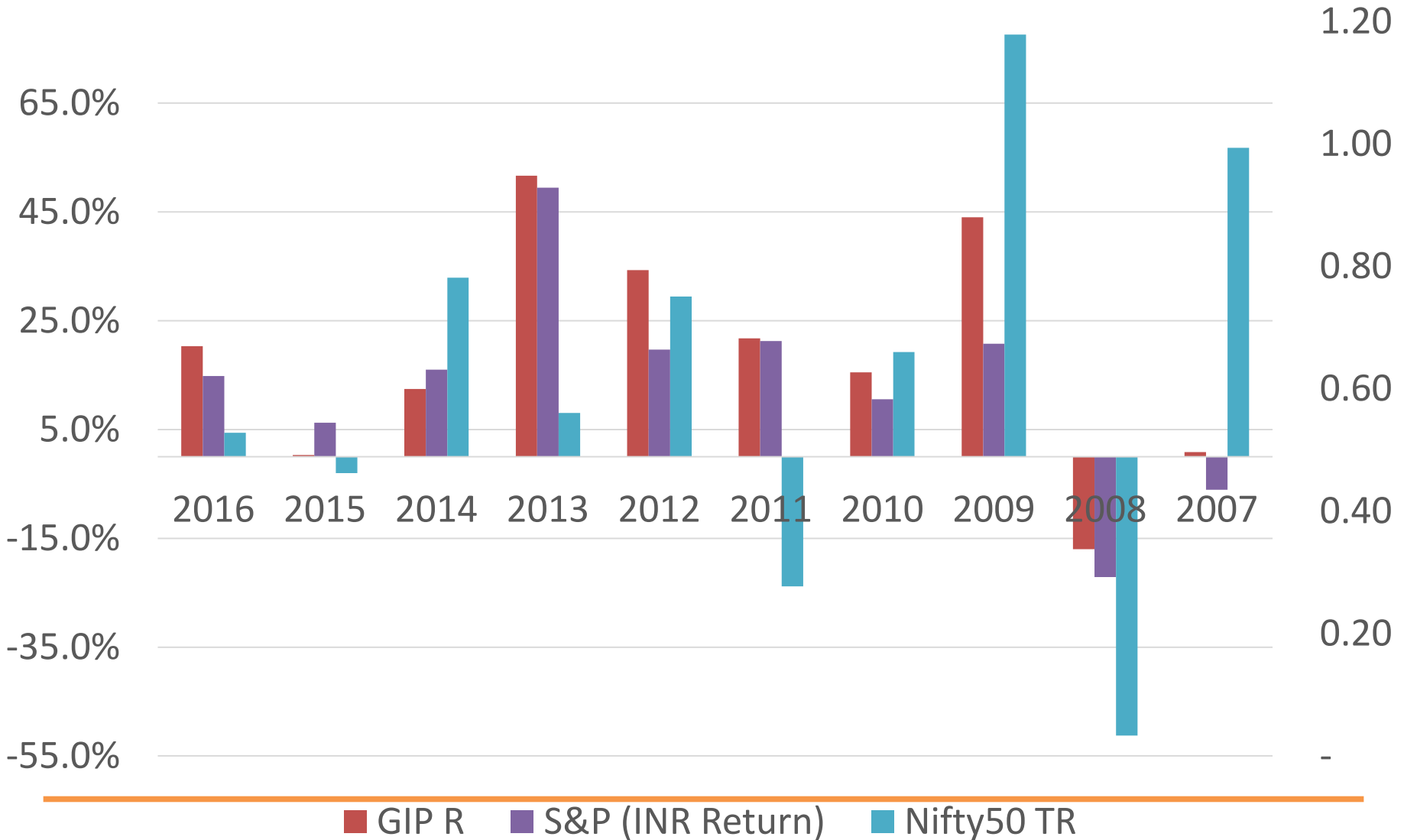
Source: OmniScience Capital Research—Ashwini Shami, Senior Portfolio Manager

Years	1	2	3	4	5	6	7	8	9	10
Best	20.3%	9.9%	10.7%	19.8%	22.6%	22.4%	21.4%	24.0%	18.6%	16.7%
Good	14.9%	10.5%	12.3%	20.6%	20.4%	20.6%	19.1%	19.3%	13.8%	11.6%
Nifty 50	4.4%	0.6%	10.4%	9.8%	13.5%	6.2%	8.0%	14.9%	4.4%	8.8%

Source: OmniScience Capital Research—Ashwini Shami, Senior Portfolio Manager



Greatest Investor Portfolio



Greatest Investor Portfolio



Years	1	2	3	4	5	6	7	8	9	10
GIP	20.3%	9.9%	10.7%	19.8%	22.6%	22.4%	21.4%	24.0%	18.6%	16.7%
S&P 500	14.9%	10.5%	12.3%	20.6%	20.4%	20.6%	19.1%	19.3%	13.8%	11.6%
Nifty 50	4.4%	0.6%	10.4%	9.8%	13.5%	6.2%	8.0%	14.9%	4.4%	8.8%

- The Greatest Investor Portfolio (BFFTT) constitutes of the listed companies (~50 Ultra Large Caps with an average Market Cap of \$100 Billion) in Buffett's investment vehicle, Berkshire Hathaway
- The weighting of these companies in the portfolio is derived using the Scientific Alpha Framework of OmniScience Capital
- The Portfolio is overweight on undervalued stocks and underweight on overvalued stocks

Source: www.omnisciencecapital.com

Alternative Investments



Global Developed Markets Listed Equities

Or

Buffett's Berkshire

Or even better

The Greatest Investor Portfolio (BFFTT)

Whether the local weather is bad?

GLOBAL EQUITIES ARE AN ALTERNATIVE INVESTMENT

Controlling your weather

STRUCTURED PRODUCTS

Market Behaviour

- Various Asset Classes:
 - Equities
 - Bonds
 - Commodities
 - Currencies
 - Various Behaviour:
 - Up
 - Down
 - Sideways
-

Investor Needs



- Principal Protection with upside participation
- Enhanced Yields
- Exposure to Asset Class returns



Bullish with low risk tolerance

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- Investor has conviction in a certain stock (**Up view**) over a 12 month period
 - Cannot accept the loss of value in that stock
 - Structured product payoff:
 - At maturity (12 months) if the stock is up then investor participates in the upside
 - At maturity if the stock is down then investor gets the principal back
-

Structure:

- Buy a zero-coupon bond with a maturity value of 100 for 94 (existing yields ~6%)
 - The foregone interest is used to buy a call on the stock which allows the upside participation
 - **Principal protected upside participation**
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Needs high income, high risk



- Investor has conviction that stock is undervalued
- Stock might tread sideways or go up
- Investor wants higher income
- Investor has high risk tolerance
- Structured product payoff:
 - At maturity (12 months) if the stock is up then investor gets principal + bond yield + excess yield
 - ~~– At maturity if the stock is down then investor gets the stock~~

Structure

- Buy a bond with 100% or higher maturity value
 - Sell a put
 - Get paid interest on the bond and the premium from selling the put
-

Bullish, high risk tolerance

- Investor wants exposure to an asset class
 - Investor has a view that it is likely to go up holding period
 - Can tolerate ups and downs
 - Structured product payoff:
 - At maturity if the asset class is up then higher payoff
 - If the asset class is down then lower payoff
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Thank You
