Delivery Mechanisms

An ideal way of gaining access to investment strategies, outcome-driven or otherwise, is to do so through instruments that maximize the potential strategy benefits. Accessing an investment strategy via inefficient vehicles could add unwanted frictions and potentially lead to undesired outcomes. Examples of some these frictions can be

(i) relying on mispriced assets, (ii) unwanted and non-strategy related introduced risks (such as attached credit risk), (iii) lack of liquidity, (iv) embedded costs and fees, (v) taxation, and others.

Therefore, in our view, when evaluating the pros and cons of gaining access to an investment via different wrappers it is important to analyze the following elements:

• Asset pricing: on all components of the investment strategy, including on all derivatives & credit components if any.

• Contractual Liquidity: at market levels, on an established periodic basis. The cost of ownership should be clear throughout the full investment lifecycle, including upon resales or redemptions.

• Transparency: on every component of the strategy. A packaged solution can only be correctly assessed if there is a clear understanding of each component and its pricing. This eliminates opacity & allows investors to embrace the strategy by making educated decisions.

• Purity: an ideal delivery mechanism should strip out unrelated factors and thus allow for accessing a strategy without unwanted risk components or by-products. If these by-products are mispriced, the problem is exacerbated.

Traditional outcome-driven investments have been mostly delivered in the US (and elsewhere) via unsecured debt instruments, structured notes, or via OTC derivatives. We believe there are ways to broaden the market for outcome-driven investments by introducing solutions that give a different perspective on the above factors. This could allow investors to have a wider spectrum of possibilities, to analyze the pros and cons of each, and ultimately to expand the use of outcome-driven solutions through increasing understanding, clarity and endorsement.

	STRUCTURED UITS	US REGISTERED STRUCTURED NOTES	PRIVATE FUNDS
Portfolio Management	None	None	Partnership with portfolio that can be static or managed
Term	Definite term up to 99 yrs. Generally between 1 - 3 yrs	Definite term. Generally between 1 - 3 yrs	Indefinite or definite term
Distribution	Syndicate style distribution	Syndicate style distribution	Syndicate + continuous (open ended)
Potential US investors	No restriction (‘40 act registered). Brokerage and fee based accounts	No restriction (for US registered notes) Generally for brokerage accounts	AI or QP depending on registration exemption
Asset Pricing	Subject to best-ex/institutional pricing	Typically priced and risk managed by issuing entity, though it varies. Credit exposure benefit subject to issuer internal guidelines.	Subject to best-ex/ institutional pricing
Liquidity	Daily at NAV	Best efforts market. B/O spreads.	Periodic at NAV (generally monthly)
Transparency	All components disclosed, along with their pricing	Some	All components disclosed, along with their pricing
Purity - Credit Risk	Can be structured with no credit risk	Has bank/corporate issuer credit risk	Has bank/corporate issuer credit risk