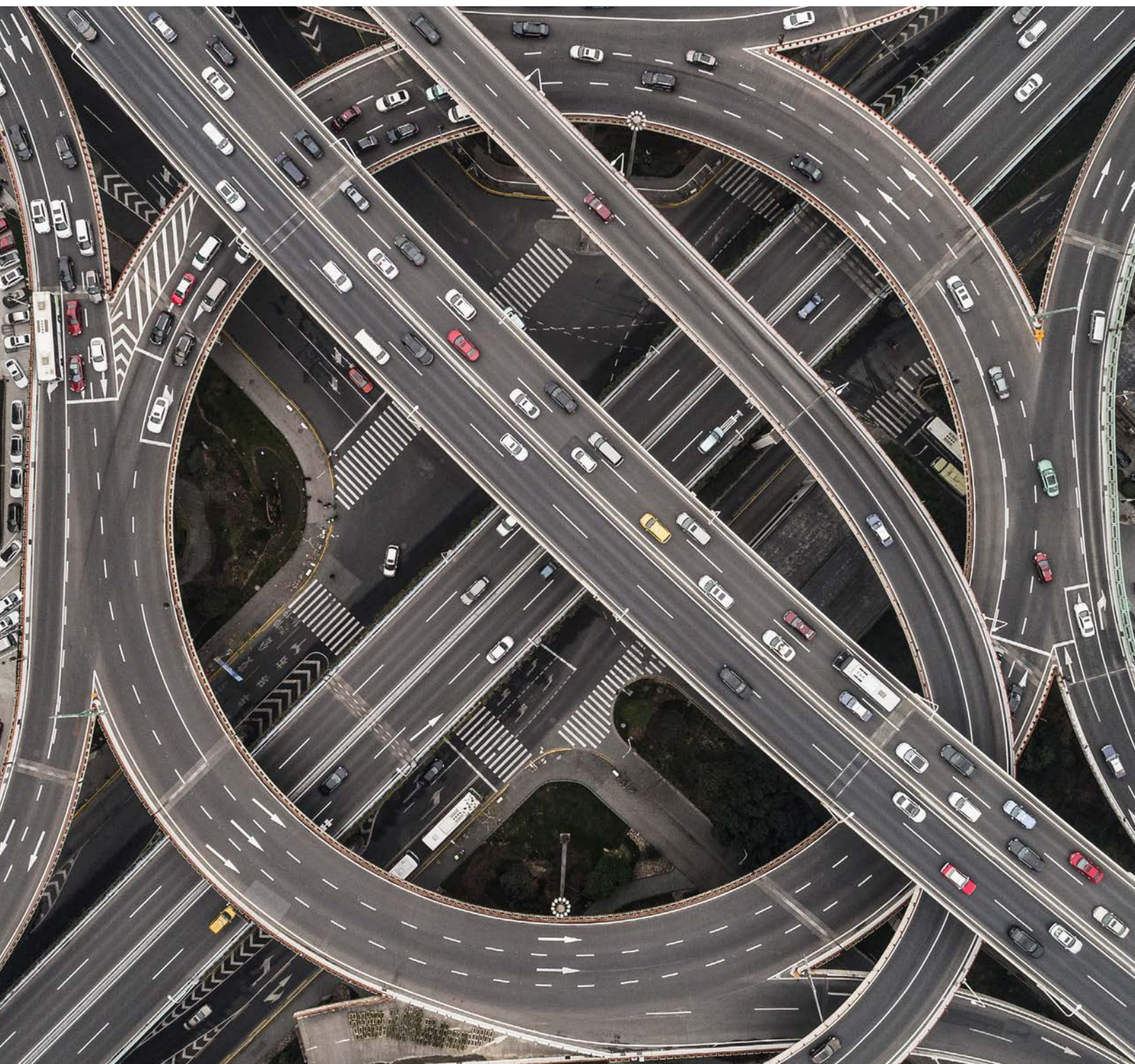


# Navigating alternative investments

An introduction to modern investment strategies



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## Introduction to alternative investments and strategies

The alternative investments space is a dynamic and rapidly evolving segment of the financial services industry. While alternative investments in the past have traditionally been the domain of institutional and accredited investors, this market segment is becoming increasingly accessible to a wider range of investors due to new product offerings and reduced barriers to entry.

This overview provides an introduction to the private market investment landscape, highlighting a range of alternative strategies. It also explains the key terms associated with these technical strategies.

### What are alternative investments?



Alternative investments extend beyond traditional assets like stocks, bonds, or cash by utilizing specialized strategies and investment vehicles. These alternatives are typically less liquid, more complex, and less accessible than standard investment options.



Alternatives are investments that may include, but are not limited to, private equity, private real estate, hedge funds, real assets, commodities, private credit, and more. They can also encompass strategies that employ both long and short positions, as well as the use of options or other derivatives for hedging and leveraging purposes.



Alternatives can provide more options for investors to broaden their sources of return, potentially improving risk-adjusted performance, enhancing portfolio diversification and managing risk.



Investors can now access alternatives through a fast-growing market segment known as “liquid alternatives”, which are alternative investments in the form of a mutual fund or an exchange-traded fund (ETF). Both products can offer the additional benefit of daily pricing, but may have lockup periods to prevent early redemption.

## Private market investments

Private market investments refer to assets or other financial instruments that are not publicly traded on exchanges. This includes but is not limited to, private equity, private credit, real assets like real estate and infrastructure, and hedge funds. Private market investments can include companies at earlier stages of growth and can give opportunities that are not normally available on secondary markets. They can also provide higher than expected returns in the form of capital appreciation due to being less liquid, income generation and downside protection. Historically, private market investments have been limited to institutional and ultra high net worth investors, but have become more available to a wider segment of investors due to increased product offerings and reduced barriers to entry.

### Private market asset classes

#### 1. Hedge funds

A pooled investment fund that typically invests in a variety of asset classes within the private sector. It often uses leverage and various strategies including the trading of nontraditional assets to achieve investment goals. Hedge fund investing can be considered a higher risk alternative investment strategy.

#### 2. Private credit

Private credit involves lending by non-bank institutions to borrowers who may not have access to traditional financing channels. These loans typically offer enhanced yields and expected returns compared to traditional core fixed income, driven by the illiquidity premium. Many private credit strategies also feature floating-rate structures, which can provide potential protection in a rising interest rate environment.

#### 3. Private equity

Private equity is the investment of capital into privately held companies at various stages of growth, with the goal of driving value creation and ultimately realizing returns through an exit event such as an IPO or sale. This strategy typically offers higher expected returns than public equities, but also comes with greater volatility, longer investment horizons, and increased risk.

#### 4. Private real estate

Private real estate includes investments in income-producing properties or development projects through non-publicly traded real estate vehicles, such as private Real Estate Investment Trusts (REITs) or funds. These investments aim to deliver a combination of capital appreciation and income, and may provide diversification and inflation protection, with less sensitivity to public market volatility.

#### 5. Private infrastructure

Private infrastructure generally refers to investments in physical assets such as energy systems, utilities, data centers, transportation networks (e.g., toll roads), and social infrastructure. These assets often generate stable, long-term cash flow, making them attractive for income generation and portfolio diversification—particularly in sustainable and inflation-sensitive sectors.

#### 6. Real assets

Real assets are tangible investments such as natural resources and commodities. They offer investors direct exposure to physical goods and can serve as a hedge against inflation. Real assets tend to have a lower correlation to traditional equities and fixed income, which can help to enhance portfolio diversification while also offering the potential for capital appreciation and income.

## Major alternative investment strategies

Alternative investments employ a wide range of strategies to help investors manage risk, enhance returns and diversify portfolios beyond traditional asset classes. Within this space, there are a few strategies that investors can utilize which include the use of hedging, derivatives, and leverage for long and short positions.

### 1.0 Hedging

A hedge is an investment position taken to reduce the potential risk within an investment or portfolio, often by utilizing derivatives. Hedging strategies can differ depending on market conditions and investor preferences. Examples include pure hedging and diversification strategies.

A pure hedge strategy is designed to offset the risk of another position or strategy in a portfolio. This is different from a diversification strategy which spreads investment allocations across various asset classes to reduce overall investment risk.

#### Examples of a hedge strategy

1. **Pure hedge** – taking a short position or purchasing puts when the investor believes there is potential downside risk in the equities market
2. **Diversification hedge** – spreading investments across different assets, sectors or geographic regions to reduce overall portfolio risk such as buying tech stocks in the US, bonds from Canada, healthcare stocks from Europe and real assets such as gold

Hedging is a form of derivative investing that is used to offset or reduce risk in the portfolio or strategy.

### 2.0 Derivatives

A derivative is a financial instrument whose value is derived from the value of an underlying asset, index, or benchmark.

The most common types of derivatives include futures contracts, forward contracts, options and swaps. The underlying assets for derivatives often include equities, fixed income, commodities or currencies.

The most common uses of derivatives are to hedge, gain, or reduce exposure to specific assets or baskets of assets. Derivatives offer flexibility to tailor market views to specific outcomes. As a result, derivatives can be a powerful tool that can provide leverage, capital efficiency, risk management and targeted maturities due to the different types of derivatives that can be utilized.

#### 2.1 Forward contracts

A forward contract is a customized agreement between two counterparties to buy or sell an asset at a fixed time in the future at a price that is predetermined. For example, a farmer can sell forward contracts as a way of hedging against falling commodity prices.

A forward contract is one of the most basic derivative products. It gives its holder the obligation to conduct a transaction involving the underlying asset – which can be a security, currency or commodity – at a predetermined future date and price. The two parties involved are:

1. the eventual buyer (or long position), who pays the contract price and receives the underlying asset
2. the eventual seller (or short position), who delivers the security for the fixed price

When the spot price of the underlying asset (the current price an asset can be bought or sold at for immediate delivery), falls below the forward contract price, the seller or short position will be in a profitable position. The opposite is true when the spot price is higher than the contract price as the long position gains.

Let's consider an example. There's a farmer with three million bushels of wheat to sell six months from now. The farmer is concerned about a potential decline in the price of wheat. As a result, the farmer (seller) enters into a forward contract with a bread company (buyer) to sell three million bushels of wheat at a price of \$4.50 per bushel in six months to be settled on a cash basis.

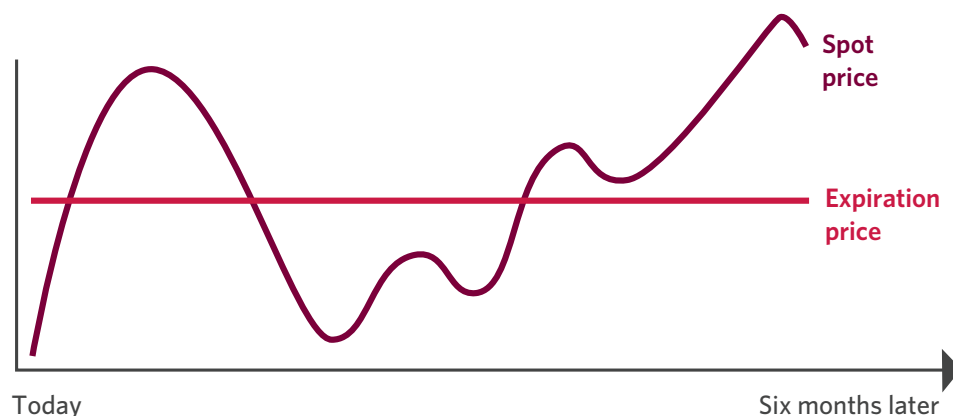
In six months' time, there are three potential scenarios:

1. Spot price remains the same. If wheat remains at \$4.50 per bushel, no money is exchanged and the contract expires.
2. Spot price is higher than contract price. If the spot rises to \$5.00, the farmer owes the institution \$1.5 million:  $(\$4.50 - \$5.00) \times 3$  million. That represents the difference between the current spot price of \$5.00 and the contract rate of \$4.50.
3. Spot price is lower than contract price. If the price of wheat declines to \$3.00 per bushel, the financial institution (buyer) owes the farmer (the seller) \$4.5 million:  $(\$4.50 - \$3.00) \times 3$  million. That represents the difference between the contracted rate of \$4.50 and the current spot price of \$3.00.

In each of these scenarios, the farmer has effectively locked in a price of \$4.50 per bushel, hedging out the risk of price fluctuations. In the first scenario, the farmer is financially unaffected. In the second scenario, the farmer pays the institution \$0.50 for each of the bushels that can be sold for \$5.00 on the open market. In the third scenario, the farmer gets paid \$1.50 per bushel that can only be sold for \$3.00.



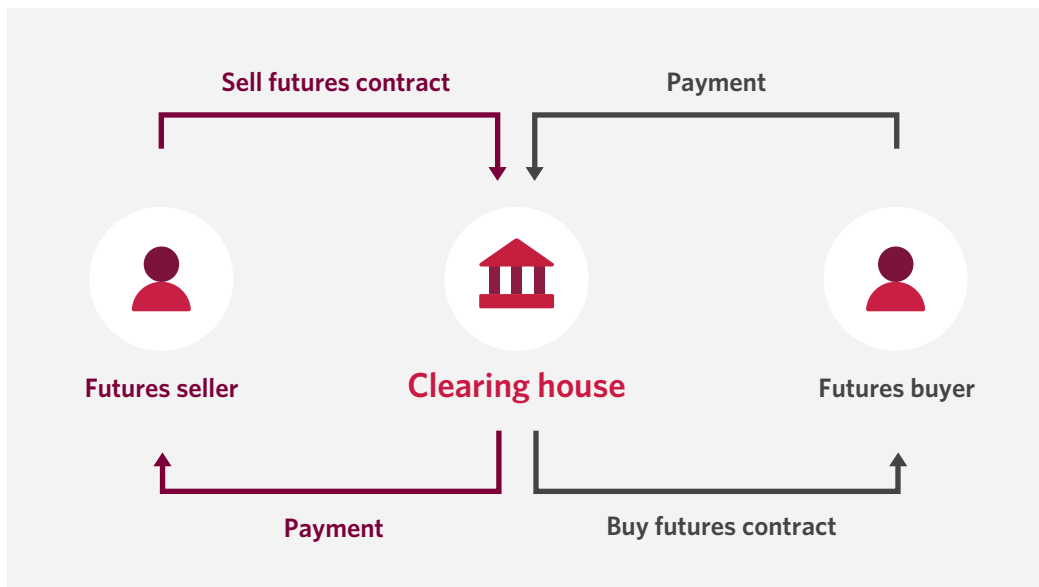
Note, that the seller of the contract, in the short forward position, has the potential for unlimited loss. The buyer, in the long forward position, has the potential for unlimited gain. Conversely, the loss potential for the buyer (and the gain potential for the seller) is limited because the price of the underlying security cannot fall below zero. This would act as a form of [hedging](#).



## 2.2 Futures contracts

Similar to a forward contract, a futures contract is a type of derivative that describes a legal agreement to buy or sell an underlying asset at a specified price at a specified future date. In contrast to a forward contract, futures contracts are highly standardized, are traded on an exchange, and do not feature counterparty risk. Similar to forward contracts, they allow an investor to gain exposure to a given underlying asset or hedge against its price volatility.

Each futures exchange uses its own clearing house to take the opposite position of a given trade, acting as intermediaries for each investor wishing to buy or sell a futures contract.



### Forwards vs. futures

Forward contract	Futures contract
Usually customized and privately negotiated between two parties	Highly standardized terms and conditions
Trade over-the-counter	Trade on an exchange
Timing of cashflows can be negotiated but only when settled; counterparty risk (the risk of one side not fulfilling the terms of the contract) is present	Marked to market via clearing house. The clearing house of the futures exchange acts as counterparty to both parties in the contract, helping eliminate counterparty risk
Typically, no margin is required	Margins required to be posted and maintained to help eliminate counterparty risk
Mostly used by parties who wish to hedge against the volatility of the price of the underlying asset	Used by hedgers, but also frequently used by speculators to gain exposure to the direction of the underlying asset

## Types of futures contracts

Futures contracts can be categorized into several types, with each based on a different underlying asset and purpose. The primary types are: bond futures, commodity futures, currency futures, equity futures, index futures, and interest rate futures.

### 1. Bond futures

A bond futures contract allows an investor to benefit from the movements of a bond index or even individual bonds.

### 2. Commodity futures

For investors wishing to gain exposure to raw materials, or hedge against their price volatility, these types of futures contracts focus specifically on basic commodities such as oil, metals or various agricultural products.

### 3. Currency futures

A futures contract that leverages currency pairing. It compares the movement between two specific currencies such as the USD and EUR or USD and CAD.

### 4. Equity futures

A futures contract that allows an investor to benefit from the movements of an equity index or even a specific stock.

### 5. Index futures

If an investor wants to gain or hedge exposure to a particular market, index futures are an extremely useful and a common means of doing so. Index futures are futures contracts where the underlying asset is an equity market or another financial index. For example, an investor who believes US stocks are going to rise might take a long position and purchase an S&P 500 futures contract. This is an efficient way of getting exposure to the US market rather than having to directly purchase US stocks or an index fund. Conversely, an investor who believes US stocks will decline might take a short position and sell an S&P 500 futures contract, to either benefit from a decline in share prices or to hedge against potential losses in an existing portfolio of US stocks.

Similar to options, index futures also have various leveraged indices that investors can go long or short in. The two most common indices are the E-Mini and the Micro index which both cover the S&P500 and NASDAQ composites. The E-Mini contract is equal to a \$50 multiplier, while the Micro is \$5, meaning that the Micro index is one-tenth the size of the E-Mini. This means for each point, a Mini contract will gain or lose \$50, while the Micro will gain or lose \$5.

### 6. Interest rate futures

A futures contract that tracks debt instruments or financial products tied to interest rates. They are used to hedge or speculate the changes in the interest rate environment.





## 2.3 Options strategies

Options strategies are a type of agreement or contract that grants the holder the right but not the obligation to buy or sell an underlying security at the value of 100 shares per contract. This can be done either through a [call option](#) or a [put option](#).

An investor can profit from options based on the direction of the underlying stock and the position (call or put) that they have taken or by exercising the option. **Exercising** an option is buying or selling the underlying asset at the strike price. Exercising an option can be profitable based on the option strategy that was employed and the various factors that affect the pricing of options.

Call options	Put options
The investors believes the underlying stock will increase in price	The investor believes the underlying stock will decline in value
High leverage at 100x leverage per contract	High leverage at 100x leverage per contract
Maximum profit can be infinite as the underlying stock can theoretically continue to rise indefinitely	Maximum profit is limited until the underlying stock reaches 0
Maximum loss is the debit paid for the contract	Maximum loss is the premium paid for the contract



### Factors that affect the pricing of options

There are various factors that affect the pricing and profitability of options and their respective strategies. These factors are often referred to as “the Greeks”. The Greeks can help an investor quantify and manage risk, understand how the position or options strategy may react to the market changes and help with making more informed investment decisions.

- **Delta** - Measures how much the price of an option is expected to change for a \$1 move in the underlying asset. For call options, delta ranges from 0 to 1; for puts, from -1 to 0. A delta that has a value further away from 0 means the option price will closely follow the underlying asset's price. For example, a call with a delta of 1 will move closer with the underlying assets price movements, while a put with a delta of -1 will move closer with the underlying assets price movements.
- **Gamma** - Measures the rate of change of delta as the underlying asset's price changes. Gamma can indicate how stable delta is. For example, a high gamma means delta changes quickly, especially for at-the-money options, while a lower gamma means delta changes slowly, often seen with out-of-the-money options.
- **Theta** - Measures the rate at which an option loses value as time passes (time decay). A higher theta value implies a more rapid time decay for an option contract. All else equal, options lose value as expiration approaches, and theta quantifies this loss.
- **Vega** - Measures sensitivity of the option's price to changes in implied volatility. A higher vega means the option's price is more affected by changes in expected volatility of the underlying asset.
- **Rho** - Measures sensitivity of the option's price to changes in interest rates. Typically has less impact compared to the other Greeks, but can matter for longer-dated options.

## Types of option strategies

### 1. Call options

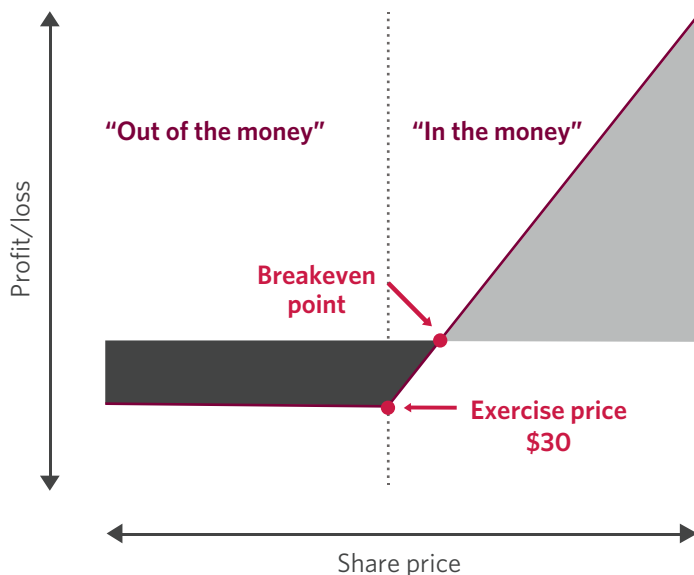
A call option is a type of option contract where the holder has the right but not the obligation to buy an underlying asset within a certain period at a specified price called the exercise or “strike” price. Investors purchase call options on an underlying asset if they believe it will rise above the strike price – at which point their option rises in value (otherwise known as being “in the money”) and they would profit. Note, that the profitability can be impacted by time decay, so while the call option may expire or be above the strike price, time decay can impact the profitability of the call.

For example, Stock A is currently trading at \$30, and the investor believes the price of Stock A will increase. The investor purchases a call option with a strike price of \$30 and pays a premium of \$2 to purchase the option, which amounts to \$200 as each option contract represents 100 shares. The call option purchased has an expiration of one month. This means that the investor has the option to buy 100 shares of Stock A at the strike price of \$30 until the option expires.

Assuming there is market strength during this period, shares of Stock A increase to \$35. At that point, the investor exercises the option whereby the shares are bought from the option writer for the strike price of \$30. The investor would make a profit equal to the difference between the market price (\$35) and the strike price (\$30) multiplied by the number of share (100) minus the premium paid for the put option (\$200). In this case the gross profit would be \$500 or  $(\$30 - \$25) \times 100$ . After subtracting the premium paid of \$200, the net profit would be \$300 or  $(\$500 - \$200)$ .

The maximum loss for the call buyer on the trade is the premium of \$200, which would happen if the underlying stock either dropped or did not rise above the strike price by its expiration. The maximum profit for the call buyer is theoretically infinite so long as the underlying stock continues to increase.

### An investor’s profit or loss from purchasing a call option



■ Premium paid  
(investor does not  
profit from call option)

■ Share price exceeds  
exercise/strike  
price + premium  
(investor can profit)

#### Out of the money:

When the strike price for the underlying stock is above or below the favorable range of profitability meaning the underlying position is less likely to reach the strike price.

#### In the money:

When the strike price for the underlying stock is in a favorable range of profitability meaning that the underlying position is more likely to reach the strike price.

Note, that the owner of a call will generally exercise their option if the share price has risen above the strike plus premium, allowing the buyer to acquire the shares at the lower strike price in the call contract (they acquire the common stock on a discount relative to the currently traded price). If the share price falls, the option owner will not exercise it, and their contract may expire worthless. The seller on the other hand, will keep their shares and the premium.

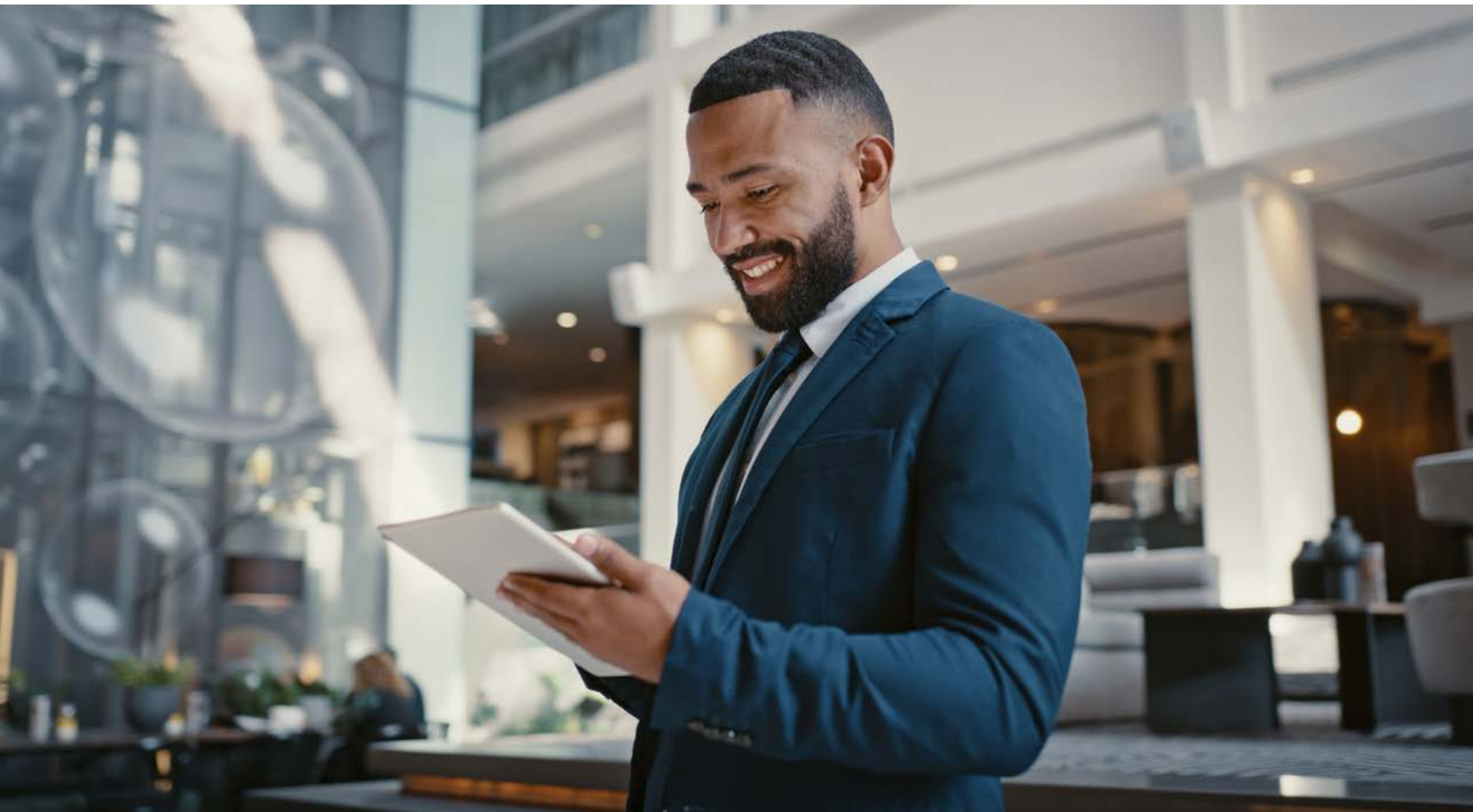
### **Selling a call option**

The seller for a call option is taking the opposite direction to the option contract holder, meaning that the seller is expecting the underlying position to remain at the same price or decline. As a result, the seller has the obligation to deliver the underlying asset at the strike price to the holder of the call option if the holder decides to exercise the option. In return, the seller of the call option receives the premium paid by the holder of the call option as compensation for taking the risk that the holder will exercise the option. Selling a call option is similar to insurance, as the holder buys protection (pays a premium) so they can choose to exercise. If exercised, the seller must deliver (pay the holder) on the obligation. The seller of a call option can only earn the premium, but faces theoretically unlimited losses as underlying position rises.

### **Covered call options**

A covered call is an option strategy where an investor holds a long position in a stock and simultaneously sells (writes) a call option on the same stock. Each covered call option represents 100 shares of the underlying stock. What is unique about covered calls is that the investor collects the premium from selling the call which can provide them with a source of income in the form of a credit.

The strategy is often used when the investor expects the stock price to remain relatively flat or rise modestly (relatively bullish outlook). If the stock price stays below the calls strike price, the option expires worthless and the investor keeps both the stock and the premium. If the stock price rises above the strike price, the investor must sell the shares that were exercised (inherited at the strike price) which can cap their upside. The investor however, still keeps the premium that they earned upon entering the position.



## 2. Put options

A put option is a type of option contract that gives the holder the right but not the obligation to sell a specified amount of an underlying asset at an exercise or strike price within a specified time period. An investor who purchases a put believes that the price of the underlying asset will drop below a pre-set “strike” price before the option expires.

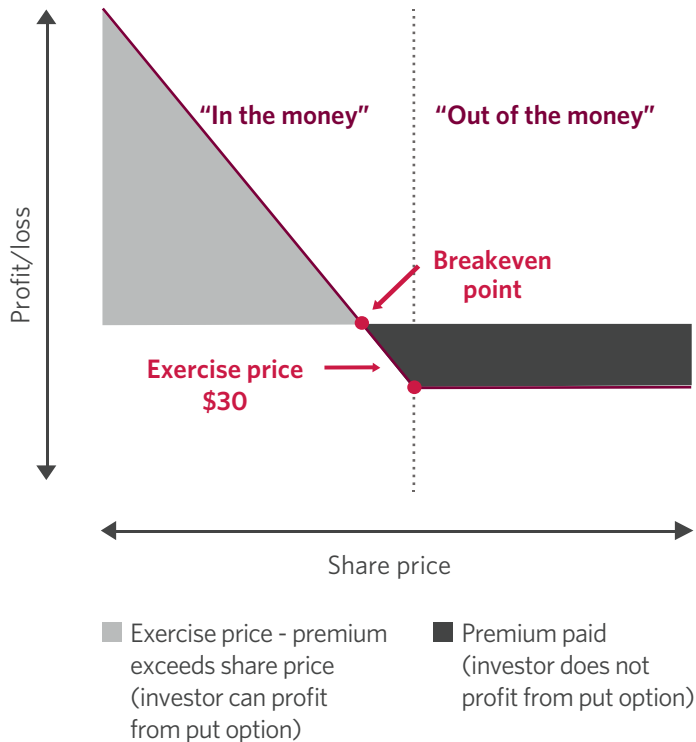
For example, Stock A is currently trading at \$30, but the investor believes there is the potential for a bearish market ahead. The investor purchases a put option with a strike price of \$30 and pays a premium of \$2 to purchase the option, which amounted to \$200, as each option contract represents 100 shares. The put option purchased has an expiration of one month. This means that the investor has the option to sell 100 shares of Stock A at the strike price of \$30 until the option expires.

Assuming there is market weakness during this period, shares of Stock A decline to \$25. At that point, the investor exercises the option whereby the shares are sold to the option writer for the strike price of \$30. The investor would make a profit equal to the difference between the strike price (\$30) and the market price (\$25) multiplied by the number of shares (100) minus the premium paid for the put option (\$200). In this case the gross profit would be \$500 or  $(\$30 - \$25) \times 100$ . After subtracting the premium paid of \$200, the net profit would be \$300 or  $(\$500 - \$200)$ .

The maximum loss for the put buyer on the trade is the premium of \$200, which would happen if the underlying stock either rose or did not fall below the strike price by its expiration. The maximum profit for the put buyer would occur if the underlying stock dropped to \$0. In this case, the maximum net profit would be \$2,800 or  $(\$30 - 0) \times 100 - 200$ .



## An investor's profit or loss from purchasing a put option



### In the money:

When the strike price for the underlying stock is in a favorable range of profitability meaning that the underlying position is more likely to reach the strike price.

### Out of the money:

When the strike price for the underlying stock is above or below the favorable range of profitability meaning the underlying position is less likely to reach the strike price.

## Selling a put option:

The seller for a put option is taking the opposite direction to the option contract holder, meaning that the seller is expecting the underlying position to remain at the same price or increase. As a result, the put seller benefits if the underlying position goes up or remains relatively the same to the strike price. It allows the put seller to get the underlying stock at a discount if the underlying increases in value (via exercising). The put seller can earn and keep the premium from the put sale if they choose to buy the put or let the option expire and not exercise. In return, the seller of the put option receives the premium paid by the holder of the put option as compensation for taking the risk that the holder will exercise the option in the form of a credit. The seller of a put option can only earn the premium and they are limited to the loss they can experience if the stock price were to drop to zero.

## Cash-secured puts

A cash-secured put is an option strategy where an investor sells (writes) a put option on a stock and simultaneously sets aside enough cash to purchase 100 shares of the stock at the strike price if the investor is assigned the shares. Each put option represents 100 shares of the underlying stock. Cash-secured puts allow the investor to collect the premium upfront, which creates a source of "income", by selling the put. It can also allow the investor to acquire the underlying stock if they want to own it at a discount (the strike price minus the premium).

The strategy is often used when the investor has a neutral to slightly bullish outlook on the stock. If the stock price stays above the strike price, the option expires worthless, and the investor keeps the cash and the premium. If the stock price falls below the strike price, the investor is obligated to buy the shares at that price. The premium earned can reduce the purchase price of the shares.

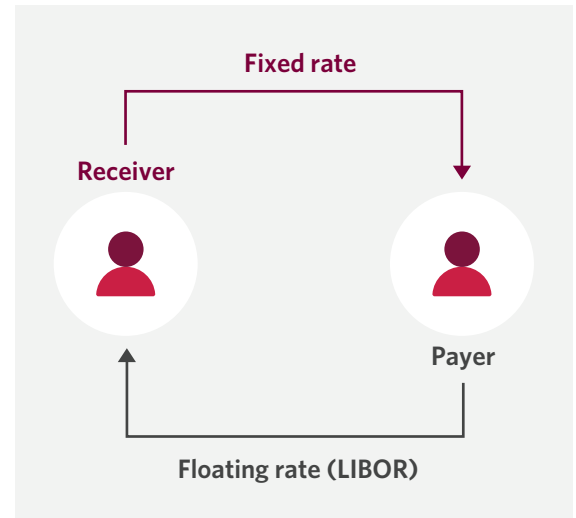
## 2.4 Swaps

Another type of derivative that can be used to gain exposure to (or hedge against) changes in financial markets is a swap. As the name suggests, this means two parties exchange financial instruments. In practice, this can mean two parties exchange the cash flows of their respective financial instruments but not the instruments themselves.

### Types of swaps

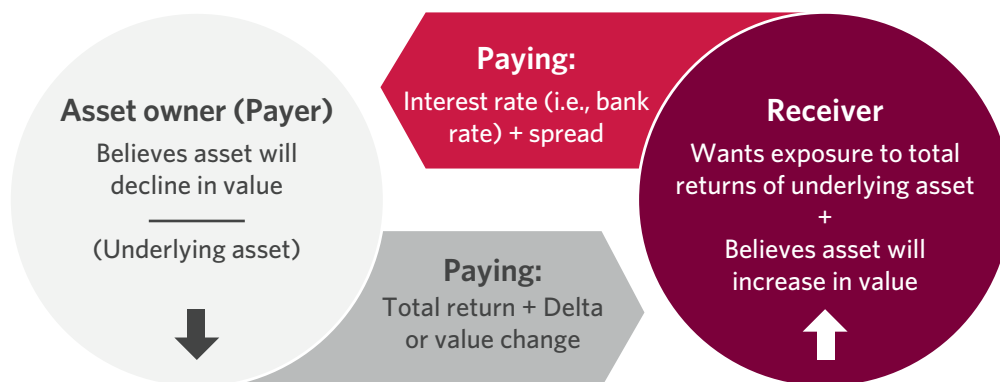
#### 1. Interest rate swaps

An interest rate swap is a contractual agreement whereby one party exchanges a stream of interest payments for another party's payments. Interest rate swaps commonly exchange fixed-rate payments for floating-rate payments based on a notional amount of principal. The floating rate is pegged to a reference rate, typically Secured Overnight Financing Rate (SOFR) for unsecured short-term borrowing. The market value of a swap at inception is typically set to zero, meaning no cash flows get exchanged at inception. Interest rate swaps can be used by corporations to optimize their financing profile with respect to variable or fixed interest rates, and can be used by investors to speculate on interest rates.



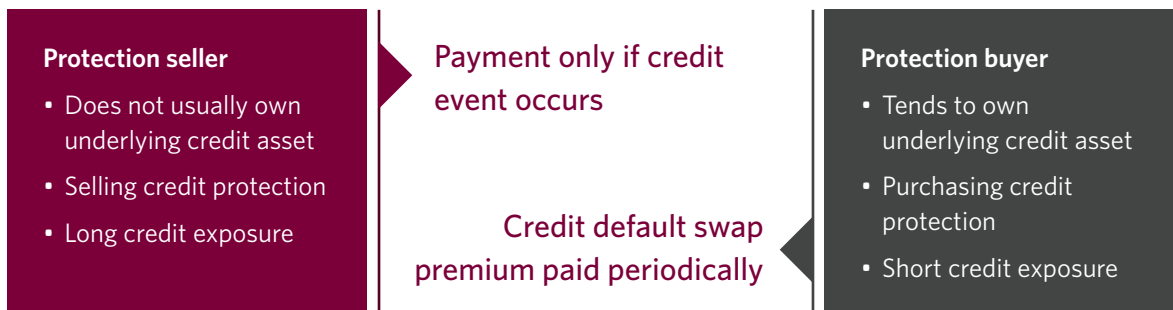
#### 2. Total return swaps

Swaps can be used by parties who wish to gain the total return benefits of a given underlying asset (such as a bond, equity or loan). In a total return swap, one party pays a set rate (fixed or variable) to the owner of an underlying asset, in exchange for payments equivalent to the asset's total return (which includes both income and capital gains).



### 3. Credit default swaps

Swaps can be used to transfer credit risk from a party who wants protection from risk to a party that's willing to take it on for a premium. The buyer of a credit default swap is often the holder of the underlying credit asset, known as the "reference asset," and makes payments to the swap's seller for the duration of the contract. However, the seller agrees that in the event of a default or, in some cases, another type of credit event (such as a credit downgrade), that the seller will pay to the buyer the reference asset's principal and any interest payments that would be paid from the time of the event to the maturity date of the reference asset.



### 3.0 Leverage

If an investor wishes to increase the magnitude of a potential gain of an investment position (and, by extension, potential loss), the investor can engage in leveraged investing.

#### Ways to engage in leverage:

- Cash borrowing:** an investor borrows cash to invest. The type of cash instruments available to asset managers for borrowing purposes can include loans, credit instruments, bonds and even structured products.
- Derivatives:** derivatives allow investors to gain exposure to the price movements of assets without necessarily directly owning them, and their structures often allow investment managers to control large positions with little outlay, or none at all in some cases. The capital needed to take a position in a derivative instrument is usually much less than the capital needed for a more traditional position in stocks or bonds.
- Physical short selling:** an investor who wants to benefit from the expected decline in a security, often a frequently traded stock, can borrow the shares from a lender, sell them immediately (receiving the proceeds of sale to invest) and profit by repurchasing the shares at a potentially lower price. Naked short selling is a high-risk strategy as the potential losses are theoretically infinite.

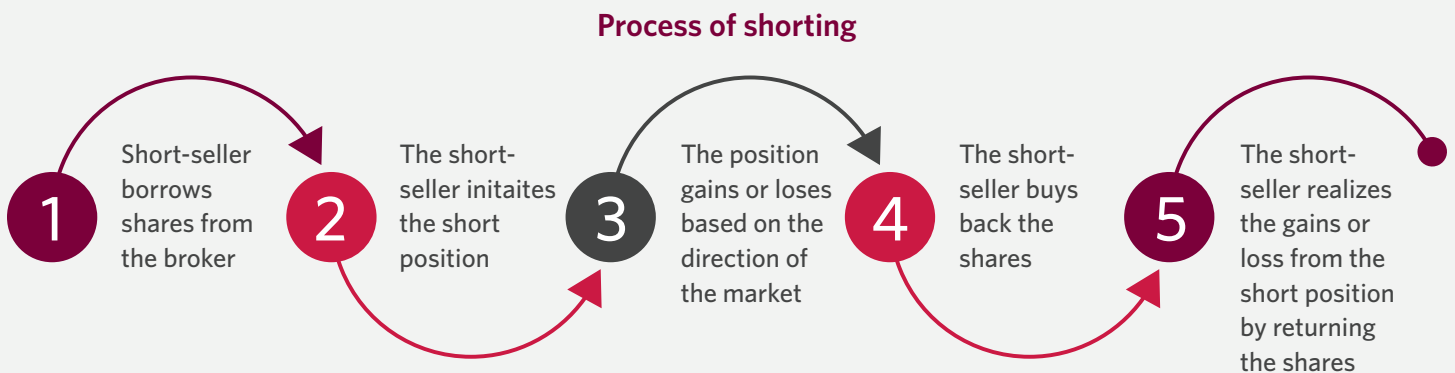
In each of these cases, leverage allows investors to construct a position in an underlying asset without a full cash outlay or direct ownership of that asset. However, as with all forms of borrowing, debts are expected to be repaid. So, while the use of leverage can greatly enhance the potential return of a portfolio, it also introduces additional risk and fees.

## 4.0 Long and short positions

A **long position** refers to the purchase of a security with the expectation that it will increase (or rise) in value. A **short position** involves selling a security with the expectation that it will decline (or fall) in value as the investor profits from the security declining in value.

### Ways to achieve a short position:

- **Physical short selling**, is often used with high liquidity or high volume stocks. The typical process involves the short-selling investor to borrow the shares from a lender and selling the position. With the short position established, should the share price decline to a level deemed acceptable by the short-seller (or until the share are called back by the lender), the shares can be purchased at this lower price with the short-seller profiting by closing out the position thereby having a balance of zero shares in the company. Conversely, should the price of the asset unexpectedly rise, the short-seller would experience a loss and in some cases, may be required to give back the shorted shares by being “called” on. With short positions, the loss potential for the short-seller is theoretically infinite as share prices can rise indefinitely, while the profit is limited to when the stock price becomes zero.
- **Derivative investment**, such as selling a forward contract, selling a futures contract, writing/shorting a call option or buying a put option. Essentially, the investor is agreeing to sell an asset in the future at a predetermined price, with the expectation that the asset’s price will subsequently decline and an investment gain can be made or premium collected, as in the case of a short call position.





## Glossary of common terms

### Alpha

The excess return an investment achieves over its expected return is known as alpha. Portfolio managers add value to a portfolio by using their security, sector, and asset selection skills to generate alpha. Therefore, alpha can also be considered a measure of a portfolio managers skill.

### Asset-backed lending

An investment strategy where a fund, entity, or individual acts as a non-bank lender and provides loans or credit to private businesses that is secured by a form of collateral, such as inventory, equipment, real estate, or accounts receivable. Loan values are a proportion of the collateral value. This form of borrowing is often used when trying to raise capital in a less costly way than offering equity.

### Assets under management (AUM)

The total market value of all investments under one classification such as the total value of investments managed by a fund, advisor or institution.

### Absolute return

Absolute return represents the total amount an investment has earned (i.e. total return) over a certain time period. A fund employing an absolute return strategy typically aims to achieve a pre-determined positive return across a specific time period such as a full market cycle – even when the market is volatile, flat or falling. Absolute return strategies, on the other hand, typically strive for a stated positive return (e.g. T-bills + 3%). In this way, absolute return products can be considered “benchmark agnostic” since the goal or performance standard is already stated.

In addition to investments in traditional stocks and bonds, absolute return strategies employ a diverse toolkit of strategies and instruments to achieve their return objectives, including derivatives, short selling, and leverage.

### Beta

The return generated by the benchmark or market.

### Commodity

A commodity is a basic good that can be traded. Examples of commodities include oil, gas, wheat, gold, soybeans and livestock.

Commodities can be bought and sold using derivatives such as futures and forward contracts. For example, a futures contract is an agreement to buy or sell a commodity at a predetermined future date and price. Commodity futures exchanges create a liquid marketplace to bring producers, hedgers and speculators together by standardizing the quantities and quality of commodities being transacted.

### Correlation

A statistic that measures the degree to which two securities move in relation to each other. For example, if two investments move up and down at the same time and to the same degree, those investments are said to be perfectly correlated and have a correlation of 1. Two investments that move with no relation to each other are said to be uncorrelated and have a correlation of 0. Two investments that move in opposite directions at the same time and to the same degree are said to have a perfectly negative correlation and a correlation of -1. Alternative investments often strive for low to negative correlation to the broad markets.

## Currency

Currencies can be traded to hedge against foreign exchange risk or to add value to a portfolio in other ways based on the expected value of a currency or a basket of currencies.

Ways to trade currency:

1. Currency forwards (forward contracts)
2. Currency futures (also known as exchange rate futures or “FX” futures)
3. Currency options
4. Cash holdings in a given currency

## Factor exposure

An investor can allocate portfolio exposure to securities that exhibit certain attributes known as factors. Factors are characteristics of investments that can explain differences in future returns. This methodology is also known as Style factors. Alternatively, investors can also adjust their tilt based on Macroeconomic factors.

### Style factors

An investment approach in which securities are grouped into categories, and or portfolio allocation based on risk and return characteristics within the asset class. These include value, momentum, size, quality and volatility.

### Macroeconomic factors

Exposure to Macroeconomic factors can also help explain risk and return characteristics for an asset class. These factors include: economic growth, inflation, credit and interest rate changes or real rates.

## Feeder funds (access funds)

An investment fund that provides access to an underlying private market fund for a fee but, usually at a lower investment minimum compared to the direct investment approach. This approach generally allows investors with less capital to access an investment that would otherwise have been limited to institutional investors. Feeder funds can provide portfolios and investors with an additional layer of diversification due to their unique investment holdings.

## Gross profit

The amount earned from an investment, calculated as the selling price minus the original purchase price for the investment.

## Liquidity

The ease and speed at which an investment or asset can be bought or sold without significantly impacting its price. Higher liquid investments are often easier to invest or trade and will have smaller effects on price movements compared to lower liquid investments.

## Liquid alternatives

A form of investment fund like a mutual fund or ETF that uses a more advanced strategy, but can be bought or sold on the open market. They act as a way to help investors reduce risk and diversify investments beyond traditional stocks or bonds. Unlike a direct investment into private markets, liquid alternatives can be easier to access, can be more transparent in regards to their reporting and regulation and often feature a smaller initial investment of capital. This can often make them more economically friendly investment opportunities for investors looking for an alternative investment approach.

## Net profit

The actual profit earned from an investment after deducting all related costs, such as fees, commissions, and premiums. It is reflected as gross profit minus all associated costs.

## Notional value

Notional value represents the total dollar value or face value of an underlying asset controlled by the derivative contract. It is the underlying amount on which payment or obligations are calculated.

Notional value is calculated by: multiplying the units of the underlying asset or investment by its spot price / market price (the immediate price a security trades at in the market).

Let's look at an example using MSCI World Index futures.

To find the value of 1 MSCI World Index Future, consider the following: the value of these futures is 50 x MSCI World Index, as one MSCI World futures contract represents 50 units of the index (its multiplier). If someone buys one MSCI World futures contract at \$2,000, the notional value of the contract is \$100,000 (50 x \$2,000). By contrast, the market value of one unit of the MSCI World Index is \$2,000.

## Premium

Premium refers to the amount paid for an investment. When specifically referencing a premium in alternative investments such as options trading, the premium is the price paid by the buyer to acquire the rights granted by the option contract. It is simply the cost paid for the contract.

## Relative returns

The measure of an investment compared to a chosen benchmark such as an index, over a specific period. It is calculated as the difference between the investments returns and the benchmarks returns.

**To understand how alternative investment strategies and private market assets classes, can play a role in your portfolio, contact your CIBC advisor today.**

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Sources: Allen, Gregory C., "The Risk Parity Approach to Asset Allocation" Callan Investments Institute Research, February 2010; AllianceBernstein; CME Group; Corporate Finance Institute; fincad.com; Goldman Sachs; ig.com; Investopedia; investment-and-finance.net; Ontario Securities Commission, Credit Derivatives and Synthetic Structures, John Wiley & Sons 2001; PIMCO; Preqin; thebalance.com; theice.com; The Options Guide; TradingSources.com; withoutyouitsjustnot.us.

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Hedging: the offset or reduction of the risk associated with all or a portion of an existing investment or group of investments. Cross-hedging is permitted as long as there is a high degree of correlation between changes in the market value of the investment or group of investments to be hedged and the hedging instrument. Creating effective exposures to certain markets: replication of equity, fixed income, money market, currency or other indices or securities, in order to reduce transaction costs and achieve greater liquidity. Facilitating the investment management process: increase the speed, flexibility and efficiency in the investment management operation of the client account. Enhancing returns: benefiting from a lower cost or locking-in of arbitrage profits, except for private client accounts.

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