LGT CAPITAL PARTNERS

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LGT Capital Partners Insights

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Introduction

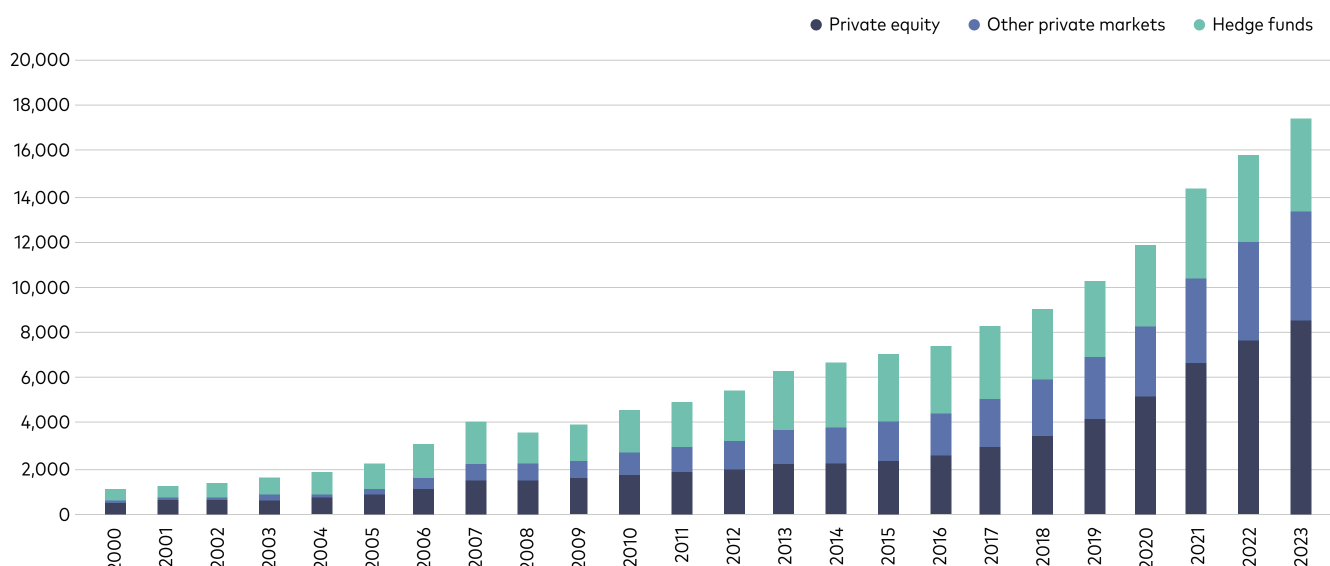
As we celebrate the 25th anniversary of LGT Capital Partners, we want to take this opportunity to share our insights and experience as a principal investor in alternative assets. In this publication, we explain why and how we invest in private markets and liquid alternatives, the lessons we have learned over the last quarter of a century and how our clients can profit from our long experience of investing in alternative assets. It is no secret that investors' interest in alternatives has increased steadily in recent years, as has their allocation to this asset class (see Figure 1). At LGT Capital Partners, we have been investing in alternative assets for 25 years. In fact, we started our journey as a family office for the Princely Family of Liechtenstein. We have been managing the LGT Endowment ever since and, as a principal investor, we invest in our own strategies alongside our clients.

The LGT Endowment reflects our core principles and approach as a long-term investor. Right from the start, we have invested around half of the portfolio in alternative asset classes. We began with allocations to private equity and hedge funds and have since broadened and adapted the range of private market assets that we invest in. We have also refined our approach to investing in hedge funds and we were an early investor in insurance-linked strategies and private credit.

We have managed the LGT Endowment through periods of significant volatility and financial distress, such as the bursting of the Dotcom Bubble in the US, the Great Financial Crisis and the Covid-19 pandemic. In other words, we have encountered our fair share of challenges, but these periods have also taught us valuable lessons and prompted us to continuously refine our approach to investing in multi-asset and multi-alternatives portfolios.

We want to share our experience and our network of relationships with other investors. Over the past 25 years, we have developed and grown an institutional solutions business with around USD 100 billion of assets under management. Our clients benefit directly from our long experience as a principal investor. As well as proving access to best-in-class managers around the globe and across asset classes, we work with our clients to find the best solutions to meet their specific needs, including assisting them in portfolio structuring, commitment pacing and reporting matters.
We hope you enjoy reading the publication.

Figure 1: Global alternative investments, assets under management (in USD bn)



Source: LGT Capital Partners, Preqin. Data as of 30 June 2023

Rudolf von Alt, detail from "The harbor of Santa Lucia in Naples," 1835 © LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna

Why we invest in alternative assets

A key characteristic of our investment philosophy is that we plan over the long term. This allows us to allocate assets to a broader set of asset classes and strategies, including alternatives. The alternatives universe consists of a variety of investment funds and formats that differ in terms of their structure, maturity and liquidity. They range from very liquid hedge fund programs to long-dated partnerships with specialized private investments in companies or projects. While each sub-asset class has distinct value drivers and characteristics, a common trait of alternatives is that they are less exposed to traditional risks while, at the same time, earning significant premiums for assuming non-standard risks. We strongly believe that including alternative assets in an institutional portfolio is an attractive way to improve risk-adjusted performance outcomes through a combination of return enhancement and/or diversification benefits.

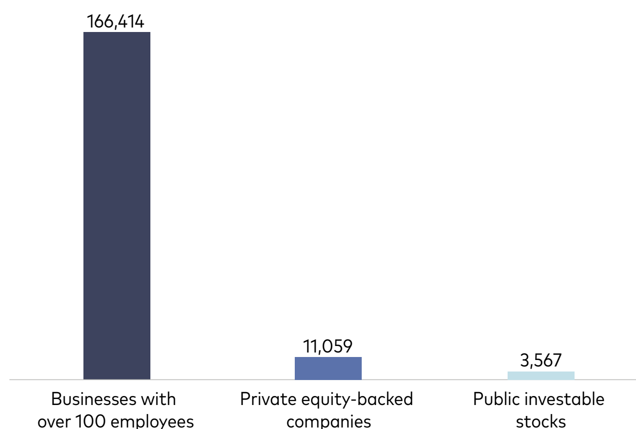
Access to unique opportunities

Alternative investments provide access to a larger opportunity set of firms and instruments and to unique markets and strategies that are not readily available in traditional asset classes.

Larger company universe
When assessing the investable market, it is important to recognize that the vast majority of companies is held privately. At the end of 2023, there were over 160,000 firms in the US that employed at least 100 employees[1], of which only about 3,600 were investable in public markets[2]. At the same time, private equity owners held over 11,000 US companies[3]. Private equity firms can thus tap into an opportunity set that is over 40 times larger than that available to public market investors, and they provide investors with exposure to three times as many companies as they could access through public markets.

The number of public firms has also trended downwards over time. In the 1980s, deregulatory changes made it easier for firms to stay private. A consolidation phase among public companies in the 1990s further reduced the number of listed firms while increasing their size. In the US, for instance, the number of listed stocks has almost halved since late 1997.[4]

Figure 2: Private and public opportunity set in the US (number of companies)



Source: LGT Capital Partners, NAICS Association, PitchBook 2023 Annual US PE Breakdown Report, MSCI USA All Cap Index. Data as of 31 December 2023.

[1] According to NAICS Association
[2] MSCI USA All Cap Index number of constituents as of 31 December 2023. The number decreases further to 2,400 if micro-cap stocks are excluded (MSCI USA IMI Index).
[3] PitchBook 2023 Annual US PE Breakdown Report.
[4] Center for Research in Security Prices, CRSP Count Q4 2023 Update Report.

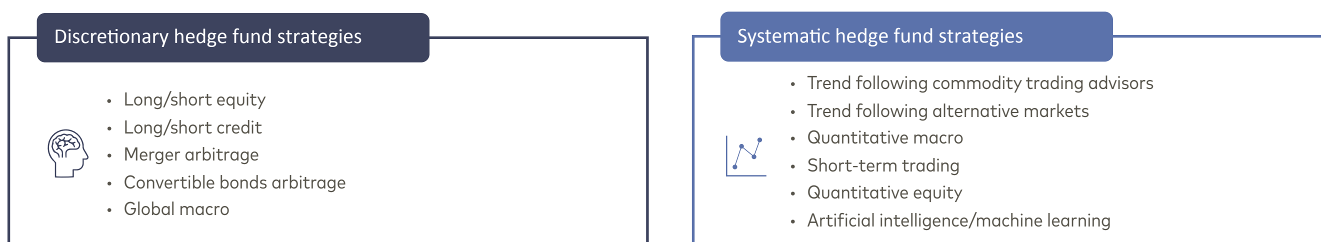
Innovation and growth exposure

The rise of the service sector and the departure from capex-heavy business models has increased the importance of intangible assets for value creation within firms. Intangible assets enable knowledge goods such as software, research and development (R&D) and organizational know-how to be commercialized. For example, managing widely dispersed supply chains is one of the most valuable intangible assets of successful global companies. Small companies with an innovative product idea often struggle to position themselves vis-à-vis public investors. In a private partnership, these companies enter into a long-term relationship with an experienced general partner (GP) who has the specialized knowledge from previous deals to understand and develop the company's value proposition. In addition, the private setting helps to protect an innovative idea until it matures to a commercial level. Private equity has developed into a sophisticated asset class that is able to support a company's growth from very early seed stages (venture capital) until it becomes a large company held by a buyout fund. As a result, high-growth companies increasingly postpone their IPOs until the later stages of their development. This is reflected by a technology and services tilt in the sector breakdown of the private equity universe compared to public stocks.

Unique markets and strategies

A similar argument applies to hedge funds. First, hedge funds can access a variety of asset classes and instruments not available to traditional investors, such as options, exotic derivatives, interest rate swaps in emerging markets, power markets or onshore Chinese commodity markets. Second, they apply a variety of value-adding strategies that are capable of generating performance irrespective of the general market direction. These include long/short strategies in different asset classes, arbitrage strategies across different instruments and markets, derivatives trades and other sometimes complex strategies. They can provide payoff profiles and return streams not accessible or replicable in long-only public markets and they have the potential to generate profits in rising, falling and sideways markets.

Figure 3: Strategies employed by hedge funds



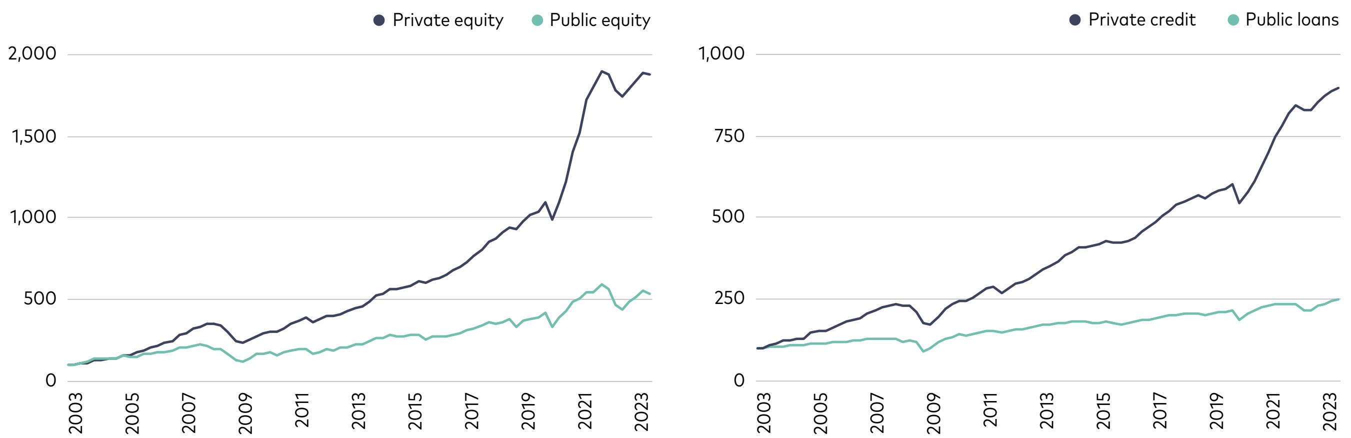
Source: LGT Capital Partners

Return enhancement

As a long-term investor, we aim to generate long-term real returns. Alternative assets have the potential to provide significant return enhancement for an institutional portfolio.

Illiquidity premium
Private market strategies in general and private equity investments in particular have been significant return drivers within the LGT Endowment. Companies that are not willing or able to tap public markets for funding will typically pay their shareholders and creditors a higher premium, commonly referred to as the illiquidity premium. The long-term commitment of equity capital enables the management of the company to focus on long-term value creation rather than meeting short-term market expectations. This is especially valuable in the small and mid-market space and allows us to buy companies at attractive valuations. In credit markets, investors typically earn higher yields as companies are willing to pay higher margins to private lenders in exchange for faster access to capital, greater flexibility and certainty of execution.

Figure 4: Private and public market performance (in USD)

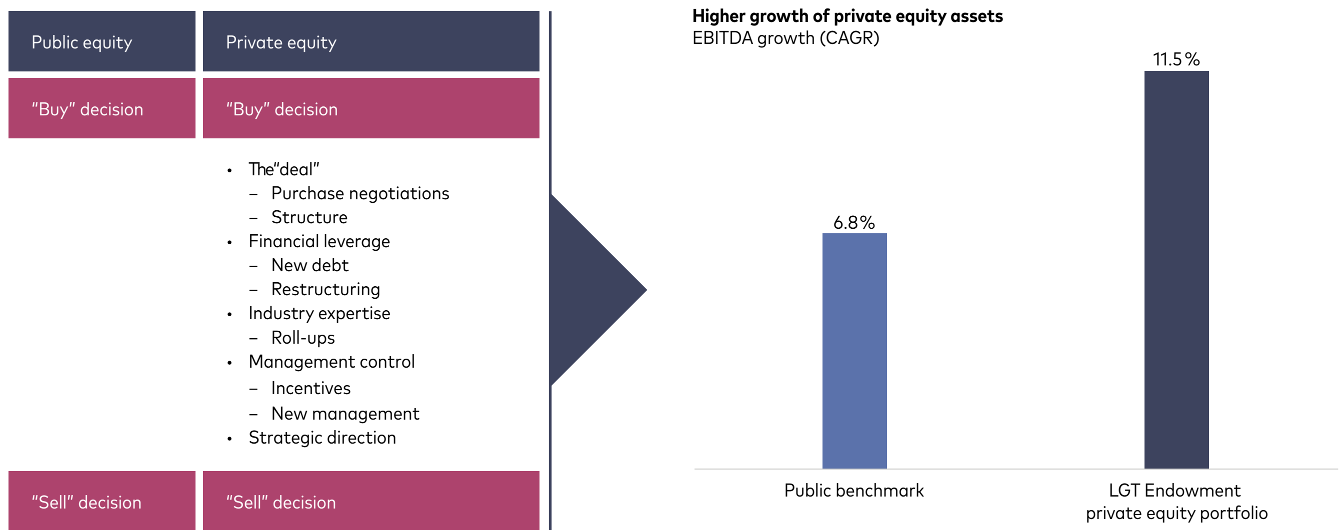


All global benchmark returns are shown in USD, indexed, from 31 December 2002 to 30 September 2023. Private equity and private credit are global fund-based returns calculated by Cambridge Associates, returns are net of fees. Public equity is MSCI World Index (USD, net return). Public loans is Morningstar Global Leveraged Loan 100 Index.
Source: LGT Capital Partners, Cambridge Associates, MSCI, Morningstar.

Superior governance drives value and returns
Private-backed companies benefit from a superior governance model as ownership is concentrated within a small group of investors that is fully aligned with management's objectives. This is in contrast to the diffuse ownership prevalent in public markets, where most shareholders take a largely passive role. Private equity firms have greater leverage to change a company's development path. They can cut costs, implement turnarounds if needed, finance expansions into other markets or follow innovative product ideas, and they are well incentivized to make these initiatives a success. This allows private equity firms to maximize value, which typically manifests itself in superior EBITDA growth compared to public markets.

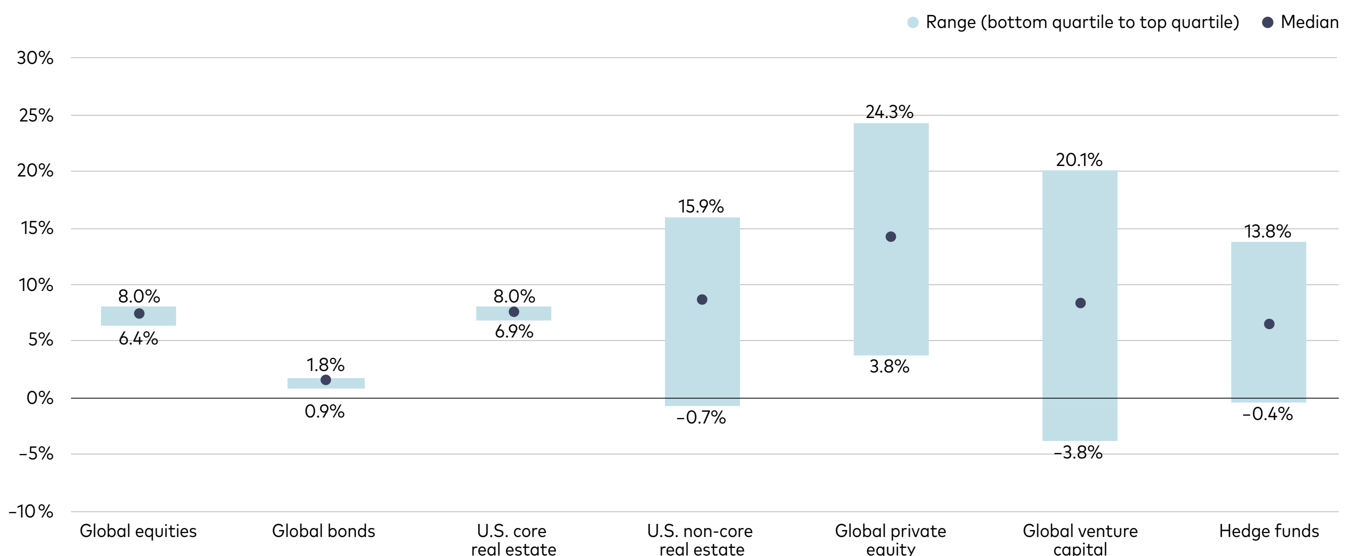
Higher alpha potential through fund selection
Finally, the opportunity set for generating alpha through fund or manager selection in alternative assets far exceeds the opportunity available for traditional investments. Figure 6 shows that the dispersion between the best- and worst-performing managers is much greater in the alternative assets space than in the case of public markets. Investors with an edge in identifying and accessing the most successful funds or managers can therefore potentially earn additional returns through selection that are several orders of magnitude higher in the case of alternative asset classes than with traditional asset classes such as stocks or bonds.

Figure 5: Private vs. public market governance model and EBITDA growth



Analysis from 31 December 2017 to 31 December 2023. Public market data are based on the Refinitiv Datastream Developed Markets Index.
Source: LGT Capital Partners, LSEG.

Figure 6: Dispersion of manager performance in public and private markets (based on returns over a 10-year window)



Manager dispersion is based on annual net returns over a 10-year period ending 4Q 2023 for hedge funds and core real estate and 3Q 2023 for global equities and bond funds. Non-core real estate, global private equity and global venture capital are represented by the 10-year horizon internal rate of return ending 3Q 2023.
Data are based on availability as of 31 December 2023.
Source: LGT Capital Partners, Morningstar, Burgiss, NCREIF, PivotalPath, J.P.Morgan Asset Management.

Alternative diversification

Besides their enhanced return potential, alternative investments can also enhance an investment portfolio's diversification. Traditional investments tend to be exposed to a small set of factor premiums. Specifically, equity and fixed income returns are driven by economic growth and interest rates. Alternative assets tend to have a low mathematical volatility and low correlation with traditional assets, meaning their performance is not closely tied to stock and bond market movements. This low correlation can help reduce overall portfolio volatility and enhance risk-adjusted returns.

The low mathematical volatility and correlations of private market assets are linked to lagged net asset value (NAV) reporting and the smoothing of valuations associated with private market assets. More cautious mark-ups during bull markets reduce the need to mark down when listed asset prices sell off, resulting in lower mathematical volatility and correlation numbers. The typical investment cycle within private equity is inherently countercyclical. GPs capitalize on market opportunities during downturns, acquiring undervalued assets at favorable terms when other capital sources dry up. Conversely, when bullish investor expectations inflate asset valuations and the corporate appetite for mergers and acquisitions increases, they benefit from a supportive exit environment and realize gains that are distributed to their investors.

Alternative income strategies such as specialty finance, insurance-linked strategies or yield-generating real assets such as infrastructure can provide attractive additional income streams that have both a low correlation to each other and to traditional income streams. Hedge funds, in turn, typically exploit market inefficiencies that occur over time and across the investment universe. Examples include trend-following, contrarian or carry strategies applied on single instruments or entire market indices. In addition, some strategies specialize in opportunities arising from corporate events such as mergers or debt restructurings. Long/short managers generate alpha that is proportional to the dispersion of returns across securities.

By incorporating these different risk factors, investors have the potential to improve the resilience of a traditional portfolio and to potentially mitigate downside risks.

Figure 7: Alternative assets add diversification (correlations by asset class)

	Bonds	Public credit	Public equities	Commodi-ties	Hedge funds	Market neutral	Managed futures/ CTA"	Insurance-linked sec.	Private real estate	Private credit	Private equity
Bonds	1.00	0.20	0.06	-0.25	-0.12	-0.18	0.08	0.28	-0.15	-0.12	-0.04
Public credit	0.20	1.00	0.84	0.53	0.79	0.24	-0.13	0.32	-0.23	0.82	0.68
Public equities	0.06	0.84	1.00	0.53	0.85	0.35	0.00	0.31	0.04	0.86	0.82
Commodities	-0.25	0.53	0.53	1.00	0.64	0.22	0.19	0.14	0.22	0.62	0.56
Hedge funds	-0.12	0.79	0.85	0.64	1.00	0.41	0.09	0.22	0.06	0.87	0.82
Market neutral	-0.18	0.24	0.35	0.22	0.41	1.00	0.10	-0.04	0.22	0.35	0.39
Managed futures/CTA	0.08	-0.13	0.00	0.19	0.09	0.10	1.00	-0.03	0.05	0.00	0.07
Insurance-linked securities	0.28	0.32	0.31	0.14	0.22	-0.04	-0.03	1.00	-0.02	0.25	0.20
Private real estate	-0.15	-0.23	0.04	0.22	0.06	0.22	0.05	-0.02	1.00	0.11	0.26
Private credit	-0.12	0.82	0.86	0.62	0.87	0.35	0.00	0.25	0.11	1.00	0.89
Private equity	-0.04	0.68	0.82	0.56	0.82	0.39	0.07	0.20	0.26	0.89	1.00

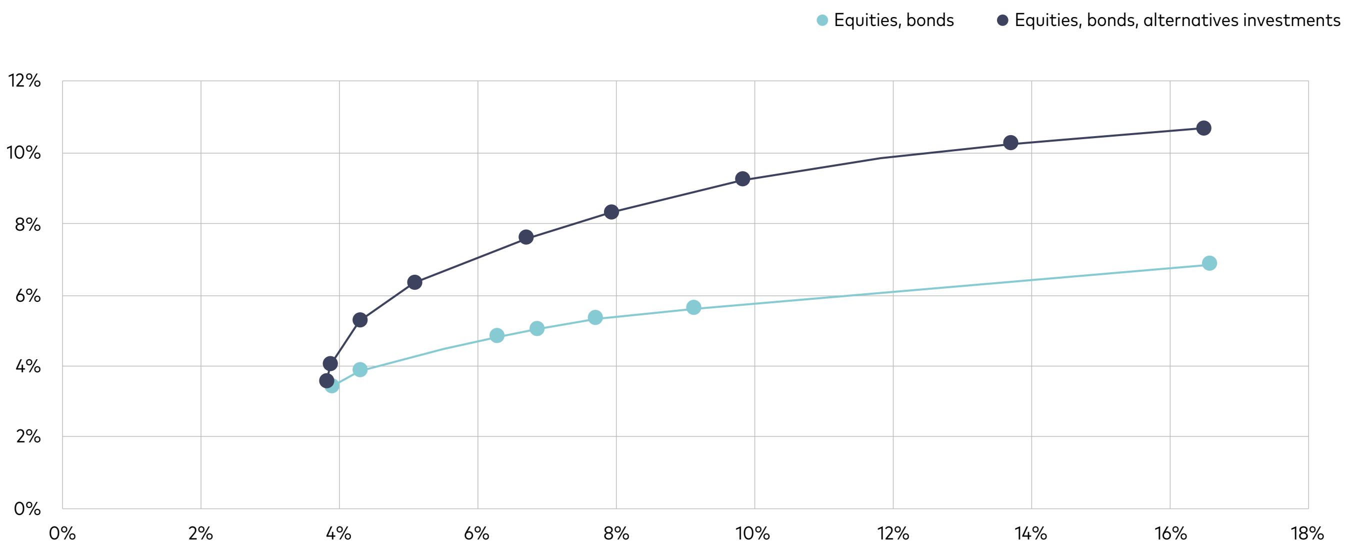
Based on quarterly returns, in USD, over 20 years (31 December 2003 to 31 December 2023). Bonds proxied by Bloomberg Global Aggregate Index (hedged), Public credit proxied by Bloomberg Global High Yield Index (hedged), Public equities proxied by MSCI World Index (NR), Commodities proxied by Bloomberg Commodity Index (TR), Hedge funds proxied by HFRX Global Hedge Fund Index, Market neutral proxied by HFRX Equity Market neutral Index, Managed futures/CTA proxied by Barclay CTA Index-linked securities proxied by Swiss Re Cat Bond Index, Private real estate proxied by Cambridge Associates Global Private Real Estate Index, Private credit proxied by Cambridge Associates Global Private Credit Index, Private equity proxied by Cambridge Associates Global Private Equity Index.
Source: LGT Capital Partners, Refinitiv, Bloomberg, Eurekahedge, Cambridge Associates.

Enhance portfolio outcomes with alternatives

All of the abovementioned advantages of alternative assets–access to unique opportunities, favorable long-term returns, diversification beyond traditional risk factors, and their inherent counter-cyclicality–are very valuable for investors and help them to improve the efficient frontier of an existing portfolio, as shown in Figure 8. While the favorable return prospects of alternative investments push the curve higher, their diversifying properties make the efficient frontier more curved. In other words, higher returns can be achieved while keeping risk constant.

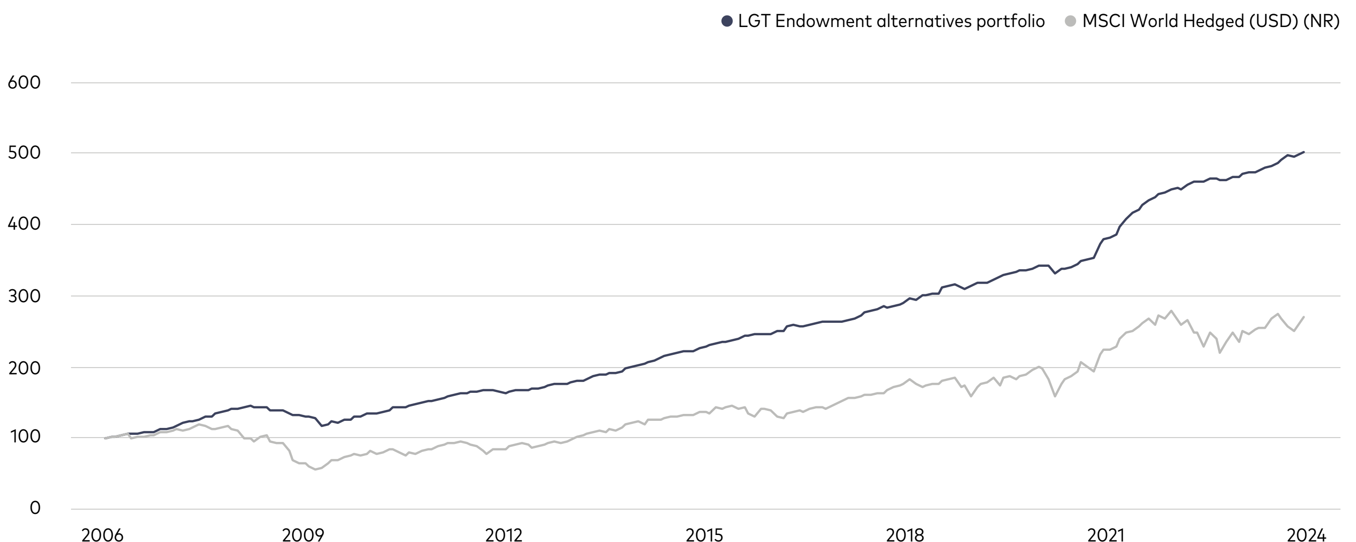
Alternative investments not only help to better diversify and enhance the risk-return profile of an existing traditional portfolio. The combination of alternative investments can be a highly attractive investment in itself. That is because the risk factors related to alternative assets are not only distinct from and less correlated with those of traditional assets, but they are also less correlated with each other. By combining alternative assets with different risk exposures, investors can achieve a highly attractive risk-return trade-off.

Figure 8: Traditional assets may not be enough
Efficient frontier forecast (2024–2029)



Efficient frontier forecast (2024 to 2029) based on the return expectations over a 5-year horizon. Returns may increase or decrease as a result of currency fluctuations. Fees and other costs will reduce the performance to the investor. Numerical modelling data is purely indicative and is not a guarantee of future results, and there can be no assurance that the portfolio will achieve comparable results.
Source: LGT Capital Partners.

Figure 9: Performance of LGT Endowment's alternatives portfolio



Data ranges from 31 December 2005 to 31 December 2023, in USD net of fees and all costs charged by the underlying funds, gross of all LGT fees. Returns may increase or decrease as a result of currency fluctuations. Past performance is not indicative of future results.
Source: LGT Capital Partners.

Ideal investments in a changing environment

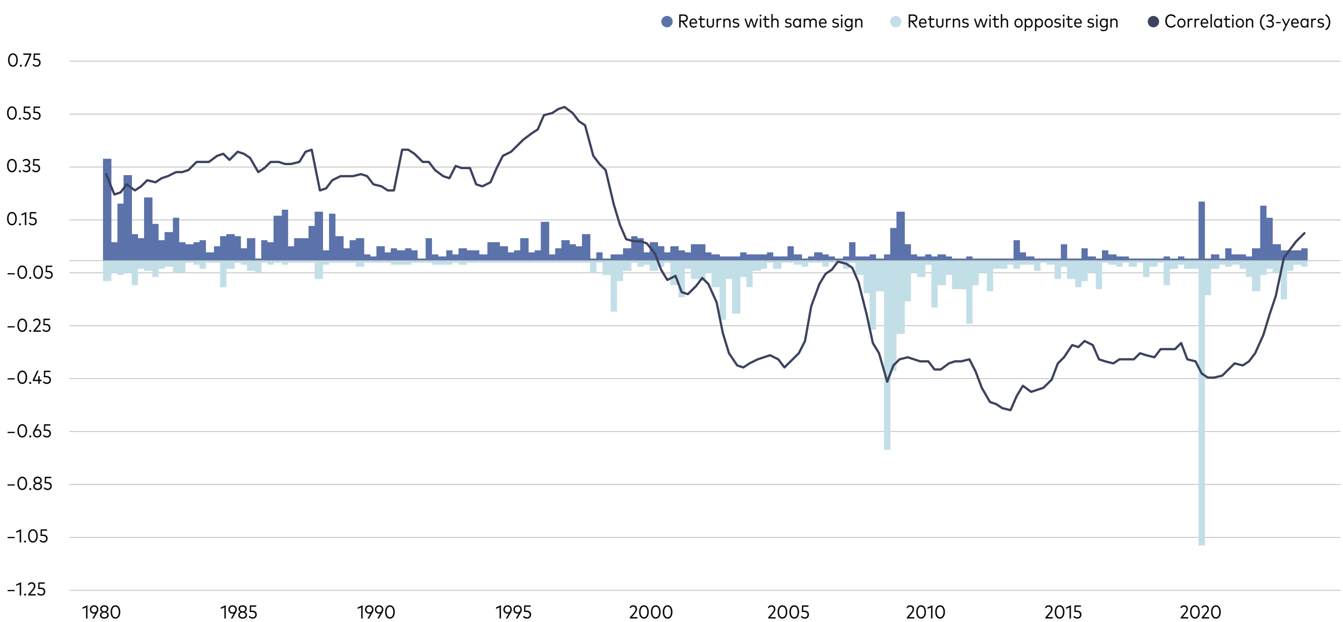
We believe that the political and macro backdrop in years to come will generally be favorable for alternative assets.

Active strategies faced significant headwinds in the decade following the Global Financial Crisis. Fundamental developments and their influence on asset prices were overshadowed and dominated by the effect of the extremely easy monetary stance that central banks upheld in their effort to navigate the various crises that followed and fight anemic growth (conditions referred to as "the new normal"). Today, however, we believe that we are transitioning to a fundamentally different environment, both for businesses and investors. In the face of geopolitical uncertainties and climate challenges, reaching for resilience has become a priority. Massive investments are needed to bolster our economies and enable new ways of fulfilling the global demand for goods and services.

Private equity has developed expertise in realizing the innovative potential of companies and will assume an ever-increasing role in the transformation of our economies. As discussed above, the asset class is, by nature, well positioned to address long-term challenges and transform them into opportunities.

We believe that private equity will further prove its ability to identify those companies that will push the frontier of our productive capabilities and grow faster than the broader market. Capital will ultimately be directed to companies that exploit and benefit from the changing environment. Naturally, this entails a higher level of volatility as not all business plans will succeed. From an investment perspective, this increases the need to balance growth exposure with market-neutral elements that can generate alpha independently of progress along the growth path. In addition to their favorable return prospects, we believe that hedge funds will play an even more important role as an alternative to traditional diversification assets–namely to bonds, which may no longer provide the diversification benefits of equity risk that they did in the past two decades. Further proof of the changing market structure is the fact that the correlation between bonds and equity returns has turned from negative to increasingly positive. This means that investors will continue to include alternatives in their balanced portfolios rather than relying on the classic 60/40 split.

Figure 10: US stock-bond correlation (correlation between S&P 500 and 10-year US Treasury returns)



Data ranges from 31 December 1979 to 31 December 2023. Bars show the sum of the daily products of S&P 500 and US Treasury returns over the preceding quarter.
Source: LGT Capital Partners, Macrobond.

240
210
180

Alternatives in brief

Private equity

The commitments of investors and fund managers in underlying companies form the foundations for a governance model that places the longer-term success and growth of companies at its center. Unlike public investments, where interaction with management is limited, private equity investors (known as GPs) engage in all aspects of value creation and have "skin in the game". Private equity can use multiple levers to create value and drive returns, including balance sheet optimization, operational improvements and adapting company strategies. In essence, private equity firms leverage their expertise and resources to drive returns and long-term success.

A key characteristic of private equity is the longer holding period and the acceptance of illiquidity in exchange for potentially higher returns, often referred to as the "illiquidity premium". This commitment allows GPs to closely align with company management and execute strategic growth plans over an extended period. Through this approach, companies can enhance their cost structures, streamline operational processes and boost productivity, ultimately generating value for investors.

Moreover, private equity offers a broader toolkit for creating positive impact than public markets. This toolkit includes supporting management in refining its strategy, implementing operational enhancements, restructuring leadership, optimizing financial operations, and pursuing mergers and acquisitions. Additionally, the flexibility to determine the timing and method of exits provides another avenue for achieving superior investment outcomes.

However, all these activities require substantial industry knowledge and management experience, which makes private equity a skill-based asset class and thus a source of alpha in the portfolio.

Private credit

Private credit has become an integral part of the buyout ecosystem, often replacing banks in providing financing solutions for deals. From an investor perspective, private credit offers an attractive, steady cash yield along with the "optionality" of incorporating a performance-linked component, often referred to as an "equity kicker".

Typically, these investments are backed by private equity sponsors, providing an equity cushion and an additional layer of safety due to their alignment of interests with portfolio companies. Private credit opportunities span various avenues, including senior direct lending, mezzanine and subordinated debt, specialty finance, distressed debt and special situations, and structured credit. Through these instruments, credit can be structured according to the needs of the borrower and can provide a financing solution in both regular and distressed market environments. Transactions in the private credit space are often complex and multilayered, presenting opportunities for professional investors to capture an additional complexity premium.

Hedge funds

Hedge funds operate in market niches where pricing inefficiencies prevail. Their defining characteristic is that they target a specific risk premium while hedging general market or factor risk. To identify profitable trades, they employ a wide range of strategies, from fundamental and discretionary approaches to automated systematic processes. Recently, advanced statistical tools such as artificial intelligence (AI) and machine learning have been added to the toolset.

Discretionary strategies rely on in-depth analysis of economic, industry and company-specific factors to drive a bottom-up investment approach. These strategies can vary from long/short equity investments to event-driven situations, such as mergers and acquisitions, or global macro events. Returns can be generated when a contrarian view on the fair value of a traded asset is eventually adopted by the broader market.

Systematic strategies target recurring mispricing patterns. Algorithms are used to monitor and process a large number of indicators, generating buy or sell signals in a reliable and unbiased way. One of the benefits of these strategies is that algorithms are not affected by any behavioral biases, such as loss aversion, which can constrain discretionary decision-making. Algorithmic strategies are often paired with efficient risk management to ensure a stable profit and loss evolution, even when more exotic markets or instruments are traded. Indeed, we have observed that the returns

of systematic strategies tend to accrue in a less complex way than those of discretionary managers; systematic returns are often of the “slow but steady” type, while discretionary patterns can exhibit more erratic “staircase-like” patterns.

Insurance-linked strategies

Insurance-linked strategies are an alternative form of reinsurance used by insurance companies and reinsurers to transfer peak event risk from their balance sheets to the capital markets and thus optimize their regulatory capital requirements.

The asset class is particularly valuable in view of its attractive and recurring income and the low correlation to both traditional asset classes, such as bonds and stocks, and to other alternative investments. It is, in fact, one of the few asset classes that delivers returns that are fundamentally uncorrelated to the business cycle and resilient to macroeconomic shocks.

Key lessons learned

We have been investing in alternative assets for 25 years. We have seized compelling opportunities but we have also had to contend with a number of challenges during this period. We would therefore like to share some of the insights we have gained and the lessons we have learned in this asset class over the last quarter of a century.

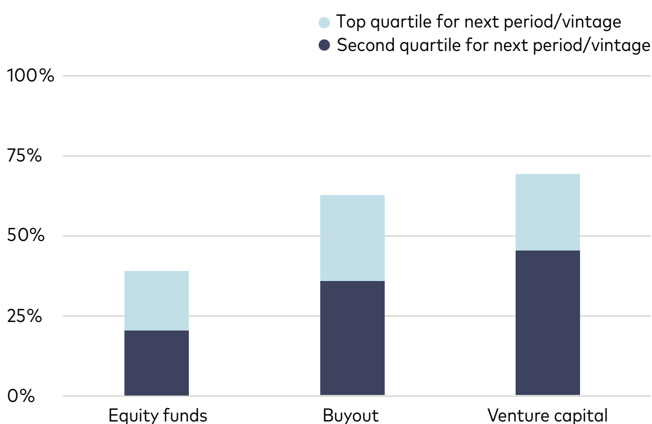
Sourcing of top-tier managers is key

High performing managers tend to repeat their success in subsequent periods and vintages. Even once investors have identified these successful managers, it is often difficult to gain access to them. It is therefore crucial for investors to build and foster long-term relationships with these top-tier managers. The investor's own reputation is of key importance in this context.

Larger performance dispersion and higher performance persistence
The investment performance of managers in alternatives differs from that in traditional public markets in two important ways. First, the dispersion of returns between successful and underperforming private equity managers is much greater, as shown in Figure 6. Second, the persistence of top-performing managers is significantly higher in alternative assets. The best-performing private equity firms tend to remain among the top performers in subsequent vintages, for example, especially among venture capital funds and in the small- and medium-sized buyout segment.[1] This is in contrast to public equities, where a fund that was in the top quartile in one five-year period is more likely to fall to the bottom quartile in the next period than to maintain its position.[2] Figure 11 places public and private equity funds alongside each other and clearly demonstrates that private equity managers are in a much better position to repeat above-average performance in the future. We see multiple reasons why private equity funds have a greater tendency to maintain their performance superiority from one vintage to the next than their public equity counterparts.

- **Skill and expertise persistence:** Successful private equity managers often possess distinct skills, expertise and industry knowledge that allow them to consistently identify and capitalize on lucrative investment opportunities. This expertise tends to persist over time, allowing them to replicate their success across different vintages. Moreover, many entrepreneurs are attracted to the managers that backed successful deals in the past.
- **Repeatable investment strategies:** Top-performing GPs often develop operational playbooks that can be replicated across various deals. These strategies are refined and optimized over time, enabling GPs to consistently generate superior value creation.

Figure 11: Persistence of top performers in public and private markets
(percentage of top quartile funds that remained top or second quartile for the next period)



For equity funds, the chart shows the percentage of US domestic equity funds that were top quartile over a five-year period and also top or second quartile over the subsequent five-year period. For buyout and venture capital funds, the chart shows the percentage of funds that were top quartile for one vintage and also top or second quartile for the GPs next vintage.
Source: LGT Capital Partners, Harrys, Jenkinson, Kaplan & Ruediger (2023), S&P Dow Jones Indices (2023).

[1] See Harrys, Robert S., Jenkinson, Tim, Kaplan, Steven N., & Stucke, Ruediger (2023). Has persistence persisted in private equity? Evidence from buyout and venture capital funds. Journal of Corporate Finance, Volume 81, August 2023.
[2] See S&P Dow Jones Indices LLC (2023), "U.S. Persistence Scorecard Year-End 2022".

- **Access to resources and talent:** The best GPs have access to a deep pool of resources, talent and industry contacts, which enables them to execute their strategies effectively and to navigate challenging markets with agility. This resource advantage contributes to their ability to sustain superior performance.
- **Adaptability and innovation:** Successful private equity firms demonstrate adaptability and innovation in response to evolving market conditions, regulatory changes and industry dynamics. They continuously refine their approach, identify emerging trends and capitalize on new opportunities.

Establish deep, long-term relationships and maintain a good reputation as an investor

The strong performance persistence of GPs magnifies the consequences of both good and bad selection. The sourcing of and access to these top-tier managers is thus key when investing in alternative assets. However, the top-tier managers tend to be highly selective themselves when deciding which investors they will work with and the allocations they will assign to their investors. They restrict access and search for reliable partners that provide a stable source of capital. Reflecting the long-term nature of the asset class, relationships in this space also take a considerable amount of time to develop, and they are often personal in nature. Investors with a good reputation as a long-term investment partner and a deep and stable team are thus best positioned to secure access to top-tier managers.

Source emerging managers and develop new relationships

In addition to maintaining relationships with existing managers, it is also important to track people and companies in order to proactively identify and add relationships with newer, emerging managers, as they too can grow into long-term, core relationships over time.

Commitment discipline

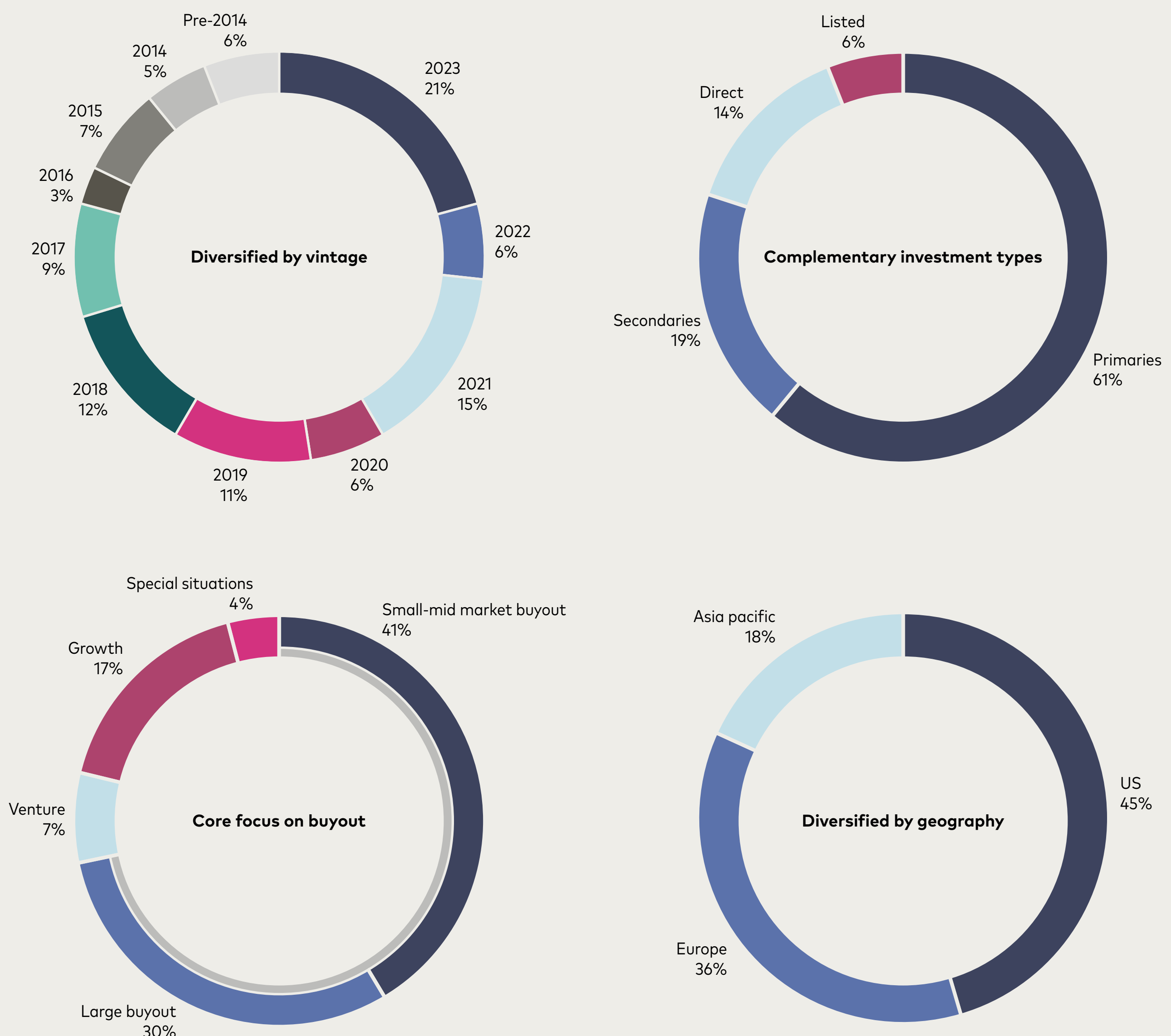
Our journey has taken us through multiple economic cycles that were punctuated by three notable events: The bursting of the Dotcom Bubble, the Global Financial Crisis and the Covid-19 pandemic. One of the key lessons we learned from these periods is that investors are rewarded by being selective but also consistent in their investment approach and by not trying to time the market. Vintages in the years following major crises have historically generated particularly high returns, and it is extremely difficult to compensate for missing out on such attractive vintages.

Achieving proper diversification is more challenging in private markets than in publicly traded stocks and bonds. Restricted access may make it hard to achieve diversification across geographies and sectors. The long investment horizons of private market instruments, their lock-ups and limited exit options make it difficult to reallocate capital and adjust portfolio allocations swiftly–even if the growing importance of secondary markets has provided some relief for investors in recent years.

LGT Endowment's private equity portfolio

Building and maintaining a well-diversified private markets portfolio requires a disciplined investment approach. For the LGT Endowment, we have built a growing, balanced evergreen portfolio of high-quality private equity investments that is diversified across vintages, sub-strategies, geographies and sponsors. The chart provides an insight into this established portfolio, which has shown great resilience in challenging market conditions. It even delivered a positive return in the difficult stock market year of 2022, contributing significantly to the resilience of the LGT Endowment.

Figure 12: Exposures across the LGT Endowment private equity portfolio



Source: LGT Capital Partners

Market-neutral implementation of hedge funds

Hedge funds seek to generate positive risk-adjusted returns regardless of market conditions. They employ a variety of sophisticated strategies and variable exposures to a wide range of financial instruments and are thus well positioned to generate diversifying return streams, making them particularly valuable to allocators. In reality, however, many hedge funds run significant market betas, undermining the benefits of diversification and adding unnecessary costs. When hedge funds run market betas, they tend to get paid for investing in traditional market risks that investors can access at substantially lower fees. One of the key lessons we have learned is to focus on a market-neutral implementation of hedge funds by reducing their beta to traditional markets as much as possible, thus focusing primarily on alpha generation. In this way, investors can make the most of the distinct characteristics of hedge funds and ensure that they only pay performance fees on excess performance or alpha.

Once the dominant market risk factor is hedged, a large number of alternative sources of returns emerge, most of which are uncorrelated. A successful approach is then to combine complementary sources of return within a single portfolio, allowing for the compounding of these returns while keeping risk low. For example, our approach is to construct a portfolio that allocates to skill (i.e. alpha) in a focused way, while also capturing important trends on the systematic side (e.g. the use of machine learning for advanced pattern recognition). By combining these two groups with roughly equal weightings, we can significantly improve the portfolio efficiency (Sharpe ratio) of our hedge fund allocation.

Preference for managed accounts

Hedge funds have had an eventful history, with several funds having collapsed due to poor risk management, excessive leverage or fraud. Investors in this space must therefore adhere to rigorous institutional processes and strict risk management. Ensuring an appropriate level of transparency and operational control are important levers in this context.

Against this backdrop, we prefer to use managed accounts when implementing hedge fund strategies. This approach offers a number of important advantages. It gives us the flexibility to customize strategies, for example, and to thus achieve market-neutral exposures. We own the managed accounts and therefore have full operational control over the corresponding assets. This is accompanied by full position-level transparency on a daily basis, providing a thorough understanding of the manager's trading strategies and investment style. We can thus gain a direct insight into the portfolio's holdings and steer our account in a more direct and constructive way. In addition, managed accounts shield investors from potential liquidity mismatches and co-investor risk. The likelihood of negative surprises is significantly reduced, and potential misconduct by a manager can be spotted immediately. Furthermore, there is no cross-liability between accounts. Assets in each managed account are ringfenced and in the event of a capital call, assets in one account would not be affected by another. We see this as a valuable tool when constructing our hedge fund exposure, and it allows us to have clarity across the strategy and accounts thanks to a substantial capital base, which can, in itself, be a source of alpha.

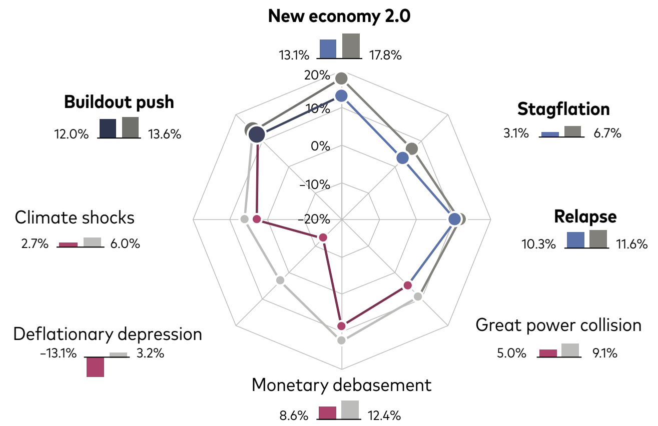
Portfolio construction

Our key lesson in portfolio construction is to take a truly long-term stance when deriving expectations for asset classes and their weightings in the portfolio. The main objective is to avoid being a forced seller of assets in adverse market conditions. In a downturn, the liquid components of the portfolio adjust quickly according to their market beta, while private market assets remain relatively immune as they are not continuously traded but reflect the managers' discretionary valuation of the underlying portfolio companies. This results in the well-known denominator effect, which means that the portfolio's asset allocation is distorted to the point where asset sales may become necessary. This occurs because liquidity needs to be generated to meet capital calls or other liabilities arising from outstanding derivative exposures or cash needs. Successful portfolio construction anticipates these circumstances and designs an allocation that maintains portfolio flexibility at all times.

Our robust allocation approach creates portfolios that can withstand the challenges that arise during the credit and market cycle and allows us to make long-term allocation and commitment decisions. The guiding principle for the strategic allocation of the endowment is robustness, i.e. the insensitivity of the portfolio to prevailing market conditions. The starting point is to assess the return potential of asset classes across different macroeconomic scenarios, with each asset class having its own characteristic footprint. Alternatives play an important role here, as their performance often decouples from the performance pattern of public equities, for example. Allowing for allocations to alternative assets can thus widen the range of expected returns that can be achieved under different scenarios (see Figure 13), especially in cases where a simple equity-bond portfolio is expected to perform badly.

The maximum achievable portfolio return per scenario is then calculated, assuming perfect foresight regarding the scenario that will materialize. The optimal allocations per scenario span a space of achievable returns (see grey area in Figure 13). We then design the strategic allocation (colored area in Figure 13) to fill this space and maximize the overlap with the perfect foresight solution. In this way, we obtain an allocation that we can maintain even as economic and market conditions change from one scenario to another.

Figure 13: Robust portfolio construction approach



Data as of 31 December 2023. The risk/return figures shown above are LGT expectations. The calculation is based on a time horizon of approximately 5 years (2024 – 2029). Returns may increase or decrease as a result of currency fluctuations. Fees and other costs will reduce the performance to the investor. This data is purely illustrative and is not a guarantee of future results. In no circumstances should the projected returns be regarded as a representation, warranty or prediction that the specific investment will reflect any particular performance or that it will achieve or is likely to achieve any particular result or that investors will be able to avoid losses. Inherent in any investment is the potential for loss.
Source: LGT Capital Partners

Illiquidity management

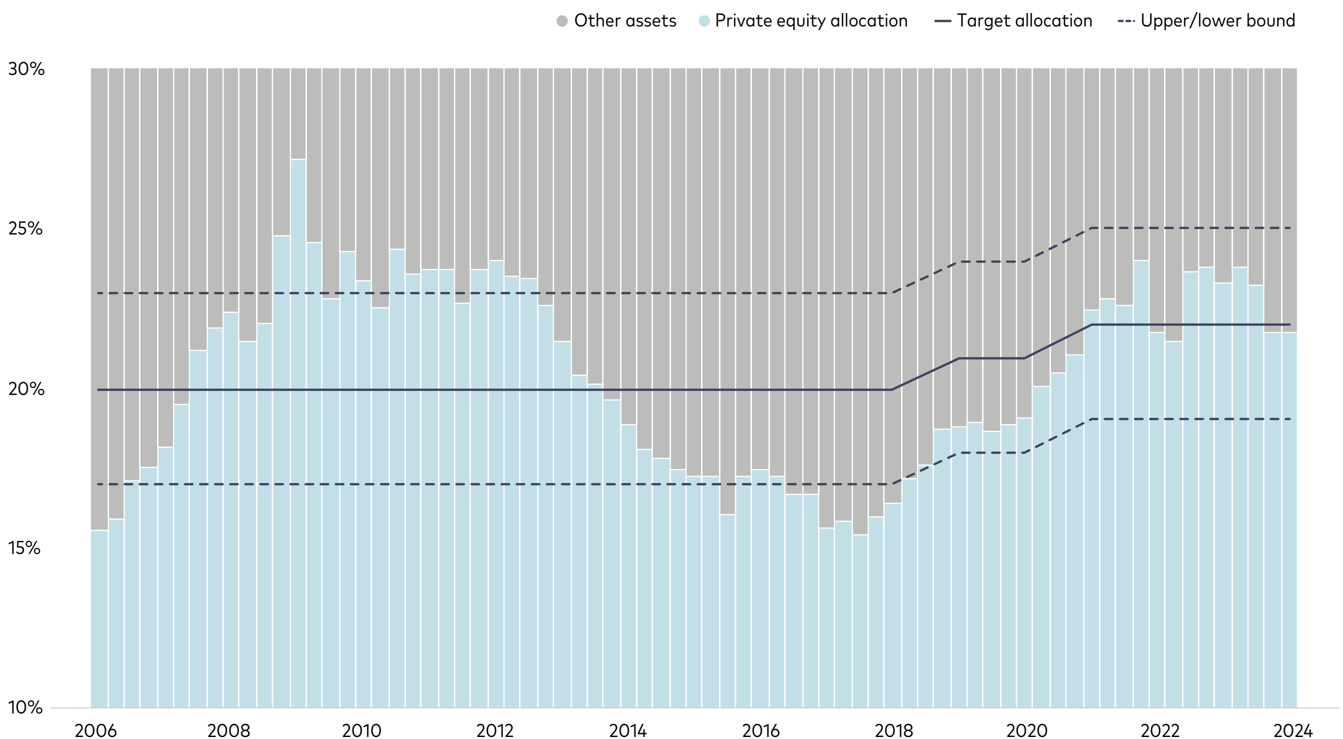
The aim of illiquidity management is to reconcile the different investment horizons of illiquid and liquid investments. Closed-ended structures have a characteristic way of calling capital over time and returning that capital, as well as investment gains, to the investor four to five years later. A basic rule is to spread fund exposures evenly across vintage years so that distributions received from previous vintages can be used to fund capital calls of current vintages. This results in a portfolio that minimizes the need for external cash injections.

Second, investors should think of the target allocation for private assets as a range rather than a fixed point, allowing it to absorb the volatility of the liquid component of the portfolio. The denominator effect should not trigger hasty rebalancing actions, but the allocation should be allowed to fluctuate within a reasonable range and to self-stabilize. Volatile market conditions provide opportunities for underlying managers, so staying the course should be the default for a long-term investor.

Third, it is advisable to include liquid instruments that are designed to match the underlying factor risk of illiquid investments. In the context of private equity, for example, there are listed counterparts consisting of asset managers or companies that invest in private equity. Another example would be real estate investment trusts that trade on public markets but have underlying exposure to physical assets similar to private markets. Including liquid counterparts as part of the private market allocation ensures greater flexibility when managing the exposure. For example, it can be used as a bridge investment in the early stages of a fund commitment when the effective NAV is still low. As additional capital is called, the liquid investments are gradually reduced. In addition, they provide the means to invest opportunistically after market sell-offs and provide access to a potentially complementary universe of underlying investments. Finally, the composition of the private market exposure can be tilted towards shorter duration assets such as secondaries if required. Secondaries tend to be more mature portfolios and close to breakeven on the J-curve.

Beyond these structural decisions, it is equally important to monitor illiquid exposures in terms of both outstanding uncalled commitments and NAV. A refined variant of this monitoring captures these quantities for each vintage year. Overall, the aim is to keep the private equity allocation close to the target quota while minimizing the need to interfere with the cash balance.

Figure 14: LGT Endowment's allocation to private equity over time



Source: LGT Capital Partners

Capitalizing on a long-term investment horizon

Difficult market phases and crises require a prudent response but they often also offer attractive investment opportunities, especially for long-term investors who, by nature, are able to tolerate intermittent market volatility and temporary price losses. We have therefore developed a framework that aims to capitalize on the advantage of having a long-term investment horizon by opportunistically purchasing risk assets at discounted prices–if and when short-term market dislocations occur.

In the aftermath of the Great Financial Crisis, we took a close look at how our investments and our investment processes performed during these turbulent times. While both we and the LGT Endowment weathered this difficult period well, in retrospect, we missed some attractive opportunities to act counter-cyclically and acquire fundamentally sound assets at very favorable valuations. As with most investors, risk management and stakeholder communication consumed a lot of resources at the time, and like everyone, we are susceptible to cognitive biases and behavioral traps. To address these issues, we have developed a framework to help us overcome such cognitive biases and raise awareness of the opportunities that arise during periods of widespread market panic. Our rule-based framework is grounded in simple, transparent and mostly valuation-based indicators. It reduces complexity in turbulent times and thus provides additional support for the Investment Committee. In quiet periods, we calmly and carefully set out the conditions for a range of equity- and credit-related asset classes where we would consider strategic additions to the portfolio to be opportune in the event of future market corrections. These conditions are defined conservatively with the aim of unlocking significant performance over the medium term. They rely on simple, transparent and mostly valuation-based indicators. This approach reduces complexity in turbulent times and provides support for the investment team. While the framework is rule-based, investments are subject to the veto of our experienced Investment Committee, ensuring a balanced consideration of opportunities and risks. The purchased assets are divested as soon as market conditions – and therefore also asset valuations – have normalized, with an expected holding period of 6 to 24 months.

Regular monitoring of designated opportunities has, in fact, already resulted in a number of successful contrarian investments, all of which yielded double-digit profits within less than a year. By leveraging our long-term perspective and disciplined approach, we will continue to capitalize on opportunities in today's dynamic market environment.

Managing the endowment portfolio through the Great Financial Crisis

During the Great Financial Crisis, public equities lost approximately 50% of their market value, with some riskier asset classes, including high yield, falling by as much as 80% compared to their pre-crisis marks. This resulted in a sharp increase in the private equity quota as private valuations remained relatively stable (reaching -25% with a delay). At the peak of the crisis, the private equity weight increased to 133% of its target allocation. An important decision we took was to not rebalance the portfolio by selling assets on the secondary market but to manage the private equity quota with a large bandwidth around its strategic target allocation. This required us to take a longer-term perspective and to look through the crisis to fairly assess both the opportunities and risks resulting from it. Another important step for us was to simplify the portfolio structure by pooling private market assets across the sub-portfolios, thus allowing for more flexibility in managing cash needs. The quota took around four years to return to its strategic target of 20%, while both private and public markets experienced a strong rebound.

Introducing evergreen structures

Investors traditionally allocate funds to private assets using limited partnership vehicles with a drawdown structure and a fixed lifespan of around ten years. While these vehicles offer opportunities for private equity managers (GPs) to maximize value for investors (i.e. limited partners) by calling committed capital to seize investment opportunities as they arise, drawdown structures also introduce challenges in portfolio construction. Crafting a diversified private market portfolio with these so-called primaries funds demands patience and discipline. The unpredictable nature of capital calls and distributions can make it difficult to achieve and sustain a desired target weight within a broader portfolio, and it complicates cash management. The evolution of a secondary market in recent years has increased the toolset for investors in this space, providing them with both a way to deploy capital more quickly and thus mitigate the "J-curve" effect and an alternative liquidity route.

Evergreen funds offer an alternative and more flexible way for investors to gain exposure to private markets. These are open-ended investment vehicles with no fixed end date that allow investors to regularly subscribe to and redeem units. Evergreen funds thus provide a more liquid structure compared to traditional closed-ended funds and offer investors immediate and continuous exposure to a mature and diversified portfolio of private assets and alternative investment strategies more broadly. Investing via evergreen structures helps to mitigate the J-curve effect as well as the blind pool risk given better visibility of the underlying investments.

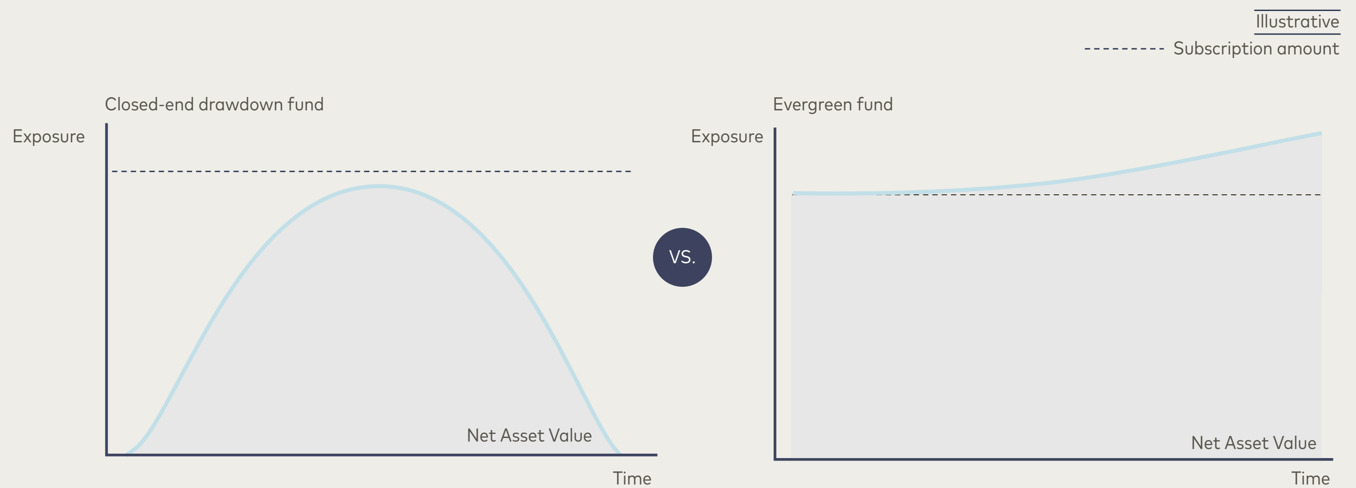
Ultimately, investing in private markets demands a long-term perspective, regardless of the fund structure. Evergreen funds can offer more flexibility but they should not be considered as short-term investments.

Figure 15: Characteristics of evergreen and traditional private market funds

Feature	Traditional private market fund	Evergreen fund
Structure	Closed-ended	Open-ended
Access	Investor commits capital during the fundraising period	Investor subscribes over time, usually monthly or quarterly
Fund life	10 – 15 years	Perpetual fund
Capital deployment	Capital drawn over 3 – 5 years	100% invested upon subscription
J-curve	Net returns can initially be negative during investment build-up	No J-curve, as investor accesses an already built-up portfolio
Liquidity	Distributions paid to investor once investments are exited, at manager's discretion	Tradeable, limited liquidity: Investors have discretion to issue redemption requests over time
Fund gates	n.a.	Limits placed on the magnitude of outflows permitted from the fund
Distribution policy	Typically paid back to clients after end of investment period	Distributions usually automatically reinvested in new investments

Source: LGT Capital Partners

Figure 16: Cash flow profiles
Traditional private market funds vs. evergreen funds



Source: LGT Capital Partners. For illustrative purposes only. Not indicative of future investment performance. Data as of February 2024.

LGT Capital Partners–leading the way in alternative investing

Institutional clients choose LGT Capital Partners because they value our experience and expertise in alternative investments–and our distinct positioning as both a privately owned global multi-alternatives firm and a principal investor. We have been managing the LGT Endowment for our owner, the Princely Family of Liechtenstein, for 25 years. The proven philosophy behind the LGT Endowment strategy is central to the way we manage assets across the firm.

We are a principal investor

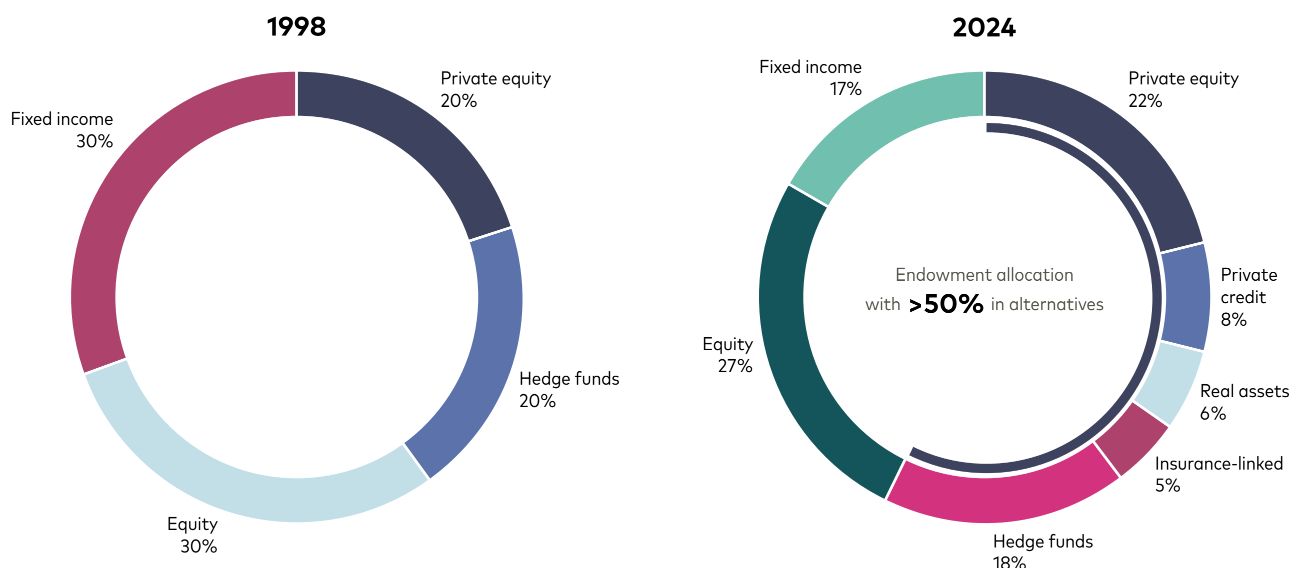
Our firm dates back to 1998, when the Princely Family of Liechtenstein established LGT Capital Partners with a clear objective: to deliver equity-like returns and capture significant market upside, while being cushioned on the downside, similar to the approach taken by university endowment funds in the US. Based on this fundamental idea, we developed a long-term investment strategy that is unconstrained in its investment universe and that encompasses a wide range of attractive global opportunities, including a broad range of alternative investments. This portfolio, which is one of the largest European endowment funds, fully reflects our DNA as an investor.

At its core, the LGT Endowment is a combination of diversifying liquid alternatives, long-term private market commitments and carefully selected listed investments–all with a strong bias towards sustainable quality and a focus on generating risk-adjusted real returns. However, our principal investor focus goes well beyond asset diversification and delivers several important benefits for our clients.

As a principal investor, we pursue a prudent investment approach and seek superior long-term risk-adjusted returns rather than short-term performance. This applies to all investments that we make across the whole spectrum of alternatives that we offer. When selecting managers, we aim to gain a clear understanding of their approach and their motivations. We never compromise on integrity and do not invest in something we do not fully understand.

We want to be an early mover when investing, but we employ a thoughtful approach to identifying, assessing and participating in new, complementary and diversifying sources of returns. This includes taking a prudent approach to risk.

Figure 17: LGT Endowment portfolio
Strategic allocation then and now



Source: LGT Capital Partners. Data as of 31 December 2023

The LGT Endowment has, from the very beginning, invested a significant proportion of its assets in alternative asset classes and has broadened and refined its allocation over time. Today, the LGT Endowment invests over 50% of its allocation in alternatives and over 40% of the total assets in drawdown structures. Clients can benefit from our valuable experience in investing in alternative asset classes, and also in managing portfolios that combine traditional investments with a sizeable allocation to alternatives.

True alignment of interests
As a principal investor, we invest in our own strategies alongside our clients. In fact, the Princely Family and LGT employees have co-invested around USD 4 billion in our funds, demonstrating the close alignment of our interests with those of our clients. We ask the same of our external managers and expect them to show their own commitment to funds they manage for us. In addition, we test emerging asset classes or strategies with our own capital before offering new investment themes or solutions to clients.

We offer access to a large global network of top-tier managers

When investing in alternative assets, having access to top-notch managers is key (see section 2). However, gaining access to these sought-after managers is increasingly difficult. Many top private equity funds and hedge funds are capacity constrained, and investors need to leverage their relationship and reputation to gain access to newly raised funds.

As an experienced principal investor, we are well positioned to offer clients access to our global network of high-quality managers across a range of alternative asset classes, and in hard-to-reach segments and regions.

Cultivating strong relationships and a good reputation
We have built strong networks with established firms and have also cautiously made early investments in younger start-ups and spin-offs. We have thus cultivated strong relationships with a network of top-performing managers who have consistently demonstrated their ability to deliver attractive risk-adjusted returns. We dedicate significant resources to identifying new and talented managers by leveraging our industry network, expertise and references rather than through the quantitative screening of data showing past performance. Our rigorous due diligence process ensures that we identify managers with an excellent track record who are aligned with our investment philosophy.

One of the keys to achieving superior private market performance and to securing access to the best managers is to maintain a relatively stable pace of commitments over time. Few investors have the capacity to do so. As an important primary investor with an asset base of over USD 100 billion and with annual private market commitments of USD 7-8 billion, we are a valuable partner to many managers and financial sponsors. This has helped us to gain access to and maintain a good relationship with many of the leading mangers of alternatives.

Proactively sourcing emerging managers
We like to support small and emerging managers at an early stage and to grow with them over time. Our global network has allowed us to continuously identify and access promising, high-potential emerging managers. Many managers that we supported in the beginning have become some of the top-performing managers globally over time. Thanks to our early mover strategy, we have been able to build a distinct set of relationships and now enjoy privileged access to some of the most sought-after and difficult-to-access managers and strategies–including those operating in opaque markets where different languages, business practices and regulatory frameworks prevail.

We benefit from our experienced diverse global team and local presence
One of our key strengths is the diversity and breadth of experience of our large international team of professionals from over 50 nationalities who collectively speak more than 40 languages. This places us at a significant competitive advantage when sourcing and evaluating investments in markets where local knowledge is essential.

ESG integration in private markets strategies

ESG integration is a fundamental part of our due diligence process when investing in private markets. We have developed an ESG integration methodology that is aligned with the UN's six Principles for Responsible Investment (PRI) and actively considers various ESG topics across all our investment strategies. Any opportunity that is recommended to our Investment Committee for approval will first have been examined through an ESG lens. These assessments form an important component of the discussions held by the Investment Committee when determining whether to invest.

Primaries

We take a holistic approach to ESG integration and focus on selecting the best managers that share our commitment to high standards on ESG issues. Our due diligence process evaluates a manager's overall commitment to ESG and the sophistication of their approach. We examine whether the manager has institutionalized ESG processes in place that follow the stages of a private equity investment from due diligence to implementation, monitoring and reporting. If there is potential for improvement, we assess whether the manager is willing to achieve progress in certain areas.

Secondaries

Secondary transactions are examined by evaluating the ESG quality and practices of the managers, funds and assets involved. In addition, we perform a controversy check for the portfolio companies with the support of RepRisk, a third-party ESG data provider, and we take account of the materiality and number of any issues detected.

Directs

When we invest directly in individual private companies, the due diligence analysis and investment decision include a detailed company ESG assessment. This ESG analysis covers general business aspects, supply chain considerations, location and the impacts of the company's products and services. In addition, ESG governance and the identification of material ESG risks are examined. We also investigate how any ESG concerns are being addressed as well as the presence of any physical and transition risks. The company assessment is complemented by an ESG rating on the lead investor, a calculation of carbon emissions and a controversy check. This combination of measures provides a comprehensive overview of a company's ESG profile.

ESG reporting

We provide investors with ESG insights as part of our quarterly reports and through our annual ESG report, which was first published in 2013. Our quarterly reports show the breakdown of ESG ratings within a portfolio, helping investors to understand the quality of ESG practices in their portfolios. The dedicated annual ESG report gives investors a wider overview of ESG trends and best practices in our portfolios. In addition, we adhere to regulatory reporting requirements such as SFDR.

Please see our ESG Report 2023 for further details.

ESG assessment of managers

We conduct an annual assessment of managers as part of the firm's wider ESG due diligence, monitoring and manager engagement process. The assessment has two main objectives: First, it shows our investors the extent to which managers consider ESG factors in their investment, ownership and reporting practices. Second, the assessment facilitates our engagement with managers on ESG, highlighting excellence in implementation and flagging areas for improvement.

In the assessment, we ask managers about four key areas of ESG practice:

- Manager commitment: the extent to which they have demonstrated their commitment to ESG through actions such as defining a policy, committing to an industry initiative like the PRI and engaging with their portfolio companies;
- Investment process: the extent to which they have formally integrated ESG into their investment process, using it as a framework for evaluating investments and identifying areas for improvement;
- Ownership – the extent to which they have exhibited active ownership through activities like defining ESG guidelines, establishing key performance indicators (KPIs) or assigning ESG responsibilities for portfolio companies;
- Reporting – the extent to which they have provided regular and relevant reporting on ESG on a portfolio company level and on the aggregate fund level.

Based on our findings, we assign the managers a score of 1 to 4 (where 1 = excellent and 4 = poor) for each individual area, resulting in an overall rating for each manager, which is recorded in our monitoring system. Managers who receive low scores (3 or 4) on specific indicators are encouraged to improve over time.

Rating	Description
1	Manager is genuinely committed to ESG, with institutional processes in place. Applies ESG criteria in investment decision-making, is an active owner and reports on ESG
2	Manager has taken steps to integrate ESG in firm approach and investment process. Process is institutionalized, but manager may not follow through on all levels (e.g. engagement and reporting)
3	Manager demonstrates some commitments to ESG or has begun some initiatives, but lacks institutionalized processes
4	Manager demonstrates little or no commitment to ESG

Source: LGT Capital Partners

We leverage our position as established partner

With our global multi-asset platform and our long experience and broad capabilities across all major alternatives strategies, we can leverage our position for the benefit of our clients. Our expertise and extensive network in the area of primary investing can, for example, be used to enhance our secondary and co-investment activities. These strategies require established relationships and processes, as well as in-depth knowledge of the underlying investments to successfully participate in bidding processes. Our existing investment relationships also serve as an important source of deal flow, as we often receive referrals from managers, positioning LGT Capital Partners as a preferred partner in competitive situations. Additionally, our understanding of an asset is usually more comprehensive than that of an external investor, enabling us to value it more accurately and act swiftly. By focusing on situations with financial sponsors with whom LGT Capital Partners has strong existing relationships, we can gain a competitive advantage in sourcing and executing secondary and co-investment transactions.

Capitalizing on proprietary insights
We have built a unique proprietary database that allows us to leverage our position as an established partner across alternatives. LGT Capital Partners has invested in over 25,000 portfolio companies for our owner and clients, providing us with valuable insights into and information about these companies and their development over time. This proprietary data guides our proactive sourcing and due diligence efforts and informs our investment decisions. As we regularly assess further companies for secondary and co-investment opportunities, our database remains a critical asset that is difficult for others to replicate.

We provide tailored solutions

As a principal investor, we not only think and act in our own interests, but we are also committed to sharing our relationships and experience with other investors. Over the past 25 years, we have developed and grown an institutional solutions business with USD 100 billion of assets under management. We partner with more than 700 institutional clients globally, providing access to high-quality managers across a broad range of private markets and diversifying strategies, including in segments and geographies that are difficult to access.

Co-mingled funds and separately managed accounts
We manage a series of co-mingled funds and separately managed accounts for clients that focus on a range of geographies and investment styles, covering all the major alternative strategies, including private equity (primaries, secondaries, co-investments), venture capital and growth equity, impact, private debt, credit, real estate, infrastructure, hedge funds, insurance-linked strategies and emerging market fixed income. We can also provide customized solutions, leveraging the expertise and relationships we have built over more than two decades.

Multi-asset/multi-alternatives solutions
As a specialist in multi-alternatives, we are committed to offering clients tailored solutions to complement their investment portfolios with return-enhancing and diversifying alternatives strategies. Our clients benefit from our experience in blending asset classes to achieve diversification across return drivers and risk factors. We also assist our clients in managing the complexity associated with investments in multi-alternatives, including portfolio structuring, commitment pacing and reporting. In doing so, we have refined our approach to partnership, enabling clients to choose their level of portfolio discretion and allowing the relationship to evolve with their changing needs.

	Co-mingled funds	Separately managed accounts	Multi-alternatives mandates	Evergreen multi-alternatives strategy
Access to our network of top-tier managers	✓	✓	✓	✓
Commitment pacing and cash flow management		✓	✓	✓
Portfolio construction			✓	✓
Immediate exposure and improved liquidity conditions				✓
Alignment of interests	✓	✓	✓	✓

Source: LGT Capital Partners

Our one-stop solution
Our multi-alternatives strategy is a one-stop solution for investors seeking to invest in a diversified alternatives portfolio. Combining active, top-down asset allocation with dynamic portfolio management, we capture attractive market opportunities–resulting in robust, diversified portfolios with improved liquidity compared to traditional private market investments. The portfolio is spread across three core areas:

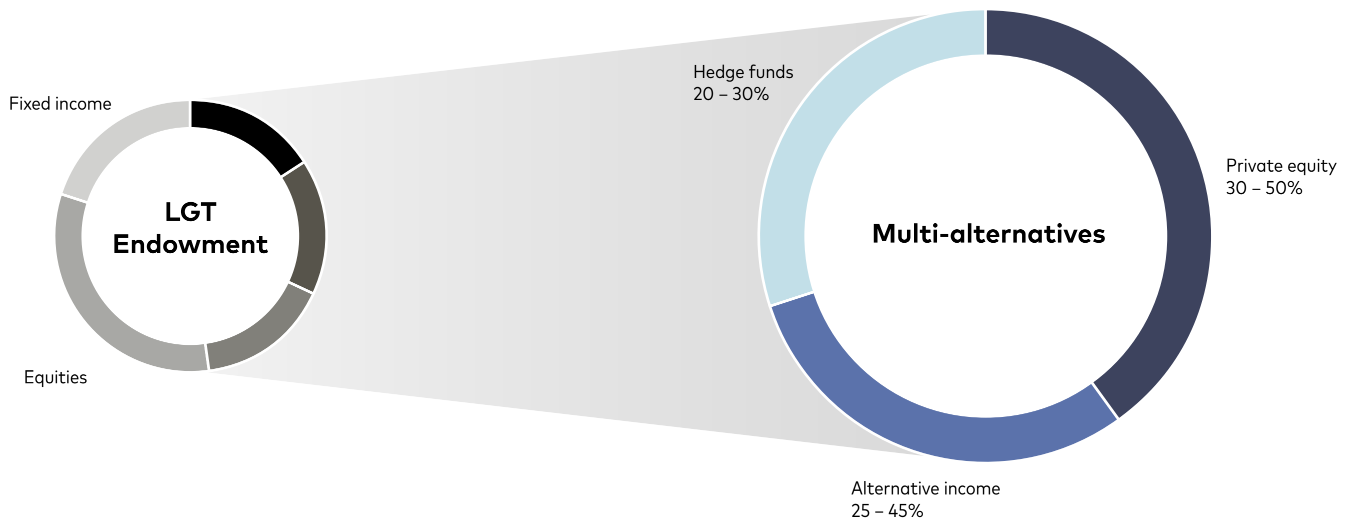
- Private equity–Primaries, secondaries and co-investments
- Alternative income–Infrastructure, private credit, real estate and insurance-linked strategies
- Hedge funds–Defensive, discretionary and systematic hedge fund strategies

The strategy's allocation is robust and adapts to changing market environments. We aim to strike a balance between return-enhancing and diversifying strategies to help portfolios grow in favorable market environments and to mitigate downside risks in periods of market stress.

Clients co-invest in the same underlying and alternative portfolios as the LGT Endowment. As such, they benefit from exposure to an established and vintage-diversified portfolio of private assets that are closer to maturity and exit. This allows for immediate exposure, immediate NAV build-up and full avoidance of the J-curve effect. Specifically, the portfolio structure offers investors:

- Access to alternative assets–Our portfolios provide immediate exposure to a diversified portfolio of fully-invested private market assets and a variety of liquid alternatives strategies.
- Downside mitigation–The portfolios' return drivers are not linked to equity or bond markets and they aim to provide downside mitigation during periods of market turmoil.
- Favorable liquidity terms–Our investors benefit from better liquidity conditions than with traditional private market investments.
- High-quality manager selection–We combine externally and internally managed strategies with the aim of identifying return- and diversification-optimized sources in a cost-effective way.
- Alignment of interests–Strong alignment of interest stems from our co-investment alongside the LGT Endowment and LGT employees, who invest in the same underlying portfolios.

Figure 19: Multi-alternatives



Source: LGT Capital Partners

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The LGT Endowment follows the same investment approach that is used for the Princely Family of Liechtenstein. LGT Endowment is not available for investment by US investors.

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Risk Factors
Potential investors should carefully consider the strategy's risks. The risks include, without limitation:

- **Alternative investments are speculative, involve complex instruments, and carry a high degree of risk.** Such investments generally involve additional risks including higher levels of borrowing, limited transferability of investments, reduced investor protection, and less information to investors than would apply in major securities markets. An investment should only be made by those persons who could sustain a loss on their investment and is only suitable for professional investors.
- Investments can be subject to illiquidity, meaning there may be no buyer or seller available when the investor desires to invest or divest.
- The value of investments may be affected by uncertainties such as political developments, changes in government policies, changes in taxation, restrictions on foreign investments and currency repatriation, unfavorable exchange rate movements, and other developments in the laws and regulations of countries in which investments are made. This product may include investments in emerging markets. Emerging markets investments present heightened political risks, economic risks, credit risks, exchange rate risks, market liquidity risks, legal risks, settlement risks, market risks, shareholder risk, and creditor risk.
- Additional risks include: (i) substantial or total loss on the investment due to extensive use of short sales, derivatives and debt capital, (ii) incentives to make investments that are riskier or more speculative due to performance based compensation, (iii) volatility of returns, (iv) potential lack of diversification and resulting higher risk due to concentration, (v) high fees and expenses that may offset profits, (vi) no requirement to provide periodic pricing or valuation information to investors, (vii) complex tax structures and delays in distributing important tax information, (viii) fewer regulatory requirements than registered funds, (ix) credit risks i.e. the failure of counterparties to meet contractual financial obligations and (x) operational risk due to insufficient internal processes or systems, misbehavior of staff or external circumstances.
- With regard to private markets investments specifically, investors are required to contribute capital as and when requested, any default may trigger substantial penalties, and prior distributions to investors can be recalled, and investors may be bound to lock-up periods in excess of 15 years.

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