

Liquid Alternatives at a Glance

LIQUID ALTS
alternative investment strategies

What are liquid alternatives?

Liquid alternatives are essentially hedge fund strategies made available within a mutual fund wrapper. Their introduction into the Canadian marketplace represents the democratization of sophisticated investment strategies that are generally geared towards diversifying portfolios and providing investors with uncorrelated returns relative to traditional stock and bond markets. In other words, hedge fund strategies are now no longer restricted to the wealthiest individuals able to meet sizable minimum investment thresholds. Instead, Canadians can now access similar strategies at CI just by meeting our standard mutual fund minimum investment of \$500.

What makes liquid alternatives unique?

Liquid alternatives occupy the middle ground between traditional mutual funds and hedge funds, bringing together the best characteristics of both investment types to form a unique and compelling hybrid fund structure. We outline below the various differences when it comes to investment parameters and the characteristics associated with each type of solution.

INVESTMENT PARAMETER	MUTUAL FUNDS	LIQUID ALTERNATIVES	HEDGE FUNDS
Leverage	Prohibited	Up to 300% of NAV*	
Borrowing	5% max., limited purposes	50% max. of NAV subject to restrictions	
Short-selling	Up to 20%, 5% single issuer limit, 150% cash cover	Up to 50% of NAV, 10% single issuer limit**	No restrictions imposed by Canadian securities law
Concentration	Up to 10%	Up to 20% of NAV	
Illiquid investments	Up to 10% at a time, hard limit of 15%	Up to 10% at a time, hard limit of 15%	
Restrictions	Real property, non-guaranteed mortgages, loan syndications	Real property, non-guaranteed mortgages, loan syndications	
CHARACTERISTICS	MUTUAL FUNDS	LIQUID ALTERNATIVES	HEDGE FUNDS
Diversification relative to traditional portfolio	None	Moderate/high	Moderate/high
Daily liquidity	Yes	Yes	No
Transparency	High	High	Moderate
Accessibility	Broad	Broad	Accredited investors
Long/short flexibility	Limited	Yes	Yes
Ability to capture illiquidity premium	Low	Low	High
Ability to capture non-traditional beta	Low	High	High

* Derivatives used for hedging purposes not included in total leverage calculation.

** Does not apply to government securities.

Glossary of terms

Beta: a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

Cash borrowing: the most straightforward form of leverage, typically obtained from a prime broker (i.e. large financial institutions like Canada's big banks). Portfolio managers may borrow cash if they believe they can invest the borrowed cash and earn a return greater than the interest charge associated with the loan.

Correlation: a statistical measure of how two securities move in relation to one another. Positive correlation indicates similar movements, up or down, while negative correlation indicates opposite movements (when one rises, the other falls). Historically speaking, Canadian stocks and Canadian government bonds have been negatively correlated, while Canadian stocks and U.S. stocks have been positively correlated.

Leverage: an investment strategy of using borrowed money — specifically, the use of various financial instruments or borrowed capital — to increase the potential return of an investment.

Liquidity: the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Cash is considered to be the most liquid asset, while things like fine art or rare books would be relatively illiquid.

NAV (Net Asset Value): the total value of a portfolio, expressed either as the aggregate of assets under management (AUM), or the value of one unit of a given fund (i.e. \$100 million or \$10 per unit).

Short selling: when a portfolio manager believes a security will decline in price, they may decide to borrow and sell a given asset in the hope of being able to buy it back for a lesser price and return it to the lender at some future date.

For more information, speak to your financial advisor or visit: liquidalts.ci.com

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