



CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND BOARD

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RETIREE HEALTH CARE TRUST FUND
BOARD CALENDAR SHEET
Special Board Meeting of September 29, 2020

TO: Retiree Health Care Trust Fund Board

THROUGH: Caryn Bortnick
SFERS Deputy Executive Director

FROM: Kurt Braitberg, CFA, CAIA
SFERS Managing Director, Public Markets

DATE: September 29, 2020

Agenda Item

Approve Risk Mitigation Strategies Manager- Man FRM Alpha Protect Strategy

Background

At the October 4, 2019 Special Board Meeting, the Board approved a 5% target allocation to Risk Mitigation (Global Macro) Strategies and directed the RHCTF's investment consultant, Meketa Investment Group, to conduct a search for an investment manager (or managers) to implement the allocation. SFERS investment staff has reviewed Meketa's diligence and concurs with its recommendation.

Recommendations

Meketa and Staff recommend that the RHCTF Board approve investing 5% of the Fund in Man FRM Alpha Protect Strategy with an initial allocation of approximately \$28 Million.

Attachments

Meketa Investment Group's Risk Mitigating Strategies Manager Recommendation



INVESTMENT GROUP

San Francisco Retiree Health Care Trust Fund

September 29, 2020

Risk Mitigating Strategies
Manager Recommendation



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Background

- The new long-term policy includes a 5% allocation to a *Risk Mitigating Strategies* class.
 - As presented in October 2019, this is not an asset class but rather a collection of strategies designed to protect against equity downturns.
- The goal of the *Risk Mitigating Strategies* class is to help diversify the Total Portfolio's equity risk in ways that traditional diversifiers (i.e., US Treasury bonds) may not be able to.
 - If constructed properly, a *Risk Mitigating Strategies* class will complement the *Rate Sensitive* class as a diversifier and improve the overall risk/return posture of the Total Portfolio.
- This document provides a summary of the manager selection process and highlights one manager for the Board's consideration.
 - Man FRM - Alpha Protect Strategy
- **ACTION ITEM:** Approve the hiring of Man FRM Alpha Protect into the risk mitigating sleeve of the portfolio at the 5% policy target allocation.



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Manager Recommendation

Review

What are Risk Mitigation Strategies?

- A portfolio of strategies designed to provide diversification to an overall institutional portfolio and, furthermore, provide protection against equity market downturns.
- RMS portfolios are generally composed Global Macro strategies. Global Macro is a high-level grouping of strategies that often consists of a variety of more specific approaches (i.e., sub-strategies).
 - Example sub-strategies: CTAs/Trend Following, Long Volatility/Tail Risk Hedging, etc.
 - One challenge in this space is the prevalence of different frameworks/classifications for the sub-strategies.
 - These strategies are dynamic in nature and are predicated on providing diversification relative to traditional equities and bonds.
- RMS portfolios can be built with multiple direct managers or with “one-stop” solutions (i.e., fund-of-funds).
 - For RHCTF, Meketa recommends utilizing a “one-stop” solution manager as the initial allocation and core component.
 - If desired, RHCTF can expand the program over time to further enhance or complement this core manager.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Manager Due Diligence Process

- Selecting strong and appropriate investment managers is a key determinant of the overall success of the Fund.
- Manager selection is a nuanced process and requires extensive due diligence. When selecting prospective asset managers, Meketa evaluates the following areas:
 - Organization
 - Investment Team
 - Investment Philosophy
 - Investment Process
 - Investment Performance
 - Management Fees
- For the purposes of an RMS manager, Meketa examines each of the above areas and how they align with the overall objectives and efficacy of the RMS program.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Manager Due Diligence Process

- Meketa has been building multi-faceted RMS programs for clients since 2015. Moreover, Meketa has been building similar programs (or a sub-set thereof) for 10+ years.
- As a result of our experience in the space, we have analyzed hundreds of managers and built a database high-conviction options.
- While RMS programs are often built with direct manager engagements, an area of growth in recent years has been “one-stop” offerings from managers (similar to fund-of-funds).
 - “One-stop” solutions provide the core of an RMS program in one vehicle, allowing clients such as RHCTF to simplify the program’s implementation and ongoing management.
- Meketa believes that Man FRM has the most attractive offering currently available for “one-stop” RMS solutions.

Man FRM – Alpha Protect Strategy



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Firm Overview

Firm Location	London, New York, Switzerland
Firm Inception	1991
Ownership Structure	Subsidiary of Man Group (publicly traded)
Total AUM	\$13.6 billion
Strategy Inception	March 2017
Strategy AUM	\$154 million

- Man FRM is a global alternatives (i.e., hedge fund) investment specialist. Their business is predicated on two related segments:
 - 1) Custom and solutions-oriented multi-manager strategies
 - 2) Managed account platforms (i.e., operational infrastructure for custom fund-of-fund programs)
- Man Group (parent company) is a large-scale investment management firm with five primary subsidiaries that manage over \$108 billion in AUM.
- Unlike traditional fund-of-funds, Man FRM has the operational infrastructure for engaging the underlying managers in separate accounts, improving transparency and oversight.

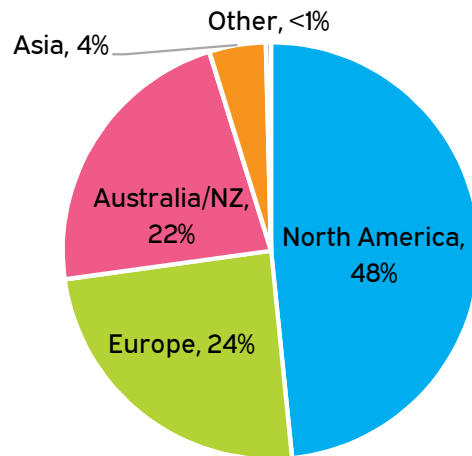


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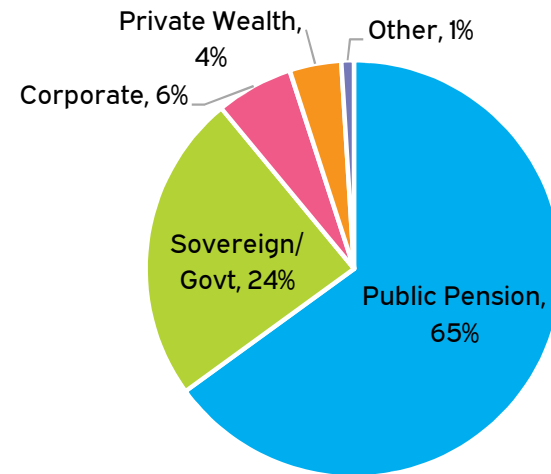
Manager Recommendation

Firm Overview (continued)

Client Base - Geography



Client Base - Type



- Man FRM maintains a global client base including one large-scale Meketa client.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Investment Team

- There are 52 employees at Man FRM and 27 investment professionals. The 27 investment professionals are organized in three major groups:
 - Investment Management (i.e., manager selection and portfolio construction) = 15 professionals
 - Operational Risk = 7 professionals
 - Investment Risk = 5 professionals

Key Personnel*

Name	Role
Jens Foehrenbach	CIO of Man FRM
Samantha Rosenstock	Portfolio Manager of Alpha Protect
Andy Courtneidge	Deputy Portfolio Manager
Paul Parkins-Godwin	Co-head of Operational Risk
Jocelyn Bean	Co-head of Operational Risk
Faisal Javaid	Head of Investment Risk

*Organizational chart provided in the Appendix



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Manager Recommendation

Investment Philosophy

- Man FRM designed the Alpha Protect strategy as a turn-key solution for RMS-like programs.
- The strategy was designed to generate a positive return over full market cycles while providing cost-effective tail protection during periods of market stress. Moreover, the strategy seeks to exhibit a low correlation to equities and bonds over a full market cycle with a long-term volatility near 8%.
- They seek to provide protection across a variety of market declines that can vary by depth, length, and catalyst.
- Each element within the strategy is examined based on three high-level characteristics:
 - *Convexity*: the degree to which a strategy outperforms during times of stress
 - *Reliability*: the probability that a strategy provides positive performance during times of stress
 - *Carry*: the expected return over full market cycles
- The strategy utilizes a multi-manager structure that allocates across four main categories: Trend Following, Short Term/Volatility, Tail Protection, and Diversifying.
- By providing these exposures in a turn-key solution, Man FRM seeks to provide low cost exposure to crisis alpha strategies that are dynamically managed by an experienced team of specialists.
- The Man FRM framework aims to deliver cost containment, transparency, and enhanced risk management.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Investment Process

- There are two key components of the investment process:
 - 1) Manager Selection
 - 2) Portfolio Construction

Manager Selection

- Man FRM has been developing multi-manager portfolios since their founding in 1991.
- The firm has over 1500+ interactions with managers annually including 500+ initial due diligence meetings. Their database of manager information contains over 20,000+ strategies.
- With a variety of different objectives, Man FRM currently has 81 managers across their various strategies.
- Each manager/strategy is assessed across three segments: strategy merits, operational risk, and investment risk. Any strategy that is approved by the Man FRM Investment Committee must pass each of these reviews independently.
- From a strategy merit perspective, the firm evaluates underlying managers based on their fit within the Alpha Protect framework, their edge or competitive advantage, repeatability of investment process, and portfolio and process transparency.
- Whenever possible, Man FRM seeks to utilize managed accounts (i.e., separate accounts). Currently 9 of the 11 underlying managers are in managed accounts.



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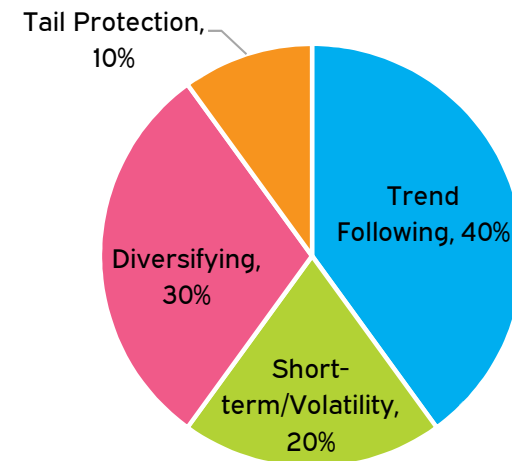
Manager Recommendation

Investment Process (continued)

Portfolio Construction

- The portfolio is constructed across four main categories*:
 - 1) Trend Following
 - 2) Short Term/Volatility
 - 3) Diversifying
 - 4) Tail Protection

Target Risk Allocations by Strategy



- Each strategy must align with one of the framework's above and the portfolio is constructed based on a forward-looking assessment of strategies and markets subject to the strategy's overarching goal of providing downside protection relative to traditional markets (i.e., equities).
- Man FRM seeks to invest in 10-12 high conviction managers with an aggregate portfolio that exhibits multi-factor diversification and pre-defined risk contributions across strategy categories.

*Definitions are provided in the Appendix



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Investment Process (continued)

Component	Objective*	Convexity*	Reliability in Equity Drawdown*	Carry*
Trend Following	Bring additional sources of protection with less punitive cost but higher uncertainty	+		
Short Term/Volatility	Sources of protection in periods of heightened market volatility		+	+
Diversifying	Add positive expected return to offset the cost of expensive protection	-	-	++
Tail Protection	Serve as the primary anchor to deliver reliable protection	++	++	--

+ positive attribute
 - negative attribute

- Man FRM utilizes the framework above when analyzing managers, developing expectations for the various components, and when constructing the portfolio in aggregate.

*Man FRM's viewpoints



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Ongoing Portfolio Management

- One of the key differentiators of Man FRM is their long history overseeing/managing multi-manager portfolios combined with their best-in-class operational infrastructure (i.e., managed accounts).
- By having the majority of the underlying managers on their managed account platform, they have daily transparency into all exposures, trades, and guideline violations.
- The portfolios are monitored on a daily basis for factor exposures, liquidity, performance, concentrations, and limit/guideline verifications.
- The underlying strategies are allocated to with pre-defined ranges, and the portfolio management team rebalances individual strategies and the four major segments in a systematic fashion.
- The investment team continually evaluates strategies and will replace current strategies whenever there is an upgrade opportunity or when there is downgrade in manager conviction.
 - Since 2017, there has been a total of 15 strategies, of which 11 are in use today.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Historical Performance

- As of June 30, 2020. Inception date is March 2017.

	1Q2020	YTD	1 Yr	3 Yr	SI
Man FRM Alpha Protect (net)	5.7	3.7	3.4	1.4	-0.1
HFRI Macro	-1.6	-0.6	0.9	1.5	1.0
HFRI Fund of Funds	-8.8	-1.6	0.5	2.3	2.4
MSCI ACWI	-21.4	-6.3	2.1	6.1	7.2
Barclays US Aggregate	3.1	6.1	8.7	5.3	5.2

Calendar Year Returns	YTD	2019	2018
Man FRM Alpha Protect (net)	3.7	0.1	-2.9
HFRI Macro	-0.6	6.5	-4.1
HFRI Fund of Funds	-1.6	8.4	-4.0
MSCI ACWI	-6.3	26.6	-9.4
Barclays US Aggregate	6.1	8.7	0.0

- Man FRM provided protection during the first quarter of 2020. This was the first live test of their program during a major market decline.
- The majority of their history has been during a market environment that was unfavorable for protection-oriented strategies.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Historical Risk Statistics

- As of June 30, 2020. Inception date is March 2017.

Since Inception Risk as of June 30, 2020	Man FRM Alpha Protect	HFRI Macro	HFRI FOF	MSCI ACWI	Barclays US Aggregate
Standard Deviation (%)	7.2	4.2	6.1	15.4	3.1
Beta – HFRI Macro	1.16	1.00	0.67	1.66	0.24
Beta – HFRI FOF	-0.27	0.32	1.00	2.30	0.08
Beta – MSCI ACWI	-0.11	0.12	0.36	1.00	0.00
Beta – Barclays US Agg	0.50	0.44	0.32	-0.06	1.00
Max Drawdown (%)	-10.8	-6.8	-9.0	-21.4	-2.5
Max Drawdown Length	13	10	2	3	14
Correlation – Macro	0.68	1.00	0.46	0.45	0.32
Correlation – FOF	-0.23	0.46	1.00	0.91	0.16
Correlation – MSCI ACWI	-0.24	0.45	0.91	1.00	-0.01
Correlation – Barclays US Agg	0.22	0.32	0.16	-0.01	1.00
Skewness	0.65	-0.34	-2.22	-0.95	0.48
Kurtosis	2.09	1.75	9.31	2.22	-0.35

- Man FRM has been relatively uncorrelated to traditional markets since inception.
 - Slight negative correlation to global equity (-0.24) and a slight positive correlation to investment grade bonds (0.22).

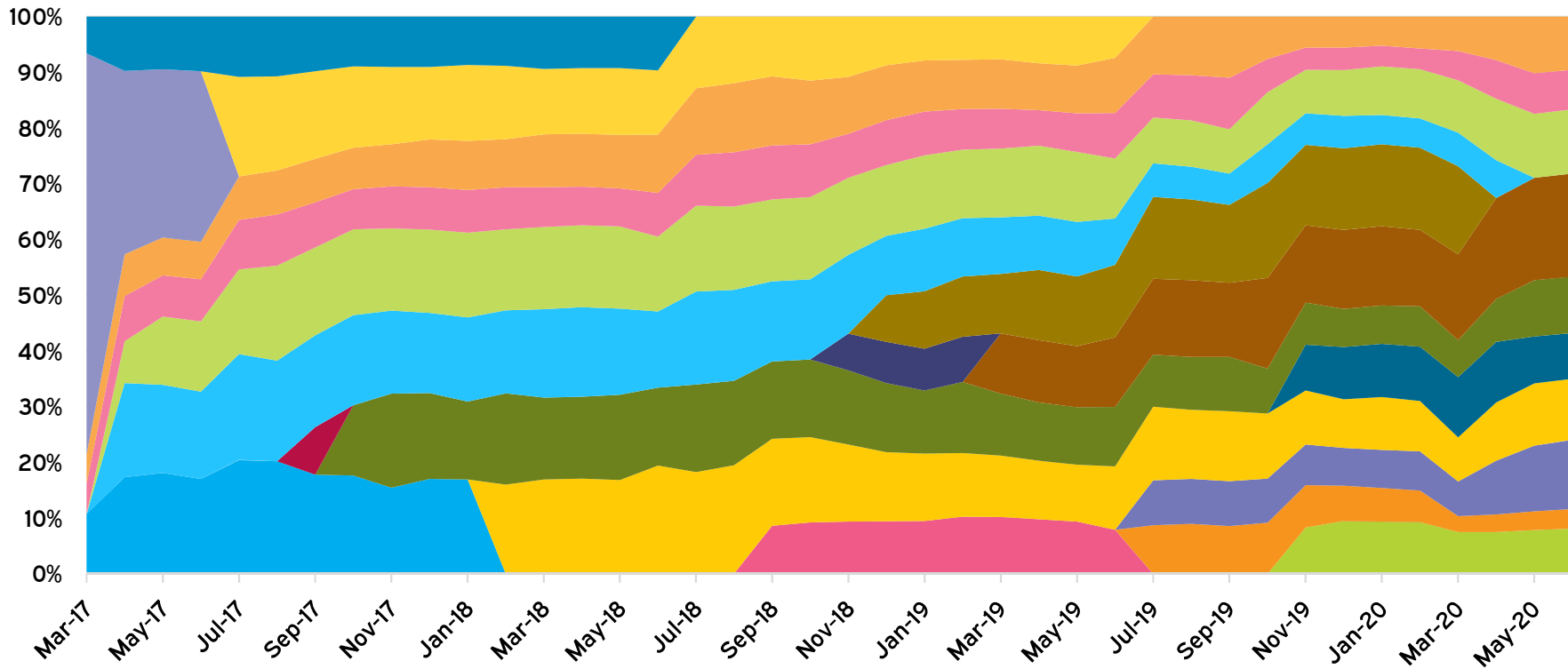


San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Historical Manager Allocation

- Diversifying #1
- Diversifying #2
- Diversifying #3
- Diversifying #4
- Diversifying #5
- Diversifying #6
- Diversifying #7
- Short Term/Volatility #1
- Short Term/Volatility #2
- Short Term/Volatility #3
- Short Term/Volatility #4
- Tail Protection #1
- Tail Protection #2
- Trend Following #1
- Trend Following #2
- Trend Following #3
- Trend Following #4
- Trend Following #5
- Trend Following #6



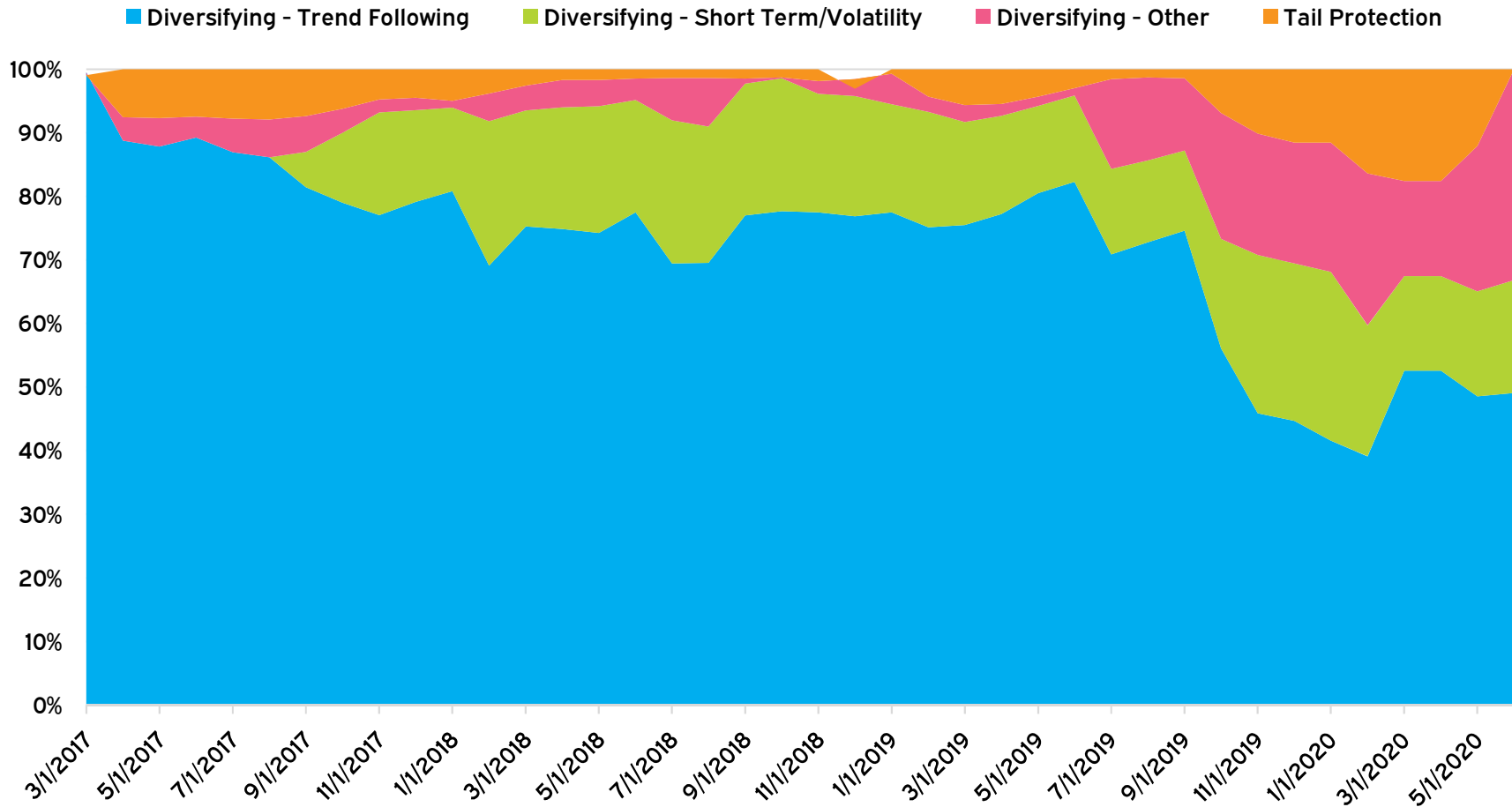
- Since inception, Man FRM has continued to build out the manager lineup.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Historical Risk Allocation





San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Fund Terms

Fund Type	Cayman Island Exempted Company
Subscriptions	Weekly, 4 business days notice
Redemptions	Weekly, 4 business days notice
Lock-up	None
Management Fee	0.60%*
Administrator	JP Morgan Hedge Fund Services (Ireland) Limited
Custodian	JP Morgan Chase Bank, N.A. (London)
Auditor	Ernst & Young Ltd.
Legal Adviser	Sidley Austin LLP
Minimum Subscription	\$100,000 initial (\$10,000 add-on)

*Meketa will seek to negotiate a lower fee upon approval



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Underlying Manager Fees

- With any fund-of-funds manager, it is crucial to examine the underlying manager fees.
- Man FRM actively negotiates all terms (fees, liquidity, transparency, etc.) with all of the underlying managers.
- All fee savings are passed directly onto the investors in Alpha Protect.

Fee Type	Alpha Protect*
Underlying Management Fee	1.23%
Underlying Performance Fee	12.94%

*Based on manager weightings as of 6/30/2020



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Strengths and Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none">- Turn-key solution provides immediate exposure to a fully-built RMS program at a reasonable cost.- Long-standing manager focused on building alpha-oriented diversifying portfolios.- Best-in-class operational infrastructure.- Dedicated and stable teams for manager selection/portfolio construction, operational risk, and investment risk.- High degree of liquidity and portfolio transparency.- Potential access to closed and capacity constrained investment managers.	<ul style="list-style-type: none">- Relatively short live track record (March 2017) and small fund AUM (\$154mn) that is concentrated in one client.- Desire to have all underlying managers in managed account structures may limit the investable universe.- Modest conflicts of interest as strategies from other Man-related entities are utilized.- The attractive features of a turn-key solution (i.e., ease of implementation and management) come at a cost for RHCTF (higher fees than a direct program).- Inability to customize the exposures.



San Francisco Retiree Health Care Trust Fund

Manager Recommendation

Summary

- Meketa believes that the Man FRM Alpha Protect strategy represents the best available option for a turn-key solution for RHCTF's *Risk Mitigating Strategies* class. The strategy is designed to be complementary to traditional diversifying assets (i.e., US Treasury bonds).
- Man FRM is a long-standing manager with best-in-class operational infrastructure and they have built this strategy for the exact role that RHCTF is seeking.
- The explicit focus on providing positive returns during equity drawdowns, coupled with weekly liquidity, is expected to provide RHCTF with a diversifying component in the Total Portfolio that can be utilized as an additional source of liquidity during major market declines.

Appendix



San Francisco Retiree Health Care Trust Fund

Investment Team Biographies

Jens Foehrenbach

CIO of Man FRM

Jens Foehrenbach is Chief Investment Officer of Man FRM, based in New York, and chairs Man FRM's Investment Committee. Jens is responsible for investment policy and oversight of Man FRM Portfolios.

Prior to this, Jens was Deputy Chief Investment Officer at Man FRM and managed a range of Man FRM Portfolios. Prior to this, Jens served in several capacities for Man FRM and the legacy Man Group multi-manager businesses including as the Head of Equity and Credit strategies. Prior to joining Man Group, Jens spent four years at Harcourt Investment Consulting AG in Zurich, Switzerland, where he was style head of relative value equity strategies. Previously, he was employed by UBS AG, where he worked on the bank's fixed income derivatives desk in Switzerland and London.

Jens holds a Master's Degree in Business Economics from the University of Basel, Switzerland (lic. rer. pol.) and is a CFA charterholder.



San Francisco Retiree Health Care Trust Fund

Investment Team Biographies

Samantha Rosenstock

Portfolio Manager and Head of Investment Research

Samantha Rosenstock is Head of Investment Research responsible for external manager selection and analysis at Man FRM. Samantha is based in New York. She is a member of the Man FRM Investment Committee.

Prior to this, Samantha was Head of Relative Value Hedge Funds and Private Markets Investing. Samantha has more than 20 years of experience in alternative asset management. Samantha joined Man FRM from the State of New Jersey, Department of the Treasury, Division of Investment (NJDOI) where she served as the Head of Alternative Investments for the state pension fund. In this role, Samantha oversaw investment due diligence for hedge funds, private equity, private credit, real assets and real estate investments as well as managed the pension's strategic private equity and credit partnerships. Initially at NJDOI, Samantha served as the Hedge Fund Portfolio Manager where she managed a \$8 billion hedge fund portfolio comprised of equity and credit diversifying and risk mitigating/ absolute return investments. While in this role, Samantha initiated the efforts to transform the hedge fund portfolio into a hybrid portfolio of direct hedge fund investments and cost efficient alternative beta strategies. Prior to NJDOI, Samantha spent seven years as a member of the hedge fund team at PineBridge Investments, formerly AIG Asset Management where she focused on quantitative, macro and commodity hedge fund strategies. Samantha started her career at R.G. Niederhoffer, a short term systematic hedge fund, where she spent five years as a model developer and trader.

Samantha holds a BA in Mathematics from Wesleyan University and is a board member of the Investment Management Due Diligence Association (IMDDA). The IMDDA is dedicated to advancing the interests of institutional investors through education and through the establishment of industry best practices for conducting investment and operational due diligence on new and existing investments.



San Francisco Retiree Health Care Trust Fund

Investment Team Biographies

Andy Courtneidge

Investment Advisor and Deputy Portfolio Manager

Andy Courtneidge is an Investment Advisor at Man FRM, based in London. Andy primarily oversees portfolio management for Man FRM's commingled and segregate client bespoke solution mandates.

Prior to this role, Andy was located in New York where his primary focus was Man FRM's US portfolio product range. Before this, he was responsible for the management of Man Group's capital guaranteed fund linked Structured Products in addition to both retail and institutional fund of hedge fund portfolios at Man FRM and before at Man Group's Multi-Manager Business. Before moving to the investment business, he was responsible for the management of the capital protection instruments within Man Group's range of Structured Products.

Prior to joining Man Group in 2008, Andy worked for the Bank of New York Mellon specializing in collateral management for its securities lending business.

Andy holds an MEng (Hons) in Aeronautical Engineering from Loughborough University and is a CFA charterholder.



San Francisco Retiree Health Care Trust Fund

Investment Team Biographies

Paul Parkins-Godwin

Co-head of Operational Risk

Paul Parkins-Godwin is the Co-Head of Operational Risk at Man FRM, based in London, responsible for the assessment and monitoring of the business, legal, financial and operational risks of investments in alternatives. Paul is a voting member of Man FRM's Investment Committee and a member of Man FRM's Valuation Oversight Committee and Man Group's Counterparty Monitoring Committee.

Prior to joining Man FRM in 2016, Paul worked as COO of Investments at Guardian Financial Services, a UK insurance company, and as Head of Operational Due Diligence International at UBS Hedge Fund Solutions. Paul trained as a chartered accountant within the Financial Services Office at Ernst & Young LLP in London.

Paul holds a BA (Hons), First Class, in Accounting and Financial Management from the University of Sheffield and is a Fellow Chartered Accountant in England and Wales.



San Francisco Retiree Health Care Trust Fund

Investment Team Biographies

Jocelyn Bean

Co-head of Operational Risk

Jocelyn Bean is Co-Head of Operational Risk at Man FRM. She is responsible for the assessment and monitoring of the business, legal, financial and operational risks of investments in alternatives. Jocelyn is also a member of Man FRM's Investment, Risk and Valuation Oversight committees.

Prior to joining Man FRM in 2011, Jocelyn was part of the operational due diligence team at Caliburn Capital Partners LLP. From 2007 to 2010, she worked in the operational due diligence team at Santander Asset Management.

Jocelyn holds a BSc Honors in Psychology from the University of Edinburgh.



San Francisco Retiree Health Care Trust Fund

Investment Team Biographies

Faisal Javaid

Head of Investment Risk

Faisal Javaid is Head of Investment Risk at Man FRM. He is responsible for monitoring market risk at the manager and portfolio levels for investments in hedge fund managers, and investment risk due diligence for new managers. Faisal is also a member of Man FRM's Investment committee and Co-Chair of Man FRM's Risk Committee.

Prior to joining Man FRM in 2016, Faisal was a risk manager at Cheyne Capital for three years. Before that, he was at Goldman Sachs for eight years, where he was an executive director in the market risk management division.

Faisal holds a BEng in Engineering with Business Finance, studied jointly at University College London and the London School of Economics.



San Francisco Retiree Health Care Trust Fund

Organizational Structure

Management Committee

Responsible for the execution of business strategy

Jens Foehrenbach (NY) ■
CIO, Chair of FRM Inv. Comm.

Michael Turner¹ (L)
CEO

Isabel Caetano da Rocha (L)
MD, Head of Business Development

Sam Thompson (NY)
MD, Head of Business Management

Investment Management

Sam Rosenstock (NY) ■
+ 4 professionals (L/NY/P)

Adam Singleton (L) ■
+ 4 professionals (L)

Quantitative Analysis

Adam Hunt (L)
+ 3 professionals (L/NY)

Risk and Analytics

Risk Management
(independent²)

Operational Risk

Paul Parkins-Godwin (L) ■
Jocelyn Bean (NY) ■
+ 5 professionals (L/NY)

Investment Risk

Faisal Javaid (L) ■
+ 4 professional (L/P)

Client Services

Richard Birnbaum (NY)
+ 9 professionals (L/NY)

Managed Accounts

Lifecycle

Moritz Leuenberger (P)
+3 professionals (L/NY)

Operations

Conrad Visser (L)
+ 3 professionals (L/NY)

Infrastructure

Roger Brace (L)

Support

+ 3 professionals (L/NY)

(L) London
(NY) New York
(P) Pfäffikon
■ Investment Committee Member



San Francisco Retiree Health Care Trust Fund

Strategy Definitions

Alpha Protect – Four Sub-Strategy Types

Trend Following

Multi-asset class strategies that are generally implemented in the futures and forwards markets. These managers will buy (go long) an asset when it has demonstrated recent positive returns and sell (go short) an asset when it has demonstrated recent negative returns. Strategies are diversified across equities, fixed income, commodities, and foreign exchange markets. For RMS-related strategies, security holding periods are generally 1-6 months.

Short Term / Volatility

A relatively broad array of strategies that are focused on short-term market movements and opportunities. Strategies can include short-term momentum, mean reversion, and volatility arbitrage, among others.

Diversifying

A diverse set of strategies that trade across all major markets. Global Macro, Equity Market Neutral, and Equity Event strategies are commonly utilized. This sleeve is focused on improving the long-term expected return of the portfolio without decreasing the efficacy of the strategy during equity bear markets.

Tail Protection

Strategies that explicitly focus on purchasing protection (i.e., insurance) for major downside market movements. The success of these strategies is predicated on minimizing the cost of the protection while maximizing the expected payoffs during major market moves.