



## FUTURE GENERATIONS FUND

### INVESTMENT POLICY STATEMENT AS APPROVED ON APRIL 16 2018

#### **1. Introduction**

This Investment Policy Statement (“IPS”) is issued by the Board of Directors (the “Board”) of the Nigeria Sovereign Investment Authority (“NSIA”). It provides a framework for management of the Future Generations Fund (“Fund”). The IPS sets out to identify the Fund’s investment objectives, risk tolerance and constraints. It establishes a structure of guidelines and policies within which the Fund’s Executive Management can exercise their delegated authority and against which recommendations to the Board Externally Managed Investment Committee (EMIC) and Board can be judged. The IPS is designed to be a strategic document and remains in effect unless revisions are agreed by the Board. Specific investment policies pertaining to asset allocation, benchmarks and allowable ranges are documented in *Annex A* to the IPS.

#### **2. Purpose and Background of The Fund**

The purpose of the Future Generations Fund is to preserve and grow the value of assets transferred into it, thereby enabling future generations of Nigerians to benefit from the country’s finite oil reserves.

#### **3. Investment Objectives**

##### **3.1. Time Horizon**

The Fund shall be invested for the long term, it being understood that this should mean an investment horizon of more than 20 years and multiple economic and market cycles.

##### **3.2. Base Currency**

The base currency against which the Fund shall be judged is the US dollar.

##### **3.3. Return Target**

3.3.1. Given its objective of preserving and growing purchasing power in US dollar terms over the longer term the Fund shall aim to deliver a return in excess of US inflation. To further allow for growth in the Nigerian population and its wealth, together with the natural obligation to maximize the returns on behalf of the Nigerian people, the Fund shall target an excess return over inflation consistent with reasonable expectations from a diversified portfolio of risk assets. This is presently defined as ***US inflation plus 4.0%***.

3.3.2. The long-term real return target described above cannot be achieved consistently over shorter periods given the inherent uncertainty in capital markets. The Fund shall be judged against this target over periods no shorter than ten years. Additional benchmarks for



assessing the Fund's performance over shorter periods are shown in section 6 'Benchmarking and Monitoring'.

3.3.3. To facilitate shorter term monitoring, the Fund's performance shall be judged against a Policy Benchmark and a Strategic Benchmark. The former being a high-level simple benchmark representing exposure to the main asset classes in such proportions as are expected to approximate the risk/return trade-off chosen for the Fund. The Strategic Benchmark shall be a more detailed composite of asset classes chosen to implement the portfolio given the medium-term market environment.

### **3.4. Risk Tolerance**

3.4.1. Given the time horizon and return target already described, the principle risk to the Fund's objectives is that of failing to earn sufficient return over the longer term. This can be specified in terms of a probability of earning at least the target return. The chosen Policy Benchmark and Strategy Benchmark laid out in *Annex A* shall be accompanied by an estimate of this probability of success.

3.4.2. The Board acknowledges that investing for long term real returns means investing predominantly in relatively risky assets as opposed to safe assets. There is an inevitable trade-off between long term return and short-term volatility, as a consequence of which the Fund may experience material fluctuations, including mark-to-market losses over, for example, a twelve month horizon.

3.4.3. In order to express the Fund's risk tolerance, *Annex A* to this IPS shall document, alongside the agreed investment policies, expected ranges for various risk measures including but not limited to: annualized standard deviation of returns, probability of loss over twelve months, equity market sensitivity or 'Beta'.

### **3.5. Shorter Term Initial Conditions**

Notwithstanding points 3.1-3.4 above, it shall be understood that during its first three years, the Fund shall have a heightened sensitivity to short term capital loss beyond that natural for a long-term return-seeking portfolio. This may be reflected in the use of derivatives to hedge the market exposure of the portfolio (see *Annex B*). These hedges shall be in place until the Fund's risk tolerance shall be judged to have increased towards its natural long-term level.

## **4. Investment Policies**

### **4.1. Beliefs & Principles**

The NSIA is essentially flexible rather than dogmatic regarding investment beliefs but does adhere to the following general principles:



4.1.1. Diversification is an important tool of risk management and can mitigate the volatility and uncertainty inherent in substantial exposure to risk assets. The Fund should seek to be diversified to the degree compatible with the investment return objectives.

4.1.2. Valuation is an important determinant of future return across all asset classes. Since there can be wide swings in the basis of valuation across most asset classes, prospective returns and the relative attractiveness of different asset classes will similarly vary with time and the economic environment. Careful analysis of valuation should be undertaken, such that investment strategy may seek to take advantage of this to reduce downside risk and enhance return.

4.1.3. The returns of a long-term portfolio can be undermined if the fund becomes a forced seller of risk assets at an inopportune time in order to meet cash obligations. Policy should be designed to avoid this.

#### **4.2. Asset Allocation**

4.2.1. The asset allocation policy should reflect a proper balance between the Fund's financial and investment objectives, risk tolerance and need for liquidity. The Fund's investments shall be diversified by manager, by geography and by economic sector. The purpose of diversification is to provide reasonable assurance that no manager, class of securities, or individual holding will have a disproportionate impact on the Fund's aggregate results.

4.2.2. To achieve its long-term investment objectives, the Fund shall be invested primarily in asset groupings according to specific roles in the portfolio, namely 'Growth Assets', 'Deflation Hedges' and 'Inflation Hedges'. The most high-level expression of the Fund's risk tolerance and its position on the spectrum between return seeking and safety is seen in the split between Growth Assets and Hedging Assets. The goal is that investment returns for each individual asset class exceed the rate of return of the specified index. The current target asset mix, constituting the Policy Allocation and relevant indices, as well as allowable ranges are detailed in *Annex A*.

4.2.3. *Growth Assets*: The portfolio's growth assets comprise all equity assets (both public and private) as well as the fixed and floating obligations of corporations and individuals, including through securitized pools. Hedge funds of all types are also included. The purpose of the Growth Assets is to provide a stream of current income and appreciation of principal that provides real growth in excess of inflation. It is recognized that pursuit of this objective could entail the assumption of significant variability in price and returns. The allocation to asset classes within the Growth Assets component shall be defined in the Strategic Allocation documented in *Annex A*.

4.2.4. *Deflation Hedge*: The deflation hedge should consist of high quality, nominal fixed income issued by investment grade sovereigns (global government bonds) or cash. Its role is to provide a hedge against severe deflationary recession and diversification relative to the Growth Assets component. Most importantly it can be a place from which cash needs can be funded (e.g. Private Equity cash calls or rebalancing), avoiding the need to be a forced



seller of risky assets at inopportune times. The allocation to asset classes within the Deflation Hedge shall be defined in the Strategy Allocation documented in *Annex A*.

4.2.5. *Inflation Hedges*: The purpose of the real asset allocation (e.g. investments in hard assets such as real estate, commodities, natural resource equities and inflation-linked bonds) is to provide potential protection against the risk of unanticipated severe inflation and, as for the Deflation Hedge to be a source of cash when the rest of the portfolio is depressed. The allocation to asset classes within the Inflation Hedge shall be defined in the Strategic Allocation documented in *Annex A*.

4.2.6. The EMIC shall review the Policy Allocation at most annually and may make changes from time to time, recorded in changes to *Annex A*. The bias would be not to change, and it is anticipated that changes will be infrequent. Long term strategic changes may result in modifications to this IPS.

### **4.3. Liquidity Restrictions**

4.3.1. As a long-term investment pool with no outflows anticipated for the foreseeable future, the fund is in a position to seek to earn a premium by accepting illiquidity.

4.3.2. It is nevertheless acknowledged that illiquid assets bring additional risks, specifically the need to meet cash calls from those illiquid allocations at a time when liquid risk assets are depressed. Accordingly, the Fund will limit investments that are not available for redemption within one year (see 5.5) to no more than 50% of the Fund by market value.

## **5. Restrictions**

### **5.1. Manager Guidelines for Conventional Assets**

5.1.1. The guidelines for conventional assets (equities and bonds) in the Fund should be set manager by manager, based on the envisaged role for that manager in the manager structure (e.g. core or satellite, growth or value, etc). These guidelines are to be approved by the EMIC.

5.1.2. Decisions as to individual security selection, position size and quality, number of industries or holdings, current income levels, turnover, and the use of options, financial futures, or derivatives are left to broad manager discretion, subject to the manager's specific investment guidelines and the usual standards of fiduciary prudence.

5.1.3. Each manager is measured, and relative success determined, against the specific and appropriate benchmark suitable for the manager's style and risk exposure.

5.1.4. When the Fund is investing in commingled accounts, prior to making an investment, the Fund's staff shall inquire if a manager (with the exception of alternative assets managers) engages in any of the following practices:



- purchases securities on margin
- uses leverage
- uses uncovered options
- makes margin purchases
- purchases commodities
- uses letter stock, private placements or direct placements
- employs short sales unless specifically authorized by the Fund
- uses derivatives except to replicate investment positions at a lower cost than would otherwise be created in the cash markets
- undertakes securities lending

By checking the terms and conditions applicable for each of the funds in accordance with the list above, the Fund will gain a clear understanding of where incremental risk may be being taken beyond that expected in the investment in question. Should segregated accounts be used, prudent limits should be specified in the Investment Management Agreement (“IMA”) for the use of any such investment instruments.

## **5.2. Manager Guidelines for Alternative Assets**

5.2.1. The Fund may employ investment managers, funds, or “funds of funds”, to pursue investments in “alternative assets” for the purpose of diversifying the market exposure of the portfolio and/or to enhance potential returns. These might include, without limitation, managers or partnerships investing in marketable alternative strategies (e.g. arbitrage, long/short equity, and distressed securities), private equity, venture capital, natural resources, commodities, real estate or other asset classes with a low correlation to traditional equity and fixed income securities.

5.2.2. These investments may not fall within the guidelines for the more traditional asset classes, but should be consistent with the specific objectives and guidelines established for the relevant asset class / manager.

## **5.3. Manager Concentration**

The purpose of diversification by manager is to provide reasonable assurance that no manager could have a disproportionate negative impact on the Fund’s aggregate results. Therefore, exposure to a single fund will be limited to 10% of Fund assets, and exposure to a single investment management organisation will be limited to 20% of Fund assets without explicit Board approval.

## **5.4. Securities Lending**

5.4.1. The Fund is permitted to engage in securities lending with the intention of generating income primarily from fees derived from lending the Fund’s positions in equity or debt



securities to permitted borrowers (i.e. those organizations permitted to borrow securities by their relevant financial authority).

5.4.2. Any such activities should be conducted in a manner which is consistent with the lowest possible investment risk. This shall be taken to mean that collateral is invested in the highest quality assets, such as Treasury Bills, and shall not take meaningful credit risk or 'gating risk' in the case of money market funds. The Fund's securities shall be held in the Fund's own name, not in the 'street name'.

5.4.3. When investing in third party pooled funds the Fund should if possible avoid those where securities lending takes place, or where this is impossible shall ensure that collateral is managed conservatively.

### **5.5. Liquidity**

At any point in time, 50% or more of the Fund should be available to redeem within one year. If the amount is less than 50%, then the Fund will only be allowed to make subsequent investments with an initial lock-up period of 18 months or less. Once the amount available to redeem within one year returns to 50% or more, then the Fund may resume making investments with a lock-up of greater than 18 months.

### **5.6. Derivatives**

It is not permitted to use derivatives at the overall portfolio level without specific reference to the EMIC. Only existing currency exposures may be hedged; naked currency hedging is not permissible. At the individual manager level, Investment Staff will analyse the terms of investment for commingled funds to ensure that prudent limits are in place on the use of derivatives. For segregated mandates, the Investment Staff will specify the terms under which derivatives can be used - this will vary on a fund by fund basis.

## **6. Benchmarking and Monitoring**

6.1. The purpose of benchmarking is to enable monitoring of the success of investment strategies or managers in meeting both the return objectives and risk guidelines of the Fund.

6.2. By defining ranges around a benchmark, it is possible to allow a degree of flexibility while controlling the overall deviation of the portfolio from agreed characteristics.

6.3. There shall be four levels of benchmarking, each with a different purpose, time horizon and intended audience. These are defined in the table below:

Benchmark	What?	Why?	Audience?	Horizon?
Long term return objective	The Fund's long-term return target as defined in section 3.3.1, for example US CPI +4%	This is the ultimate gauge of the Fund's long-term success in growing real purchasing power.  It is also the yardstick for long term appropriateness of the Policy and Strategic benchmarks	The Board	Periods of at least ten years, encompassing multiple economic and market cycles.
Policy benchmark	The Fund's chosen high-level split between growth assets and hedging assets  Represented by a composite of simple passive indices of major asset classes	This defines the Fund's long-term investment policy  It consists of a simple portfolio that is closest to the desired risk/return parameters of the Fund	EMIC	Rolling periods of 5 years or longer
Strategic benchmark	The Fund's detailed asset allocation implemented with regard to the medium-term market environment  Represented by a composite of indices representing each asset class making up the strategic (medium term) target	To represent the strategy actually implemented for the Fund and to be a basis for rebalancing  To be a yardstick for assessing the short/medium term performance of the Fund	CIO/EMIC	Periods of up to five years
Manager benchmarks	Indices representing the opportunity set and strategy for individual managers	To judge the effectiveness of active management	CIO/Exco	Dependent on strategy

6.4. The Policy Benchmark and Strategic Benchmark, along with associated ranges shall be documented in *Annex A* to this IPS.

6.5. The Policy Benchmark and associated ranges shall be decided by the Investment Committee and subsequently ratified by the Board.

6.6. The ranges around the Strategic Benchmark shall be decided by the Investment Committee however the Strategic Benchmark itself and the actual implementation of the Portfolio within the ranges shall be within the authority of the executive officers.

6.7. Comparison between different benchmarks can have a range of purposes, for example:

6.7.1. Strategy vs Policy: Comparing the Strategy with the Policy benchmark will reveal the extent to which the strategy adopted by the CIO/Exco has added value compared with the simple high-level policy.

6.7.2. Actual returns vs Strategic: Comparing the Fund's actual returns with the Strategic benchmark will show whether the combination of tactical allocation within the ranges plus active management within the asset classes has added value.



6.7.3. Long-term Objective vs Policy: Comparing the returns of the Policy benchmark with the long-term objective, over periods of at least ten years, will indicate whether the high level asset split chosen by the board was capable of earning the long term objective given the outcome for capital markets.

**7. Review and Revision of this Investment Policy Statement**

The EMIC shall propose to the Board periodic changes to the Investment Policy Statement and associated annexes if necessary. In any event, the Investment Policy Statement shall be re-confirmed annually by the board.



## ANNEX A

### Background

- The **Policy Target** allocations described in this annex and the ranges around it reflect the long-term risk and return objectives of the Future Generations Fund.
- They reflect a long term required return of US CPI +4% alongside a desire to minimise (probability <10%) the possibility of an annual loss in excess of 20%.
- The **Policy Target** describes desired exposure to the three-key portfolio-role components: Growth, Inflation Hedging and Deflation Hedging.
- The **Policy Target** is accompanied by ranges around the three key components as well as around a series of individual allowable asset classes classified under the three key roles.
- The **Policy Target**, the ranges and the allowable asset classes are decided by the EMIC and ratified by the Board.
- This **Strategic Target** should represent the NSIA executive investment team's view of how best to meet the Fund's long-term investment goals, as expressed in the **Policy Target**, while having regard for market circumstances, valuations and opportunities relevant over the medium-term horizon (3-5 years).
- The Strategic Allocation shall be contained within the allowable assets and ranges specified for the **Policy Target**. Subject to these constraints it shall be within the discretion of the MD/CIO.
- A series of return and risk measures accompany both the **Policy Target** and the **Strategic Target**. These are not themselves targets but are taken as acknowledged when the targets are agreed. They shall be used to monitor the performance of the fund and assess whether its positioning remains within acceptable bounds.

Allocation Guidelines					
	Policy Target	Strategic Target	Range		Benchmark
			High	Low	
<b>Growth Assets</b>	80%	80%	85%	70%	MSCI All Country World Index
Developed Equities		10%	55%	10%	MSCI World Index
Emerging & Frontier Equities		15%	45%	10%	MSCI Emerging Markets Index
Private Equity, VC and value-added Real Estate		25%	35%	0%	Cambridge Associates U.S. Private Equity Index
Long Short Equity			25%	0%	HFR Equity Hedge (Total) Index
Absolute Return		25%	40%	10%	HFR Event-Driven (Total) Index
Other Diversifiers		5%	10%	0%	TBD
High Yield Bonds			15%	0%	Bank of America Merrill Lynch Global High Yield Bond Index
Emerging Market Debt			15%	0%	J.P. Morgan Emerging Markets Bond Index Plus
Investment Grade Credit			15%	0%	Barclays Global Credit Index (Hedged)-\$
<b>Hedging Assets: Inflation</b>	10%	15%	20%	5%	Weighted Composite <sup>1</sup>
Commodities		5%	5%	0%	S&P GSCI (Equal Weighted)
Hard Assets		10%	15%	0%	50% FTSE® EPRA/NAREIT Developed Real Estate Index / 50% CA Private Natural Resources Benchmark
Inflation Linked Bonds			15%	0%	Barclays World Government Inflation-Linked Bond Index (Hedged)-\$
<b>Hedging Assets: Deflation</b>	10%	5%	20%	5%	Citigroup World Government Bond Index (Hedged)-\$
Global Sovereign Bonds			20%	0%	Citigroup World Government Bond Index (Hedged)-\$
Cash		5%	10%	0%	U.S. T-Bill

**Policy**

**Strategy**

<sup>1</sup> 50% Barclays World Government Inflation-Linked Bond Index (Hedged)-\$, 25% S&P GSCI (Equal Weighted), 12.5% FTSE EPRA/NAREIT Developed Real Estate Index, 12.5% CA Private Natural Resources Benchmark



	Central Expectation	Likely Range	Central Expectation
Expected long-term nominal return	7.9%	6.5 - 11.7%	9.0%
Expected volatility	12.5%	10.7 - 18.7%	13.3%
Probability of 20% loss over 1 year	10%	5% - 26%	11%
Probability of Failing to Achieve 7% Nominal AACR over 25-years	36%	15% - 45%	23%
Equity 'Beta'	0.7	0.5 - 1.0	0.69

### GLOSSARY OF TERMS

**Alpha:** The excess return of an investment over its benchmark. Frequently this term is used as a measure of a manager's skill.

**Alternative assets:** Includes investment types such as Private Equity, Hedge Funds and Real Estate.

**Arbitrage:** A trading strategy which requires no capital commitment or risk bearing on the part of the trader. The strategy is designed to generate profit from a price inconsistency in more than one market of a commodity, currency, or security.

**Arithmetic average:** An arithmetic average is the sum of a series of numbers divided by the count of that series of numbers.

**Asset allocation policy:** The target weights assigned to a broad range of asset classes, this largely defines the expected risk/return characteristics of an investment portfolio.

**Beta:** A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta can be thought of as the tendency of a portfolio's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. The 'market' is normally the equity market, broadly defined (as represented by the MSCI All Country World index (ACWI)), but can also be defined as other measures, e.g. inflation, interest rates. In these cases beta is purely a measure of sensitivity to these measures, as determined through a regression analysis on the returns.

**Capitalization:** The capitalization of a company is equal to the total number of shares outstanding times the current share price. A portfolio should include exposure to small, mid and large capitalization stocks to ensure adequate diversification. Different size companies tend to perform differently at different points in the market cycle.

**Cash equivalent investments:** Highly liquid debt instruments with maturities of less than one year (e.g., Treasury bills, commercial paper, certificates of deposit, and nonconvertible bonds).



**Composite benchmark:** This is calculated by weighting a group of indices and calculating the composite return over time. The benchmark is typically weighted using asset class policy targets or actual portfolio weights. Composite benchmark can be used to evaluate actual historic portfolio performance.

**Commingled fund:** A pool of money made up of contributions from a number of different investors.

**Core manager:** A manager whose tracking error does not deviate significantly from that of the benchmark. The level of deviation will vary by asset class.

**Derivatives:** Derivatives are financial instruments whose value changes in response to an underlying variable. Often these instruments require little or no net initial investment and are settled at a future date.

**Disclosure forms:** Forms in which conflicts of interest should be disclosed.

**Distressed securities:** Securities of companies that are currently in default, bankruptcy, financial distress, or a turnaround situation.

**Dollar cost averaging:** The process of buying or selling securities according to a regular schedule, over a period of time. The aim is to mitigate market risk by avoiding buying or selling at one specific point in the market cycle (e.g. buying at the peak of the market).

**Frontier markets:** Equity markets of smaller and less accessible countries in the emerging world. The precise definition of 'frontier markets' depends on which benchmark is used.

**Funds of funds:** A "fund of funds" (FoF) is an investment strategy which invests in a portfolio of investment funds rather than investing directly in shares, bonds or other securities.

**Hedging:** A hedge is a position established in an attempt to offset exposure to price fluctuations in an opposing position with the goal of minimizing one's exposure to unwanted risk.

**Inflation sensitive:** An unexpected spike in inflation negatively impacts equity and bond investments. Inflation sensitive assets are included in a diversified portfolio to protect portfolio performance during this economic scenario. Real assets (such as commodities and property) and inflation linked bonds may be included in a diversified basket of inflation sensitive assets.

**Investment Management Agreement:** A bespoke mandate agreed between an investor and a fund manager setting out the terms of reference for an investment in a segregated mandate.

**Investment Policy Statement (IPS):** A document detailing the policy which controls how an institution invests.

**Investment style:** The investment philosophy and approach of a manager.



**Letter stock:** A Letter Stock or Letter Security is not tradable in public markets because it has not been registered with the SEC (Securities Exchange Commission). The name comes from the SEC requirement for an investment letter from the purchaser, stating that the purchase is for investment purposes and not intended for resale.

**Long/Short Hedge Funds:** A fund which maintains both long and short positions in investments in an attempt to create value.

**Manager structure:** This defines the target number and type of managers by asset class. A successful manager structure diversifies across manager styles and approaches.

**Mandate:** The terms of an investment, setting out its objectives and restrictions/constraints.

**Normal distribution:** This is the most used statistical distribution. It assumes returns are evenly distributed in a bell curve. The distribution is characterized by two parameters, the mean and the standard deviation.

**Opportunistic strategies:** An approach that seeks to produce the greatest possible returns by making investments in the most attractive strategies at any given time.

**Private equity:** Equity investments which are not quoted on public markets.

**Proxy voting:** Proxy voting and delegated voting are procedures for the delegation to another member of a voting body of that member's power to vote on shareholder resolutions in his absence.

**Real return:** The return adjusted for changes in the purchasing power of money.

**Real terms:** Figures in real terms have been adjusted for changes in the purchasing power of money (inflation).

**Recession hedges:** High quality, non-callable sovereign bonds are held in the portfolio to protect value when there is a prolonged economic contraction. Equities tend to fare very badly during this type of environment. The amount of protection a bond allocation provides is a function of quality and duration.

**Return drivers:** Includes equity-related asset classes; global listed equities, equity hedge funds (directional) and private market investments. Equities have historically outperformed other asset classes and can be thought of as the "growth engine" of a diversified portfolio.

**Satellite manager:** A manager whose tracking error is likely to deviate meaningfully from that of the benchmark. The level of deviation will vary by asset class.



**Sharpe ratio:** The Sharpe ratio is a measure of the ‘efficiency’ of an investment or a portfolio, i.e. the amount of returns being generated per unit of risk. It is calculated by subtracting the risk-free rate - such as that of the 10-year U.S. Treasury bond - from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

**Standard deviation:** This is a measure of volatility. It quantifies the variability of a returns stream by measuring the extent to which returns vary from their historical average. The larger the standard deviation, the wider the range of likely returns and the greater the level of risk. Standard deviation is commonly used to describe the probability of a return occurring within a certain range. For normally distributed data, there is a 68% probability that returns will fall within +/- 1 standard deviation of the mean and a 95% probability that returns will fall within +/- 2 standard deviations.

**Strategic investing:** Investments that serve a core defined role in the portfolio and for which there should be a permanent allocation. The strategic targets are defined in the SIP.

**Tactical investing:** Opportunistic investing based on shorter term market factors, for example adding an allocation to high yield bonds when credit spreads are uncommonly wide.

**Tracking error:** A divergence between the price behaviour of a position or a portfolio and the price behaviour of a benchmark. Tracking error is reported as a "standard deviation percentage" difference. This measure reports the difference between the return an investor receives and that of the benchmark the investor was attempting to imitate

**Traditional asset classes:** These are typically thought of as Equities, Fixed Income and Cash. Commodities are increasingly included in this category.

**Venture Capital:** Investments in non-marketable securities of new companies or companies considered to be in the early stages of growth; these investments are high risk and have the potential for high return.

**Volatility reducers:** These investments have a low level of variability in returns, for example non-directional hedge fund strategies and cash. An allocation to “volatility reducers” tempers the level of volatility in the portfolio, which is largely driven by equity related assets.