

Markets

A \$100 Billion Quant Firm Is Entering Lucrative World of Credit

- Systematic money manager eyes up new trades in corporate bonds
- Richardson's research uncovers fresh opportunities for quants

by Justina Lee
October 12, 2023

Acadian Asset Management is taking aim at traditional bond pickers as the \$100 billion money manager enters the niche but growing world of quant-powered debt investing.

The Boston-based firm is raising money for its new systematic strategies in corporate bonds, focusing on high-yield and investment-grade securities in developed markets. It also plans to add long-short credit trades to Acadian's multi-strategy offering.

The pitch: Quants can find algorithmic gold in the underbelly of fixed income by using popular methods that have worked in stocks for decades – something vanilla money managers don't typically offer by design, according to Scott Richardson, who is leading the systematic firm's foray into credit.

"They have a different lens through which they identify attractive investment opportunities," he said, referring to discretionary bond managers. "A systematic approach generates alpha from untapped sources, which has the added benefit of being very diversifying from these managers."

For decades, Acadian has allocated to a host of equity and macro strategies. Now, it's following the footsteps of systematic debt peers at the likes of BlackRock, Robeco and Man Group. As electronic trading booms across the asset class – just as squeezing an edge out of equities becomes ever more competitive – quants have touted bond investing as ripe for disruption.

Similar to so-called factor investing in stocks, the likes of Richardson pick bonds by slicing and dicing their vari-

ous characteristics to figure out what novel investing styles work over the long haul. These might be trades like momentum, which involves buying bonds whose prices are rising potentially along with the creditworthiness of the issuer. It also may include value strategies, which favor securities with relatively high yields once you take into account the quality of the borrower.

Richardson's recent study found that a sample of five big active bond managers have little to negative exposures to these kind of investment opportunities.

Risky Business

The London Business School professor was previously at AQR Capital Management before the quant giant downsized its fixed-income ambitions in late 2021. The career path taken by his then-colleagues underscore enduring industry interest in these strategies. Former AQR employees Michael Katz and Diogo Palhares have also taken up credit quant-related initiatives at Citadel.

Richardson's research over the years has found that active credit managers with broad mandates like to juice returns by taking more risk than their benchmarks, such as via allocations to poorly rated debt. Meanwhile fund managers who are meant to only invest in high-yield securities dodge the pain by holding more in cash, giving their end-investors less than the intended market exposure. His previous study also found that less liquid securities don't compensate their holders with higher returns – an



Scott Richardson Source: Courtesy of Scott Richardson

indication that private credit might be more trouble than it's worth.

"If an asset owner gives us a dollar and says we want a high-yield or an investment-grade allocation, our job should be to give them a beta-one exposure to that benchmark and then provide some active risks and tracking error on top that is diversifying," he said.

All the same, applying quant approaches that have paid off in stocks to corporate bonds is far from straightforward. To start with, there's been less research on what reliably predicts bond returns. The asset class is also famously less liquid, meaning a strategy that works on paper may not deliver in the real world.

"The trajectory in credit is slowly moving toward a more truly electronic nature of trading," Richardson said. "But it's nothing like equity markets."

– *With assistance by Gina Turner*

Posted from *Bloomberg.com*, October 12, 2023, copyright by Bloomberg L.P. with all rights reserved
This reprint implies no endorsement, either tacit or expressed, of any company, product, service or investment opportunity.
#C132332 Managed by The YGS Group, 800.290.5460. For more information visit www.theYGSgroup.com.

This article has been reproduced and republished and is used with permission from *Bloomberg*. This material expresses the views and opinions of the authors and is being provided for informational purposes only. It should not be construed as investment advice, or an offer to sell or a solicitation of an offer to buy any security or as an endorsement, recommendation, or sponsorship of any company, security, index, strategy or advisory service, or to establish any investment relationship with Acadian or other investments managers mentioned. This material has not been updated since it was published and may not reflect the current views of the author(s) or recent market activity. No representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of such information. Historical economic and performance information is not indicative of future results. The views expressed are subject to change based on market and other conditions.

This article may not be reproduced or disseminated in whole or part without the prior written consent of *Bloomberg*.