CLIENT ADVISORY RESEARCH DISCUSSION TOPICS

RE-EXAMINING DIVERSIFICATION: 2020 PERSPECTIVE

In 2020, diversification has faced two challenges. One being a growing undercurrent of dissatisfaction among asset owners whose allocations to a range of alternatives haven't translated into better performance. The other being the failure of many strategies that were marketed under the premise of providing "uncorrelated returns streams" to deliver protection during the COVID crisis. In this talk, we advocate renewed commitment to diversification while confronting challenges in generating diversification that can withstand severe market stress. We examine key reasons why many popular diversifying approaches and strategies improve portfolio optics more so than economics. We outline a holistic approach to multi-asset portfolio formation designed to make use of expansive information and opportunity sets in order to produce more durable diversification. We provide examples that are relevant to both asset allocation and strategy selection.

GEOPOLITICS AND MARKETS

The COVID pandemic has generated historic volatility amid enormous uncertainty about the virus's progression, its economic impact, and the effectiveness of policy countermeasures. For investors who have been trying to assess the market's response and chart a course of action, there is little systematic research on the investment impacts of geopolitical shocks to guide them. In this discussion, we shed new light on how markets react to "shocks," based on analysis of a proprietary events dataset that includes epidemics as well as civil unrest, acts of terror, and disasters. We also consider how investors process systemic geopolitical uncertainty and whether cognitive biases make them prone to risk neglect. We discuss implications for portfolio managers and allocators.

FRONTIERS OF QUANT

Are alternative data and machine learning the future of investment management? Will they fundamentally transform the quantitative investment process, providing revolutionary insights that allow managers to tackle previously unanswerable questions? In this talk, we address these questions, separating the signal from the noise, and describe our vision of the frontiers of quantitative investing over the new few years. We discuss where we believe new tools and methods will have the greatest impact on the systematic investment process, and we consider risks and challenges in their application that are relevant to asset owners.

PASSIVE INVESTING: RESHAPING FINANCIAL MARKETS?

While passive investing has garnered enormous media attention, we understand little about how it may be affecting market behavior. Does it reflect a high level of efficiency that prevents active management from adding value? Or might its very success create new forms of opportunity as well as risk? This talk explores common misconceptions around "the rise of passive" and examines novel evidence regarding its potential impact on market efficiency and fragility. We consider implications for both active managers and asset owners.

VALUE REVISITED

Protracted poor performance of certain value formulations has led some investors to question the long-term viability of value investing, in general. We examine the fundamental and behavioral drivers of value's performance and offer perspective on the outlook. We also consider nuance that's often glossed over in conventional narratives about value, including the multifaceted and dynamic nature of value concepts and implementations, and associated questions as to whether certain approaches to value investing are vulnerable to disruption.

CRASH RISK: HEDGERS VS. HARVESTERS

Crashes are regular features of markets, and they can have a dramatic impact on long-term total returns. Even so, surprisingly few investors explicitly factor crash risk into the design of their portfolios. In this presentation, we compare prevalent approaches to reducing crash exposure, contrasting their unique benefits, hidden risks, and relative efficiency. We show how crash risk may be concealed in alternatives and private market strategies, and we consider how premium harvesters may underwrite such risk more efficiently and transparently.

FACTOR INVESTING: IS KEEPING IT SIMPLE SHORTSIGHTED?

As factor investing strategies proliferate, investors face a greater challenge than ever in evaluating alternatives. Starting with a case study involving momentum, we demonstrate benefits of sophisticated factor implementations in more precisely capturing drivers of returns premia and in controlling risk. We expose how simple approaches impose often-overlooked restrictions on the investment process, and we examine potential the costs and risks. Along the way, we outline a framework to compare factor investing implementations.

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