



Quick Take: Beta Compression During Crises

March 2020

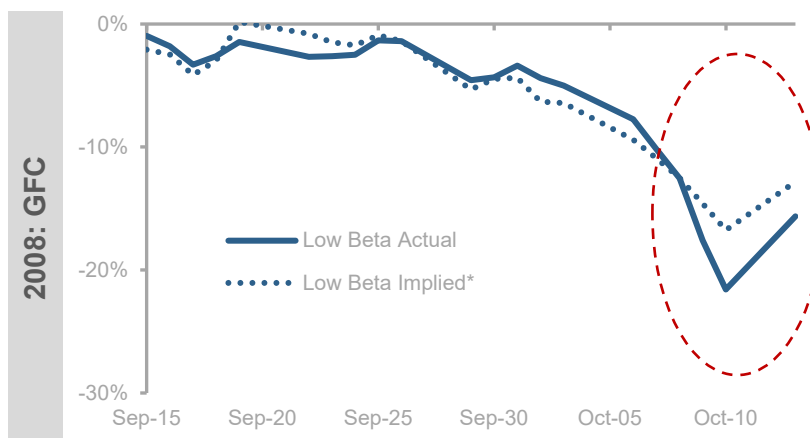
Beta compression during the Lehman sell-off...

- When market participants sell indiscriminately, stocks don't necessarily behave as their betas would predict. In particular, lower beta stocks may underperform what their betas would imply. It's not surprising to see this "beta compression" when markets fall sharply.
- In the month following the 2008 Lehman Brothers bankruptcy, for example, DM low volatility benchmarks outperformed cap-weighted indexes (MSCI World down more than 20%) but underperformed their long-term betas.
- As investors rotated into more defensive stocks, low beta performance came back into line with long-term expectations; downside protection of low volatility portfolios stabilized and then improved for the remainder of the crisis.

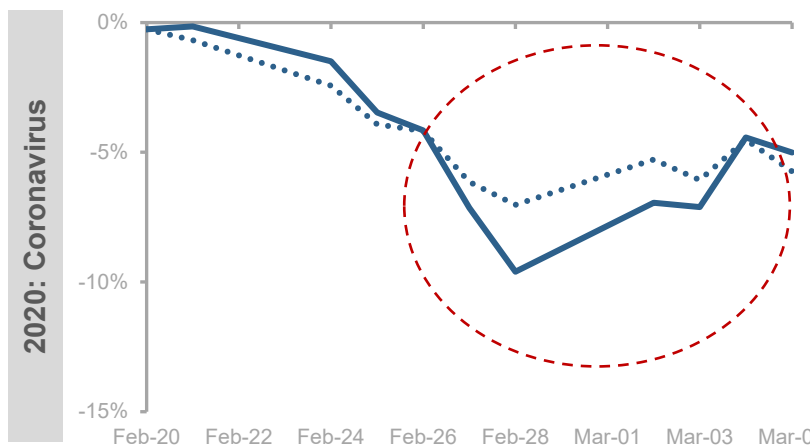
... and coronavirus

- As MSCI World fell more than 10% after news that COVID-19 was spreading beyond Asia, low volatility benchmarks again underperformed their historically estimated betas.
- Low beta DM stocks recovered relative to their long-term beta informed expectations during the snap-back rally in early March. In this case, defensive stocks enjoyed gains similar to cyclicals, perhaps due to the continuing decline in yields.
- As a result we have seen the downside protection of DM low volatility portfolios recover – more quickly than during the initial stages of the 2008 GFC.

Low Beta DM Returns during Two Crises



Shortly after Lehman collapsed, low beta stocks suffered greater losses than their betas would have predicted, i.e., "beta compression."



In 2020, we again saw low beta portfolios suffer from beta compression, but they quickly recovered relative to our expectations of the protection they would provide.

ACADIAN ASSET MANAGEMENT LLC

* "Low Beta Implied" reflects the return on portfolios based on their historically-estimated betas to MSCI World and MSCI World's realized return. Hypothetical high and low beta portfolios reflect high and low beta quintiles (equal capitalization), with stocks' weights derived from MSCI World Index. Sources: Acadian calculations, MSCI. MSCI data copyright 2020. All Rights Reserved. Unpublished. Proprietary to MSCI. For illustrative purposes only. Results do not reflect transaction costs or other implementation frictions. It is not possible to invest directly in any index. Every Investment program has the opportunity for losses as well as profits. Past results are not indicative of future results.



Mark Birmingham, CFA
Acadian Asset Management LLC
SVP, Lead PM, Managed Volatility
MBirmingham@acadian-asset.com



Michele Goe, Ph.D.
Acadian Asset Management LLC
AVP, Analyst, Research
MGoe@acadian-asset.com

LEGAL DISCLAIMER

Acadian provides this material as a general overview of the firm, our processes and our investment capabilities. It has been provided for informational purposes only. It does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or to purchase, shares, units or other interests in investments that may be referred to herein and must not be construed as investment or financial product advice. Acadian has not considered any reader's financial situation, objective or needs in providing the relevant information.

The value of investments may fall as well as rise and you may not get back your original investment. Past performance is not necessarily a guide to future performance or returns. Acadian has taken all reasonable care to ensure that the information contained in this material is accurate at the time of its distribution, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of such information.

This material contains privileged and confidential information and is intended only for the recipient/s. Any distribution, reproduction or other use of this presentation by recipients is strictly prohibited. If you are not the intended recipient and this presentation has been sent or passed on to you in error, please contact us immediately. Confidentiality and privilege are not lost by this presentation having been sent or passed on to you in error.

Acadian's quantitative investment process is supported by extensive proprietary computer code. Acadian's researchers, software developers, and IT teams follow a structured design, development, testing, change control, and review processes during the development of its systems and the implementation within our investment process. These controls and their effectiveness are subject to regular internal reviews, at least annual independent review by our SOC1 auditor. However, despite these extensive controls it is possible that errors may occur in coding and within the investment process, as is the case with any complex software or data-driven model, and no guarantee or warranty can be provided that any quantitative investment model is completely free of errors. Any such errors could have a negative impact on investment results. We have in place control systems and processes which are intended to identify in a timely manner any such errors which would have a material impact on the investment process.

Acadian Asset Management LLC has wholly owned affiliates located in London, Singapore, Sydney, and Tokyo. Pursuant to the terms of service level agreements with each affiliate, employees of Acadian Asset Management LLC may provide certain services on behalf of each affiliate and employees of each affiliate may provide certain administrative services, including marketing and client service, on behalf of Acadian Asset Management LLC.

Acadian Asset Management LLC is registered as an investment adviser with the U.S. Securities and Exchange Commission. Registration of an investment adviser does not imply any level of skill or training.

Acadian Asset Management (Japan) is a Financial Instrument Operator (Discretionary Investment Management Business). Register Number Director-General Kanto Local Financial Bureau (Kinsho) Number 2814. Member of Japan Investment Advisers Association.

Acadian Asset Management (Singapore) Pte Ltd, (Registration Number: 199902125D) is licensed by the Monetary Authority of Singapore.

Acadian Asset Management (Australia) Limited (ABN 41 114 200 127) is the holder of Australian financial services license number 291872 ("AFSL"). Under the terms of its AFSL, Acadian Asset Management (Australia) Limited is limited to providing the financial services under its license to wholesale clients only. This marketing material is not to be provided to retail clients.

Acadian Asset Management (UK) Limited is authorized and regulated by the Financial Conduct Authority ('the FCA') and is a limited liability company incorporated in England and Wales with company number 05644066. Acadian Asset Management (UK) Limited will only make this material available to Professional Clients and Eligible Counterparties as defined by the FCA under the Markets in Financial Instruments Directive.



Boston London Singapore Sydney Tokyo

ACADIAN-ASSET.COM