



Newsletter - November 2017

In this month's newsletter:

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- *Upcoming events*

New Stakeholders

We are thrilled to welcome new additions to the SBAI family:

Signatories

- ARP Americas LLC (USA)
- Highbridge Capital Management LLC (USA)
- Polar Asset Management Partners Inc (Canada)

SBAI in Canada

Over 50 Canadian institutional investors and managers gathered at the annual SBAI roundtable in Montreal. The speakers and panellists explored innovations in investor risk management and factor-based investing.

The panel on factor investing and alternative/dynamic beta focussed on:

Importance for investors to understand sources of return:

- Risk premia (investors are compensated for a systematic risk), i.e. asset class risk premia and factor risk premia,
- Alpha (information edge, behavioural edge, implementation edge), and
- Arbitrage

Key considerations:

- Not all factors are risk premia, some are “firm characteristics”
- Data mined factors (with no greater probability of delivering future returns)
- Self-destruction of certain sources of return (investors arbitrage the exploitable pattern away)

Implementation challenges:

- “Devil in the implementation” – small variations in implementation can result in wide range of outcomes
- Need for back-testing standards

Whether factors can be timed (timing and selection of factors as a source of alpha)



In order to further explore this area, the SBAI has established a working group.

The institutional risk management panel explored the following topics from the perspective from a corporate and a public pension plan:

- **Approaches to organising the risk function**, incl. group wide risk management with specialist risk teams within the alternative investment group.
- **Approaches to building diverse risk teams**, incl. hiring (former) investment managers to enhance asset class specific insight
- **Involvement of legal, operational due diligence**, accounting/actuarial teams in risk process
- **Examples for hands on risk management techniques for alternative investments:**
 - Challenging the investment teams (“preventing them from falling in love with their investments”)
 - Ensuring that investment teams fully understand what the underlying managers are doing
 - Use of quant tools (e.g. to detect style drift)
 - Stress testing/scenarios where correlation assessments are difficult
- **Translation of risk information into board reporting** (for non-investment boards): “building the case for low correlation with equities”

The discussion also highlighted the importance of complementing risk data/analytics with common sense/judgement overlay.

The SBAI would like to thank the speakers from Albourne, Caisse de dépôt et placement du Québec, Canada Pension Plan Investment Board, CN Investment Division, Fiera Capital, Innocap and Unigestion for their valuable contributions to the discussion. The SBAI also would like to thank Caisse de dépôt et placement du Québec for hosting the event.

Factor-based investing working group launched

Following our invitation in our last month’s newsletter, we are pleased to inform you that the SBAI has set up a working group to explore **factor-based investing/dynamic beta/alternative beta**. The new working group will look into if /where standards and/or guidance can help address potential issues in areas such as governance, disclosure, etc.

Upcoming events

- **13 December, Tokyo: SBAI Institutional Investor Roundtable**
The event will bring together Japan’s investor and manager community. Speakers include senior representatives from Albourne, CQS, Goldman Sacks Investment Partners Asia, Japan Post Bank, Misaki Capital, PAAMCO Asia, Strategic Capital and Winton.
- **14 December, Shanghai: SBAI Institutional Investor Roundtable**
The event will bring together the Chinese investor and manager community. Speakers include senior representatives from CPPIB, Jasper Capital, Man Group, PAAMCO Asia, Springs Capital and Wind Information. The event will be hosted by Shanghai Lujiazui Financial City.



- **6 February, Helsinki: SBAI Institutional Investor Roundtable**
An annual gathering of the Nordic institutional investor and manager community. Details TBC.
- **8 February, Geneva: SBAI Institutional Investor Roundtable**
An annual gathering of the Swiss institutional investor and manager community. Details TBC.
- **7 March, Toronto: SBAI Institutional Investor Roundtable**
An annual gathering of the Canadian institutional investor and manager community. Details TBC.

The full event schedule is available [here](#).

APPENDIX	
ARP Americas LLC	<p>ARP Investments (“ARP”) employs a technology driven systematic investment process that seeks to generate superior risk-adjusted returns that are uncorrelated with equities and bonds. Through investments in liquid markets, ARP designs portfolios to have large capacity. Currently, ARP invests in a number of market selection (momentum, valuation, carry and trend) and security selection (valuation, momentum, quality and event) risk premia. ARP groups and trades these risk premia in the following strategies: Trend Following, Stock Selection, Equity Event, and Systematic Macro. To best meet client needs, ARP offers combined Multi-Strategy exposures, individual exposures to underlying strategies, and customized strategy combinations.</p> <p>The Firm focuses exclusively on alternative risk premia offerings to avoid potential conflicts that arise from having products with significantly different economics within the same firm. ARP Investments has a team of 30+ professionals with advanced academic backgrounds in Sciences, Mathematics and Engineering who focus all of their efforts in enhancing investment processes and trading capability. In addition, ARP’s partners have been early pioneers in researching/investing in Alternative Risk Premia factors. The partners, on average, have spent over 20 years researching, investing and trading alternative risk premia factors.</p>
Highbridge Capital Management, LLC	<p>Highbridge Capital Management, LLC (“HCM”) is a global alternative investment management firm founded in 1992. Since its inception, the firm has developed a diversified investment platform which offers a wide range of investment solutions across multi-strategy and single strategy hedge funds and daily liquidity products. With over 175 employees, including approximately 60 investment professionals, HCM manages capital for investors including financial institutions, public and corporate pension plans, sovereign wealth funds, Taft-Hartley plans, endowments, foundations, and family offices as well as individuals and their estate planning vehicles. The firm is based in New York with offices in Hong Kong and London, and has approximately \$5 billion in AUM (as of October 31, 2017).</p>



Polar Asset Management Partners Inc.	Polar, founded in 1991, is a multi-strategy organization with a focus on investment strategies that are arbitrage oriented, and exhibit an absolute return profile. Polar owns the longest track record in Canada within this segment and manages US\$3.2 billion on behalf of institutions, wealth managers and individual investors. The firm's multi-strategy, arbitrage oriented approach includes Convertible Arbitrage, Fixed Income Arbitrage, Structured Products Arbitrage, Equity Long/Short, and Event Driven among others that complement arbitrage. The team is comprised of seasoned portfolio managers, analysts and risk managers that are committed to generating attractive risk-adjusted returns with a keen focus on capital preservation.
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