



Practitioner Seminar
Wednesday 20th January 2016
kindly hosted by UBS at 1 Finsbury Avenue, London EC2M 2PP
Summary of Presentations

Active Management in an Accommodative Environment

David Buckle, *Fidelity*

Academic discussant- Stephen Satchell, *Trinity College, Cambridge; University of Sydney*

In accommodative monetary policy, even conservative investors need to leverage their portfolio or increase exposures to risky assets. Under certain assumptions, adding even a small amount of alpha can help significantly reduce total portfolio risky allocation, with an IR as low as 0.06 already adding value over passive.

Back to Basics: Short Series Markowitz

Robert MacRae, *Arcus Investment*; Academic discussant- Stephen Satchell

Portfolio optimisation implicitly requires the estimation of the inverse of the covariance matrix, which is difficult to do accurately from short series. A simple and intuitive solution is to impose a plausible floor on all the eigenvalues of the covariance matrix. This makes even unconstrained optimised portfolios sensible and reduces problems such as alpha-eating, overtrading, and over-reliance on the regularisation imposed by constraints.

Low risk Investing and Rising Interest Rates

David Jessop, *UBS*

How and why is low beta investing sensitive to interest rate risk? Controlling for economic sectors eliminates the sensitivity. One should note that low risk stocks do not outperform in return space but do in risk-adjusted space (i.e. deliver higher Sharpe ratios) which may stem from time-varying dispersion of betas.

Elegant Portfolio Discovery

Wing Cheung, *Lattice*

Wing presented a practical Bayesian model to integrate investment views in portfolio construction in a more explicit way rather than imposing them through constraints thereby offering ways of visualising the impact of such views on portfolios.

Smart Portfolios v4.0

Jason MacQueen, *Northfield Information Services*;

Academic discussant – James Sefton, *Imperial College London*

Jason presented further work on constructing “smarter” smart beta portfolios that use mean-variance optimisation to deliver concentrated high factor exposure portfolios. Using Sharpe ratios to time factor (and equity) exposure may add value.

Quantifying Macro Risks

Dieter Vandenbussche (speaker), Arnab Banerjee, Sebastian Ceria, *Axioma*
Academic discussant – James Sefton

How macro factors can be used to measure macro sensitivity through the lens of factor risk models, leading to intuitive stress testing.

Liquidity in Equity Markets

Sviatoslav Rosov, *CFA Institute*

Sviatoslav discussed the issue of liquidity in equity markets in the context of the growth of dark pools and fragmentation of trading. He presented evidence from a study of liquidity provision in the US and UK which looked at the issue of phantom liquidity on lit markets.

Discussants

James Sefton and Steve Satchell provided insightful discussions of some of the above presentations, in particular challenging some of the methodologies and assumptions.