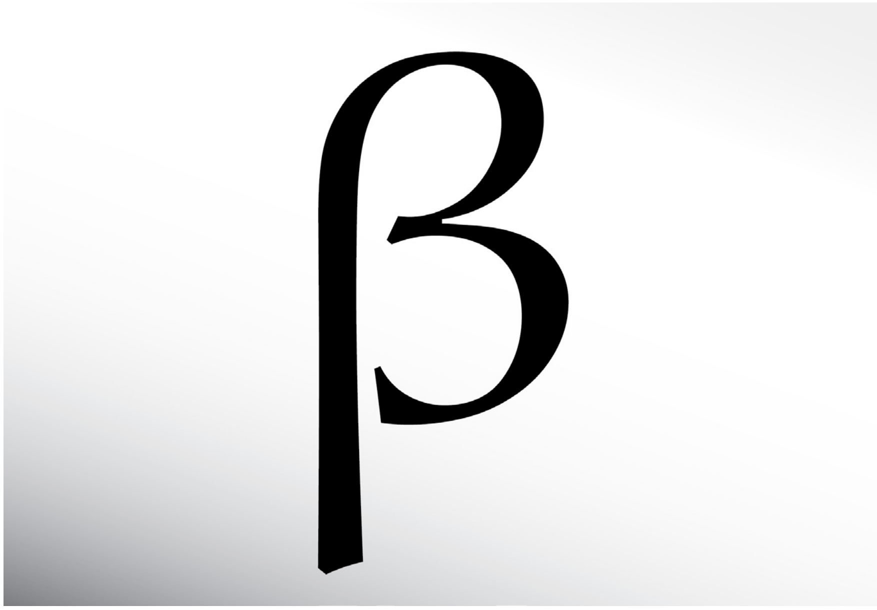

Pioneering the Alternative Beta Space: A View From Portfolio Management

Yaz Romahi's development of the Alternative beta investment space has moved Alternative beta from a theoretical concept to an investable reality over the last five years. A key thesis in the Alternative beta offering he has developed is that it raises the standard for hedge fund managers and investors. In the same way that traditional managers need to outperform traditional Beta, Yaz has called for Alternative beta to act as a tool for evaluating Alternative investment managers as well as reducing investment fees.

Q: What is your view on alternative beta and how alpha and beta are being redefined?

ROMAHI: Hedge fund investments have entered the mainstream and become a standard part of asset allocation due to their attractive diversification benefits. As a result, academic interest in their sources of return has intensified. The academic literature has increasingly been able to describe the return drivers behind a wide range of hedge fund styles as there typically exists common risk exposures shared by hedge fund managers pursuing similar strategies. Since these return drivers are systematic in nature, they have been termed alternative beta. Alternative beta provides access to the returns to factor risks uncorrelated to market risk that are typically due to behavioral biases, market anomalies, systematic deviations from equilibrium or alternative risk premia. These risk factors can typically capture a meaningful portion of hedge fund returns.

Ultimately, the growing knowledge around the concept of alternative beta will lead to the reclassification of a significant portion of what is today considered "alpha". Furthermore, increased understanding by investors of the factor risk exposures associated with different hedge fund styles will also help in the pursuit of better diversified portfolios with greater transparency. The development of strategies that have made the concept of "alternative beta" investable has provided investors with a compelling portfolio solution.

From an investor's perspective, the optimal alternatives portfolio becomes a core-satellite structure with alternative beta strategies as the core diversifying holdings with satellite exposures to high conviction alpha managers. Indeed, as investors increasingly appreciate this concept, we would expect the alternatives industry to follow in the same trajectory that has taken place in the traditional investment world – with a bifurcation of the industry into low cost, transparent alternative beta solutions on one side and highly concentrated idiosyncratic alpha managers on the other.

Author's Bio

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Yazann Romahi, PhD, CFA is the head of Global Multi-Asset Research in the Multi-Asset Solutions team, responsible for the quantitative models that help establish the broad asset allocation reflected across the Multi-Asset Solutions team's portfolios globally. The team is also responsible for the design and portfolio management of the Alternative Beta suite of products. An employee since 2003, Yazann previously worked as a research analyst at the Centre for Financial Research at the University of Cambridge, holds a Ph.D. in applied mathematics from the University of Cambridge, and is a CFA charterholder.