Editors' Letter

In this issue of the *Alternative Investment Analyst Review*, we focus on research topics that are generally under-represented in academic and practitioner literature, but are of great interest to CAIA members.

Financial risk management tends to focus on market risk. Given reasonable models, computing power, and attention to the limitations of one's assumptions, investors can generally get a fairly accurate picture of the market risk of their portfolios. In contrast, one might argue that operational risk can be much more difficult to nail down. This issue's "What a CAIA member should know" section provides an applied approach to operational risk management.

Financial theory often is based on the interests of the "average investor." However, the preferences of many investors differ significantly from the average. This can create opportunities for investors to take advantage of prices which may not be in line with their preferences. One area in which an investor may differ from the "average investor" is in their investment time horizon. Many institutional investors face a time horizon that is much longer than the "average investor." To the extent that long-horizon investments are priced based on the needs of short-horizon investors, there may be an opportunity for long-horizon investors to earn abnormal returns. Such opportunities may exist in infrastructure investments as well as other illiquid investments.

We hope that the articles featured in this issue of the *Alternative Investment Analyst Review* will provide insight into some research areas that tend to get limited exposure. As always, we encourage and appreciate your feedback and look forward to your submissions to the AIAR.

Sincerely,
Hossein Kazemi and Edward Szado
Editors, AIAR

Call for Articles

Article submissions for future issues of *Alternative Investment Analyst Review* are welcome. Articles should be approximately 15 pages, single-spaced, and cover a topic of interest to CAIA members. Please submit your article to **AIAR@CAIA.org**.

Chosen pieces will be featured in future issues of AIAR, archived on **CAIA.org**, and promoted throughout the CAIA community.

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ABSTRACT: According to the often-cited CapCo study (2003) about hedge fund failures, 50% of those failures were driven by operational risk. Operational risk management is increasingly important, not only for hedge funds, but also for other asset management companies, such as private equity companies, family offices or independent asset managers. Pressure from investors and regulators, as well as increasing market competition, require state-of-the-art operational risk management from these institutions. In this article, Huber and Imfeld take a practitioner's view of how an operational risk framework can be implemented as part of an enterprise-wide risk and control system in a hands-on approach. They outline how a mid-sized asset management organization can develop an integrated perspective on its main risks and set priorities on how to mitigate and control these risks.

ABSTRACT: After more than two decades of relative price stability, concerns over inflation have been growing since the 2008 financial crisis. Rebounding commodity prices, monetary easing by central banks, and excessive government debt have all played a role in heightening such concerns. Faced with these adverse conditions, investors are increasingly favoring real assets, which preserve the purchasing power of these assets and serve as a portfolio diversifier. Across real assets, infrastructure investments have recently attracted the most interest among investors, partly due to their cash-generative capacity. In addition to this appealing investment characteristic, infrastructure investments also tend to be uncorrelated with the broader vagaries of the business cycle. The paper appraises indirect investments in infrastructure, with a focus on the relevant S&P Dow Jones indices. The author discusses the definition of infrastructure, the salient investment features of infrastructure indices, the performance of infrastructure indices compared to core equities and in inflationary environments, the potential diversification benefits of an allocation to infrastructure, and provides a review of S&P Dow Jones Infrastructure Indices.

ABSTRACT: Illiquid instruments such as distressed debt, private equity, certain types of loans, or the securities of firms experiencing turnaround situations are difficult to price (due to limited market participants, infrequent transactions, complex

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