ALPHA CENTAURI RISK

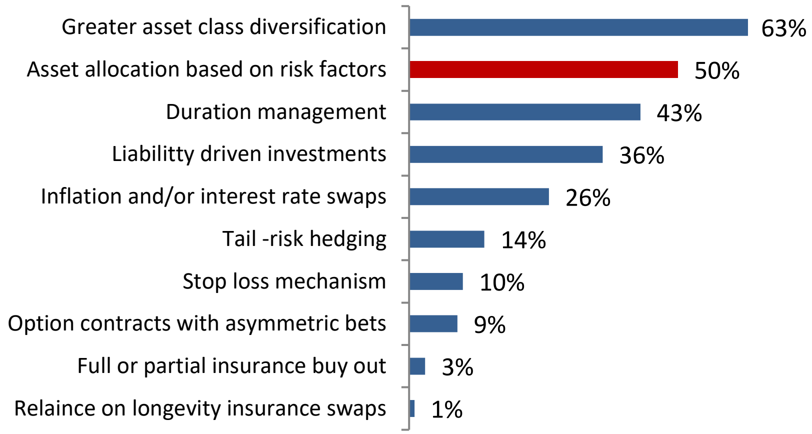
Funds@Risk

Separating
„Low Cost Beta“
from
„Expensive Alpha“

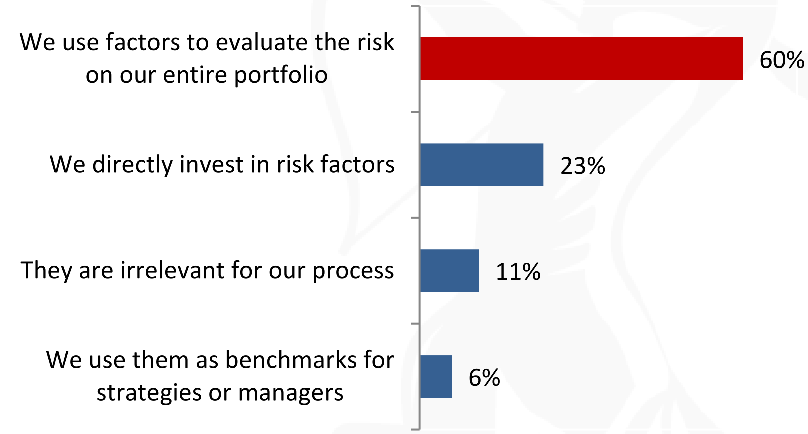
Factor-based fund diagnostics

Targeting enhanced returns, improved diversification and cost reductions

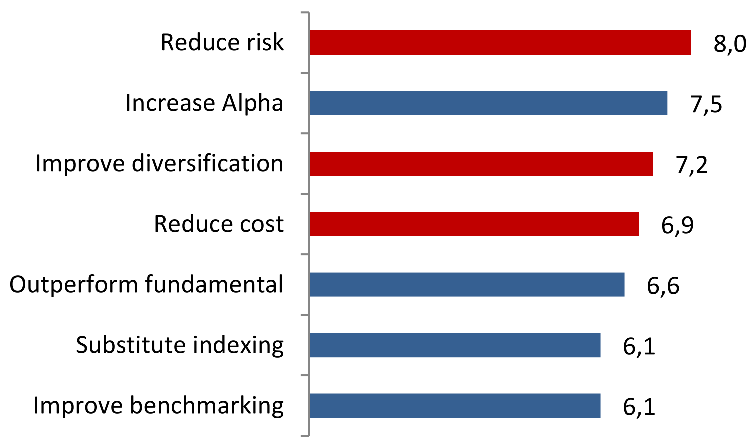
Approaches to portfolio management*



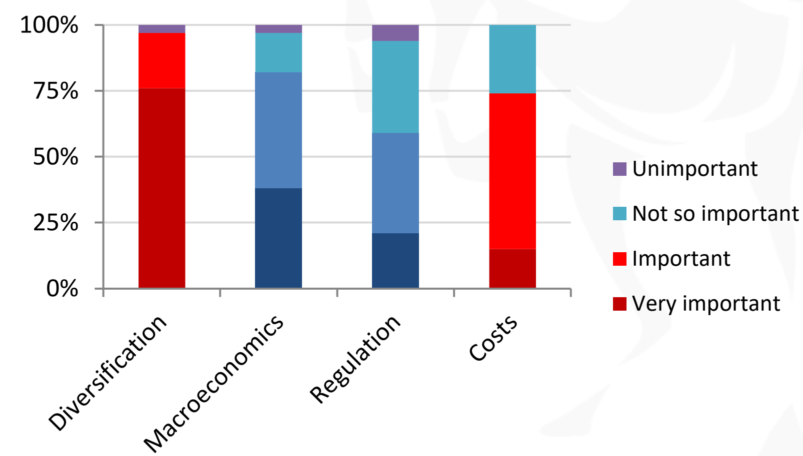
Use of risk factors in portfolios**



Drivers of adoption for factors***



Investment parameters of pensions****



* Amundi:Coping with financial repression, 2016
*** Invesco: Global factor investing study, 2016

** JP Morgan risk premia conference, 2017
**** SFAMA: Investment Decisions of Swiss Pension Funds, 2016

Fund Selection

The procyclical problem of „3 y. Track Record“

The Harm in Selecting Funds that Have Recently Outperformed

„The authors empirically investigate the investment impact of commonly used manager selection heuristics that involve redeploying assets from underperforming to outperforming managers.

Studying portfolios constructed using the typical three-year evaluation periods employed by most pension funds, ***the authors find that investors who chose managers with poor recent performance earned higher benchmark-adjusted returns than those who chose managers with superior recent performance.***

Their findings pose a challenge for asset owners: If past performance is used at all in selecting managers, it is the best-performing managers who should be replaced, not the underperforming ones. Realistically, however, a policy of replacing successful managers with poor performers is unlikely to gain widespread acceptance. Instead, the practical implication of this article is that asset owners should focus on factors other than past performance."

Bradford Cornell, Jason Hsu, and David Nanigian
The Journal of Portfolio Management Summer 2017, Vol. 43, No. 4: pp. 33-43

Trends in turnover of football and hedge fund managers

„We noted a tendency to redeem funds following 9-12 months of poor or lacklustre performance. *What we found when we fully analysed the subsequent performance of those redeemed funds was a very clear reversion to the mean immediately after the redemption.*

Not only that, but when we studied the pre-investment and post-investment performance of the new purchases, we found a bias toward funds with stellar performance. ***Aurum was drawn to the new 'stars' of the industry*** *but, lo and behold, these stars tended to revert downwards towards the mean subsequent to purchase.*

We understand the compelling urge to react; ***doing nothing in times of poor performance can be perceived as a sign of weakness or even a lack of leadership****. Sticking with your original investment thesis if the facts have not changed, however, can ultimately prove beneficial.* ***Some crowds welcome reactionary answers to problems – but often the illusionary effects of change can be short-lived****, … All too often the shining stars revert to the mean and, as is often forgotten, the ousted 'losers' come back to form. The cost of churn is high and the opportunity cost associated with it can often go unnoticed."*

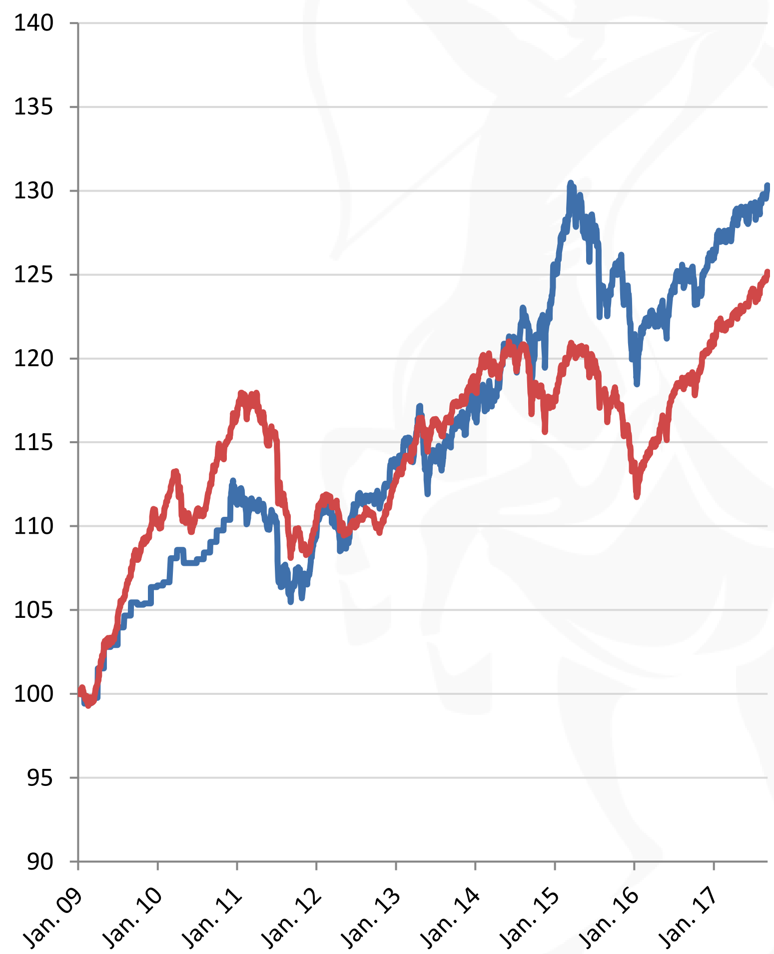
Charles Akingbehin, Aurum Research, 2017

Portfolio Risk in Absolute Return Funds

No meaningful difference between Hedge Funds und UCITS Abs.Return...

HFRX Hedge Fund Index

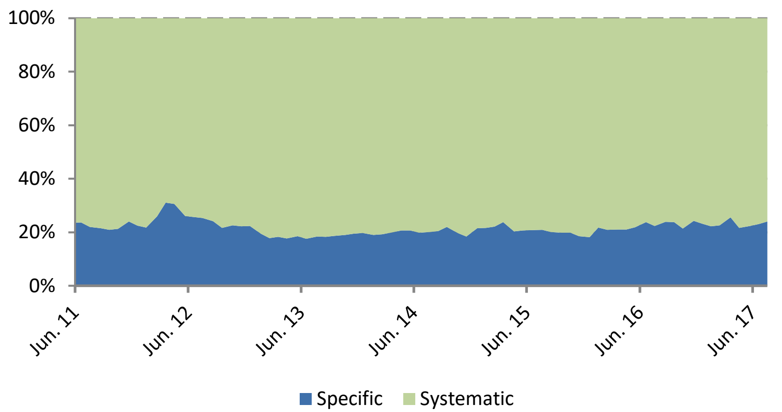
HFRX (rot) vs. HFRU Ucits Index



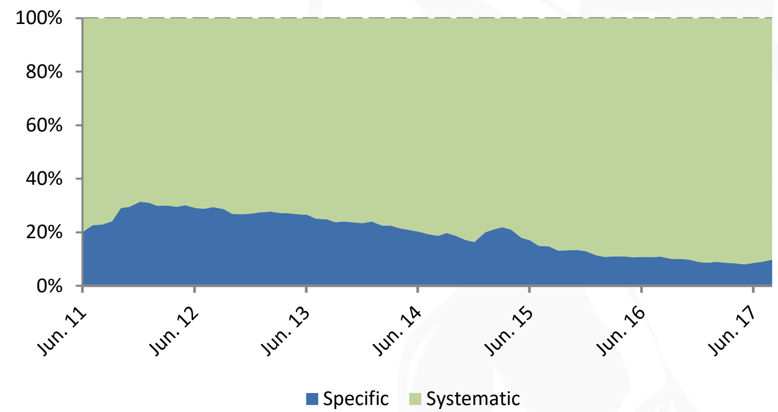
„True diversification“ of FOF portfolios is a challenge

... as the risk profile is more or less identical

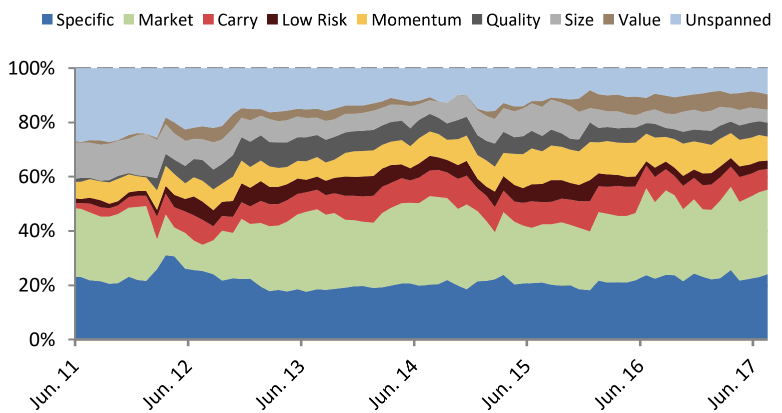
HFRX Risk decomposed



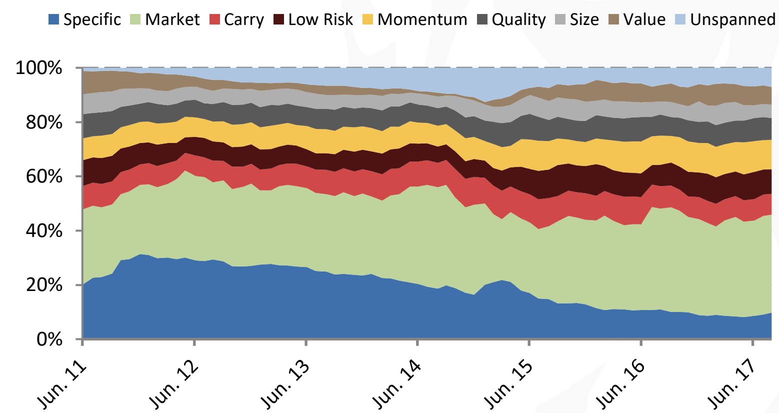
HFRU Risk decomposed



HFRX Risk-Attribution



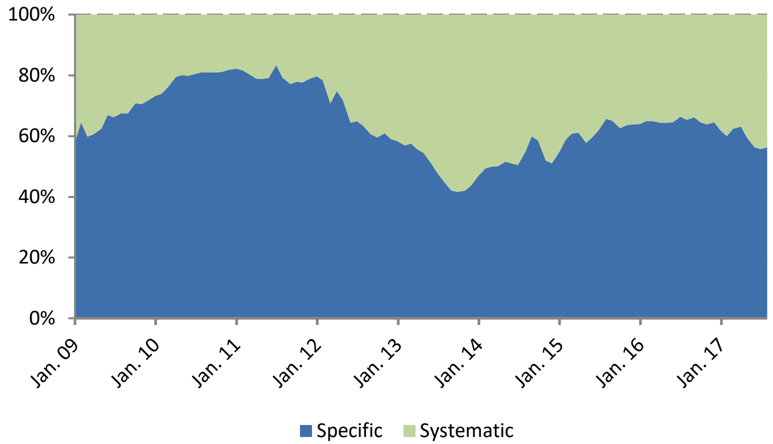
HFRU Risk-Attribution



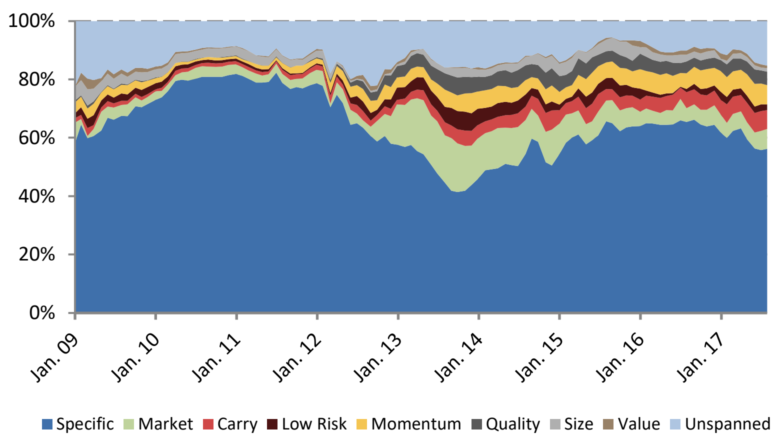
„Track record“ can be counted, risk is what counts

A single fund may exhibit a reasonable low level of systematic risk...

CAPM View



Risk-Attribution



Interpretation

In this example, the risk picture reveals

- 40% systematic risk (trad. market risk)
- 60 % specific risk

Quite good for an Absolute Return fund.

Using modern risk management tools, risk can be broken down to a higher level of detail.

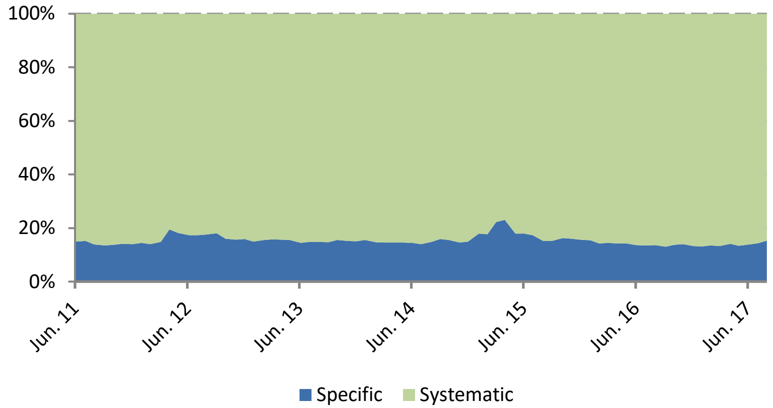
Using those tools, it is visible that a substantial part of systematic risk can be explained by equity factors:

- Carry
- Low Risk
- Momentum
- Quality
- Size
- Value

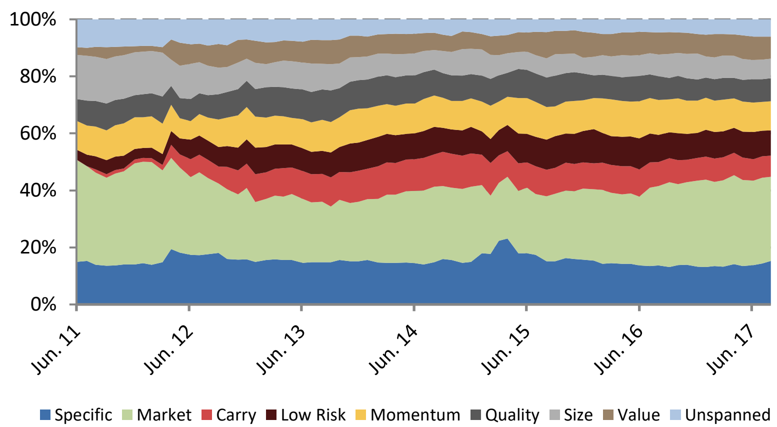
Diversification is more than simply stacking funds

… but specific risk components are mostly diversified away in FOF portfolios

Systematic Risk dominates portfolios



Factor exposures are a main driver



Total volatility falls, market risk rises

Funds*	Total Volatiliy	Market Risk %
Fund 1	2,9%	24,5%
Fund 2	10,3%	82,6%
Fund 3	7,6%	27,2%
…		
Fund 20	4,5%	20,0%
Fund 21	14,3%	47,8%
Fund 22	3,2%	12,3%
Weighted Average	6,5%	47,7%
Equal weighted portfolio**	4,0%	85,6%

"This is a general problem for multi-manager portfolios. Even if each individual manager takes mainly stock-specific risk **(as shown in the Absolute return fund before),** *the aggregate portfolio can have a much higher fraction of active risk in smart-beta factors."* R. Kahn; Smart Beta Manual, 2015

* Absolute ReturnFunds with more than 10 History; source Morningstar
** Equal weighte d portfolio using 22 funds

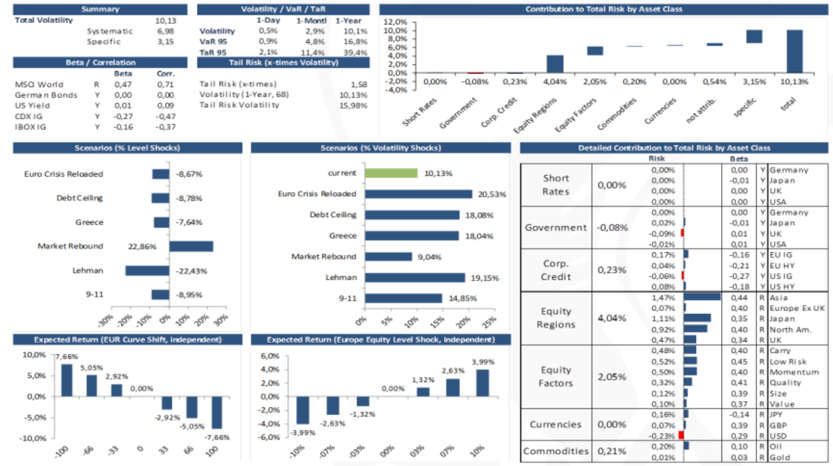
Beyond asset classes – risk viewed through a factor lens

No information overflow - customized reports provide information you need

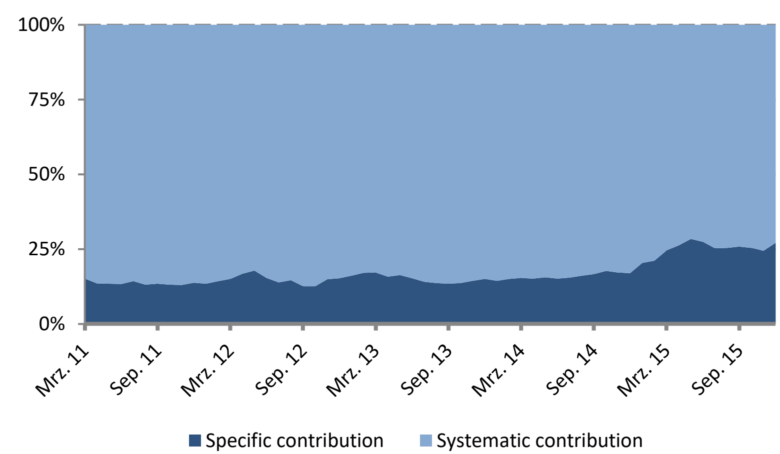
Risk based analytics and rankings

		Total Volatility	Specific percentage
1	WARBURG-DAXTREND-FONDS	11,8%	46,7%
2	VALUE-HOLDINGS CAPITAL PRNTR	10,9%	36,2%
3	ACATIS CHMP SEL-ACATIS AK DE	13,3%	33,2%
4	GS&P FNDS DEUTSCHLAND AKTV-G	11,6%	33,1%
5	NORD/LB GLB CHALLEN IND-I	15,3%	31,6%
6	CONCENTRA-A	17,2%	29,8%
7	ALL NEBENWERTE DEUTSCH-A	16,7%	29,3%
8	ALLIANZ THESAURUS-AT	17,3%	28,4%
9	ALLIANZ ADIFONDS	17,2%	27,9%
10	FPM STOCKPICKER GERMANY SM-C	15,1%	27,1%

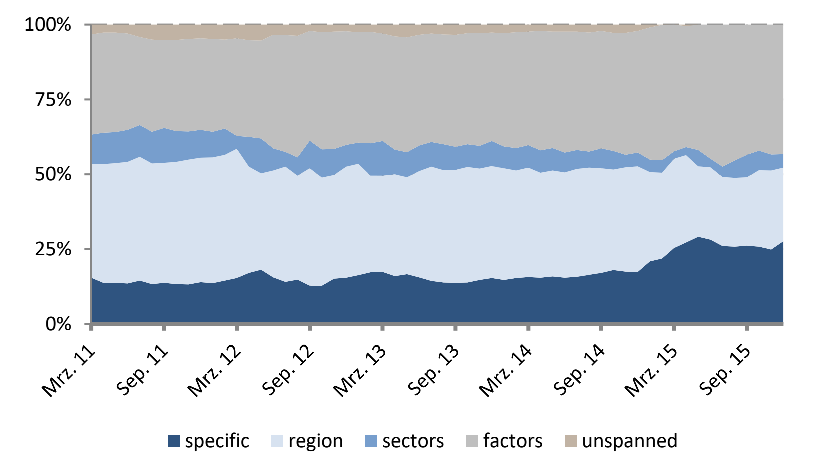
Single fund dashbords



Historical single fund risk from top...



...and more detailled



Alpha Centauri Risk

Take a 360° view on your portfolio and make more well informed decisions

At a glance	
Better…	• information for comprehensive and consistent portfolio views • features to identify, analyze and intelligently manage portfolio risk
Faster…	• operational capability within a few weeks • access to up to date and detailed risk views
Cheaper…	• as project costs and project risks are low • no own hardware / IT-infrastructure necessary

Client centric…	• bespoke solutions for all asset classes
	  • Equity / Bond / Credit
	  • Balanced / Multi-Asset
	  • Absolute Return

Strong Partnership…	• **FIS™:** largest producer of financial software worldwide; 55.000 employees; S&P 500 member, 25 bn. $ marketcap. • **Alpha Centauri:** 10 years track record in factor-based equity investment, since April 2016 iSTOXX Europe factor family; since May 2017 EUREX- Futures on factor indices
Value added	• **more well-informed investment decisions** • **improvement in diversification** • **maximize transfer-coefficient and achieve better performance**

Contact

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Strong partnerships

Alpha Centauri	FIS©

Alpha Centauri

Alpha Centauri is an asset management boutique, which has specialised in liquid alternative risk premia and equity factor strategies. Within the investment industry, we are well-known for solutions based on high quality data and our risk management competence.

Based on our long-standing know-how in the area of risk management – identification, analysis, and controlling – we offer our clients support in the further development of risk management in the context of joint projects.

ALPHA CENTAURI

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FIS' investment risk solution (APT) provides award-winning investment technology for multi-asset class risk management, analytics and risk reporting, serving buy-side institutions globally.
FIS models market risk and liquidity risk across both liquid and illiquid asset classes, supporting regulatory reporting, portfolio optimization. The solution can be delivered as an installed or cloud-hosted offering, with a managed service component for clients who wish to outsource risk-based business processes.
FIS' investment risk customers include institutional asset managers, pension funds, hedge funds, private banks, wealth managers, sovereign wealth funds and life insurance firms.

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