



ALPHA CENTAURI

Multi Asset Investing in the “roaring 20’s” - low returns, higher risk?

Brighttalk Summit
October, 29th 2020

Brighttalk Multi Asset Summit

Major themes

Investing in “the roaring 20’s”	
Low or negative yields, weak equity returns	<ul style="list-style-type: none">• Alternative sources of return<ul style="list-style-type: none">➤ Traditional and alternative risk premia in one portfolio➤ “Searching for better beta” instead of „Searching for Alpha“
Loss of diversification opportunities	<ul style="list-style-type: none">• New sources of diversification<ul style="list-style-type: none">➤ „Risk Mitigation“ strategies instead of bonds➤ use of leverage for diversification purposes instead of simple amplification
Investment process	<ul style="list-style-type: none">• Total Portfolio Approach<ul style="list-style-type: none">➤ more efficient than traditional asset allocation in combination with „stop loss“➤ all sources of return in a permanent battle for a weight in the portfolio➤ Risk-based allocation
Objectives	<ul style="list-style-type: none">• better Return-/Risk-Trade Off<ul style="list-style-type: none">➤ stable cash flows / dividend distributions➤ targeted portfolio-risk

Who we are

Investment boutique working for and with leading players in financial services

Explore our world class network

STOXX

EX e u r e x

LIXX
INDEX INNOVATION

ISS ESG 

S&P Global
Market Intelligence

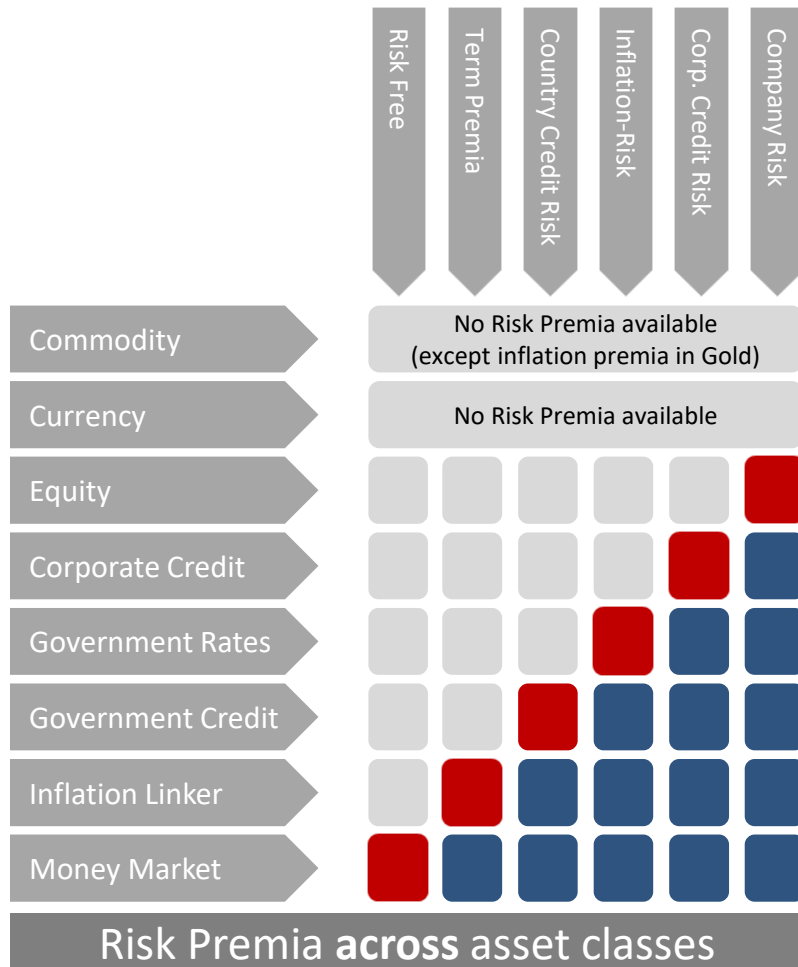
Empowering
the Financial World

FIS

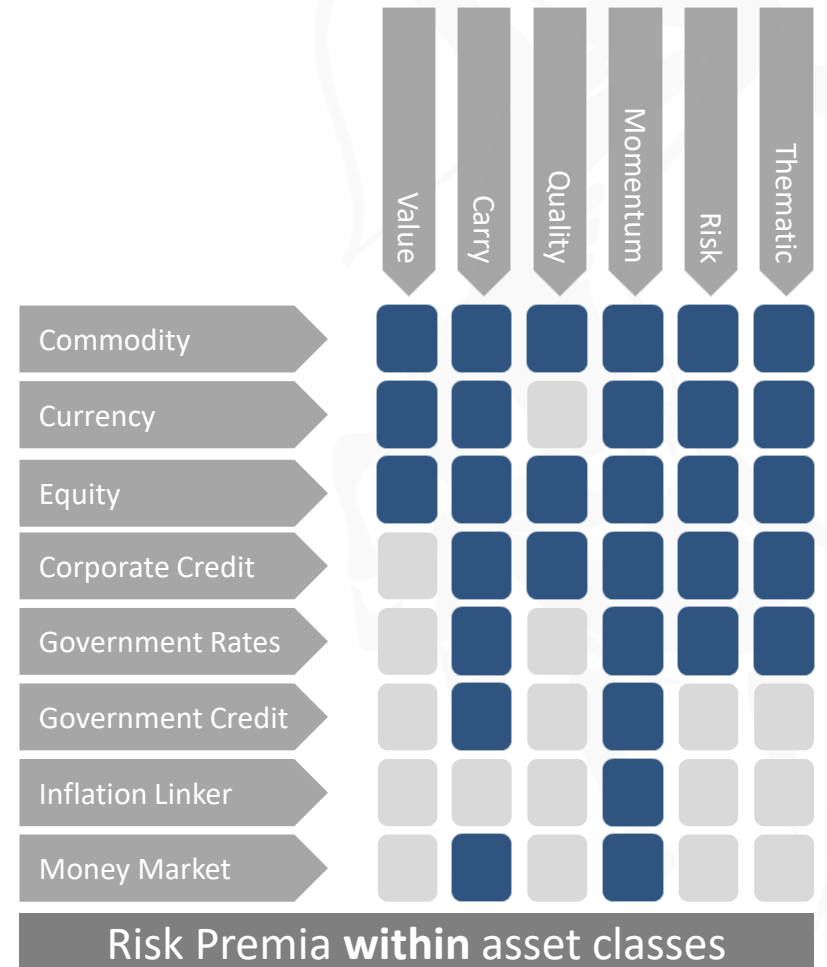
What we do

Our work is deeply-rooted in a risk-factor framework

Traditional Risk-Premia

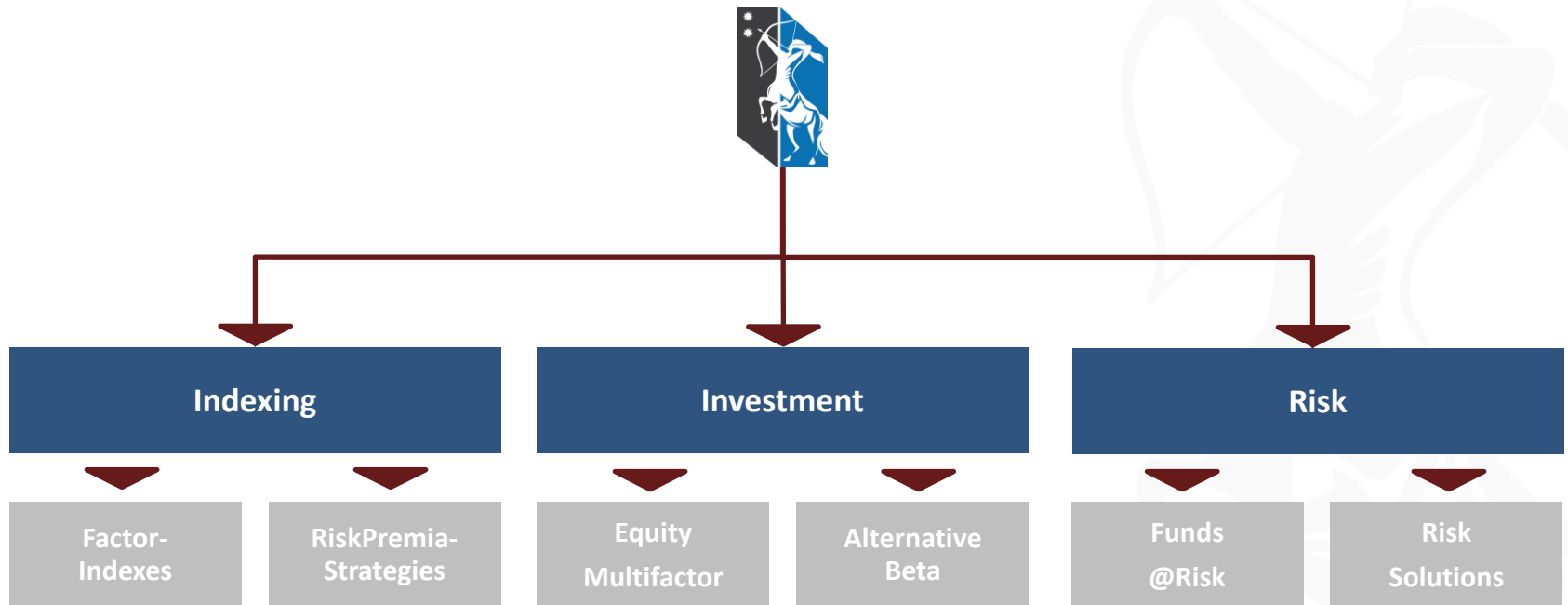


Alternative Risk-Premia



What we do

Client centric solutions delivered via three lines of activities



iSTOXX Europe Factor Indices – powered by Alpha Centauri

STOXX releases

April 2017

IStOXX EUROPE FACTOR INDICES – AN INVESTABLE ACCESS TO FACTOR RISK PREMIA

Dr. Jan Carl Pappas, Head of Index Research, iSTOXX AG

May 2017

IStOXX EUROPE FACTOR INDICES – HARVESTING EQUITY RETURNS WITH BOND-LIKE VOLATILITY

Dr. Jan Carl Pappas, Head of Index Research & iSTOXX AG

Focus

Nutzen Sie die Vorteile eines marktnutralen Multi-Factor-Aktien-ETFs

Zinsen und Renditen sind so niedrig wie selten. Deshalb machen sich viele Investoren auf die Suche nach höheren Erträgen in den Aktienmärkten. Volatile Aufwärtstrends und Abwärts ab zu erleben, vor allem wenn es um das eigene Vermögen geht. Deshalb hat Amundi ein neues, innovatives Produkt entwickelt.

Die neue Strategie von Amundi ETF liefert zwei gegenüberwärtige Anlagepositionen in einem Fonds, zusammen die Logopostion des iSTOXX Europe Multi-Factor Market Neutral Index besteht aus sechs Smart Beta Faktoren für europäische Aktien. Die Theorieposition besteht aus Verkäufen russischer Aktienaktien.

Durch die Kombination dieser beiden Positionen entsteht ein marktnutrales, abgesichertes Aktienportfolio mit dem Chance auf langfristiges Wachstum bei gleichzeitig niedriger Volatilität.

Der Index strebt zudem eine niedrige Korrelation mit anderen Assetklassen an und kann ein breites Portfolio dazu diversifizieren.

Jetzt ist der richtige Zeitpunkt für einen marktnutralen Aktienanlass

Das ist die richtige Zeit für einen marktnutralen Aktienanlass. Derzeit ist die Marktvolatilität sehr hoch, was die Renditen senkt. Ein marktnutrales Portfolio kann die Renditen erhöhen und die Risiken senken. Das ist die richtige Zeit für einen marktnutralen Aktienanlass. Derzeit ist die Marktvolatilität sehr hoch, was die Renditen senkt. Ein marktnutrales Portfolio kann die Renditen erhöhen und die Risiken senken.

The figure consists of two bar charts side-by-side, both showing annual returns from 2010 to 2016. The left chart compares the iSTOXX Europe Multi-Factor Market Neutral Index (blue bars) against the MSCI Europe Index (green bars). The right chart compares the iSTOXX Europe Multi-Factor Market Neutral Index (blue bars) against the MSCI Europe Index (green bars).

Jahr	iSTOXX Europe Multi-Factor Market Neutral Index (%)	MSCI Europe Index (%)
2010	-1.5	-1.5
2011	1.5	1.5
2012	1.5	1.5
2013	1.5	1.5
2014	1.5	1.5
2015	1.5	1.5
2016	1.5	1.5

Amundi ETF iSTOXX Europe Multi-Factor Market Neutral UCITS ETF was crowned by I'Agefi with the European ETF Innovation Award 2018 in the Equity category¹.

This innovative exposure² enables to capture European equity risk premia with a market neutral stance³.

*“We are delighted to collaborate **with Alpha Centauri** in developing the iSTOXX Europe Factor Indices. As part of the index family, the iSTOXX Europe Single Factor Indices offer a very unique and innovative way to capture risk premia while simultaneously minimizing distortions,” said Matteo Andreetto, chief executive officer, STOXX Limited. (AC Press release, 2016)*

EUREX publications

Eurex Exchange – Enjoy the broadest choice
of Equity Index Derivatives worldwide.

Futures on iSTOXX® Europe Factor Indexes at Eurex Exchange

Product Offering

On 3 May 2017, Eurex Exchange launched Futures on iSTOXX® Europe Factor Indexes. For the first time European factor futures have been listed on an exchange. The tremendous growth of passive investing has created a need for more sophisticated or diversified index concepts than – in recent years – went away from market cap complexity by using different selection and weighting methods.

This trend has led to the development of several systematic rules based on strategies / indexes that are designed to isolate the return of factors, which have typically earned a risk premium over long periods of time. The launch of Futures on iSTOXX® Europe Factor Indexes enables Eurex Exchange to offer instruments for institutional investors to capture factor risk premium.

The majority of index-related investing and trading is based on market cap indices; at Eurex Exchange there are now over 100 STOXX® products listed based on this traditional index calculation concept.

One of Europe's most liquid indices in terms of derived products, STOXX® Europe 600, is used as a benchmark. iSTOXX® Europe Factor Indexes offer investors extraordinary transparency through historical risk statistics, monthly risk score and scenario analysis.

The evolution of indexing has filled the gap between active and passive investing. iSTOXX® Europe Factor Indexes capture six different equity risk dimensions: Size, Value, Carry, Low Risk, Momentum and Quality.

The iSTOXX® Europe Single Factor Indexes exploit six different dimensions:

- Quality**: Stocks with low financial impairment ratios
- Carry**: Stocks that pay less than their average value level and will average up prices
- Low Risk**: Stocks with low volatility
- Value**: Stocks with significant market discounts
- Momentum**: Stocks that show high price momentum (high buy-sell volume) and dividends
- Size**: Stocks with exceptional market capitalization

Traded contracts and open interest (in thousands)

Date	Traded Contracts (thousands)	Open Interest (thousands)
Mar 2017	~10,000	~10,000
Apr 2017	~20,000	~20,000
May 2017	~30,000	~30,000
Jun 2017	~40,000	~40,000

	iSTOXX® Europe Factor Index Futures	STOXX® Europe 600 Index Futures (FXFP)
Underlying index	iSTOXX® Europe Low Risk, Momentum, Quality, Size, Value, Carry	STOXX® Europe 600 Index
Index type	Net return index	Price index
Contract value	EUR 50 per index point	
Tick value	EUR 5	
Price quotation	In points with one decimal place	
Minimum price change	0.1 index point	
Contract months		
Settlement		
Final settlement price		
Last trading day and final settlement day		
Continuous / TES		
Flexible contracts		
Minimum block trade size		
Fees		
Vendor codes		

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STOXX

Futures on iSTOXX® Europe Factor Indexes

Launch on Wednesday, 3 May 2017

Futures on iSTOXX® Europe Factor Indexes

April 2017

Value proposition

1. iSTOXX® Europe FFI established on licensed trading venue (regulated marketplace). iSTOXX® Europe Factor Indexes offer investors daily access via a multi-factor approach to achieve superior performance.
2. iSTOXX® Europe FFI support liquidity, offer an on-exchange product and use the Trade Rule Engine.
3. iSTOXX® Europe FFI provide transparent and reliable information.
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9. iSTOXX® Europe FFI provide transparent and reliable information.
10. iSTOXX® Europe FFI provide transparent and reliable information.

*"The new futures are based on the iSTOXX® Europe Factor index family developed by STOXX® in collaboration with **Alpha Centauri** and offer investors a unique and innovative way to target and capture premia."*

Risk-/Factor-Premia publications



Alpha Centauri Finanzberatungsgesellschaft mbH, Hamburg

Hamburg, October 2015

2. Die Entwicklung der europäischen Kapitalmärkte schlang, bessere Daten (sog. „Point in time-Daten“) und erweiterte Möglichkeiten an den Derivatmärkten, verbesserte Risikomodelle sowie fallende Handelskosten haben in den letzten Jahren den Zugang zu Investmentinstrumenten, die bisher nur wenigen Großanlegern oder Hedge Funds zugänglich waren. Die Rede ist von „Liquid Alternative Risk Premia“. In dem US-Atlas des bereits in Bonn, Europa noch in den Kinderschuhen befindlichen, aber bereits 2007 für 1,2 Mio. € „Liquid alternative“ und für 475 Mio. € „ATF“-Mio. Trade.
3. Behaviouristisch, das heißt von V.a. Momen
4. Institutionell, denn Premium gegen ein
5. aus dem Investmentverhalten der Vielzahl
6. Dividendensteuern aus strukturierten
7. abzurufen.
8. Das führt dazu, dass es zwischen implizite
9. siert Vorkaufsrecht aufbehalten. Unterschied
10. Dividendenfinden oder die längere
11. der Dividendenfinden, das Präzisions
12. finanziellwirtschaftlich erklärbar und anerkannt

494 Othello, Feldwegstrasse 7-9, 90372 Frankfurt am Main, Germany

infantile de multi cause, etc.

VON ULE FÖLLGRAF, BENJAMIN BADEL UND ULRICH JUNGBAUER



WAS VERBURGT SICH KONKRET DABEIT?

In den Anfängen der „modernen“ Portfoliogen Sharpe/Lintner et al. davon aus, dass die Assets, z.B. einzelnen Aktien im Wesentlichen den Markt (Beta oder systematisches Risiko/unternehmensspezifischen Einflüssen (Alpha/spezifische Risiko) bestimmt werden. Im weite erkannten zunächst Roll/Ross (APT Theo dann Fama/French (Value/Size) und Carhart (tun), dass es noch weitere „systematische“ F den Markt selbst gibt. Seit dieser Zeit war Effekte nicht nur bei Aktien, sondern auch Assetsklassen empirisch belegt.

Wie kommen die Prämien zustande?

Das „economic rational“ jeder Risikoprämi-Investoren der Ausgangspunkt der Überlegung. Wesentlichen lassen sich alle Prämien aus der Theorie ableiten.

1. Fundamental (oder „risk-based“), dazu z. B. Distress- oder Default-Prämien
2. Behavioristisch, dazu gehören v.a. Momentum
3. Institutionell, diese Prämien ergeben sich daraus, dass Investmentbanken ihre Volatile Dividendenresponse aus strukturierten Leihen finanzieren

Das führt dazu, dass es zwischen impliziter Volatilität ausbeutbare Unterschiede Dividendenfutures über die längere Frist sind. Idealerweise sollten die Prämien akade finanzwirtschaftlich erklärbar und anerkannt

Das sogenannte Faktor-Investing, das sich auch unter den Begriffen Smart Beta, Strategic Beta etc. etabliert hat, gewinnt zunehmend an Bedeutung in den Portfolios institutioneller Anleger. Ulf Fulgiral, Benjamin Badel und Ulrich Jungbauer von Alpha Centauri gehen in ihrem Beitrag auf die ökonomischen Grundlagen sowie die Charakteristika verschiedener Ansätze ein und stellen Lösungsansätze für die Anleger vor.

Climate research (with ISS ESG)



ISS-climate ▶



 Universität Hamburg
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Der Klimawandel und die Konsequenzen für klassische Benchmarks

ULF FOLLOBAF, Geschäftsführer Alpha Consulting, Hamburg

THE SEARCH FOR CLIMATE SMART INVESTMENTS REVISITED: The Case of European Equities

OCTOBER 2018

[illegible]

»Der Klimawandel wird sukzessive eingepreist und kostet in klassischen Benchmarks kontinuierlich Performance.«

[illegible]

Abstract

15

*“Comprehensive **carbon data** can help generate financial outperformance and investing in line with a 2-degree scenario is a clear opportunity for value creation These are the findings of the recently published paper by South Pole Group, global sustainability solutions provider, and **Alpha Centauri**, the Hamburg-based boutique asset manager, who today announce their partnership.” (SPG press release / RESPONSIBLE INVESTOR)*

Risk

Alpha Centauri utilizes FIS/APT risk models and holds a partnership with FIS

FIS Client Story



CASE STORY

UNCOVERING FACTOR BETA FOR ALPHA CENTAURI'S INVESTORS

Alpha Centauri, a Hamburg-based investment boutique started to invest in market neutral, single-factor strategies, including earnings momentum, balance sheet quality and dividends in 2009. After three years of outperformance, its investments had topped €200 million by 2012.

While Alpha Centauri was confident in its bottom-up investment style, it soon found itself exposed to unexpected macro risks. The euro crisis severely impacted its portfolio returns.

Alpha Centauri worked closely with our investment risk experts to develop a research and portfolio construction infrastructure to address risk issues. This approach allowed Alpha Centauri to create, test and launch new factor index products in collaboration with STOIC, a

Can you solve this equation?

Innovative investment boutique = 1 European financial crisis + 1 award-winning investment risk technology partner

The answer...

1 partnership that resulted in a new series of successful European factor indices and highly focused risk solutions for asset managers

ALPHA CENTAURI worked closely with our investment risk experts to develop a research and portfolio construction infrastructure to address risk issues. This approach allowed Alpha Centauri to create, test and launch new factor products ...

FIS - Press Release

Empowering
the Financial World



FIS APT is pleased to announce the following addition to our models:

IMPROVEMENT

*“We have added **iStoxx Europe Equity Factor indices** to our models as part of our explanatory factors offering. These indices were constructed by iStoxx in conjunction with our partner and factor investing specialist, **Alpha Centauri**. The factors seek to capture six key risk premia - Value, Carry, Momentum, Size, Low Risk, and Quality.....*



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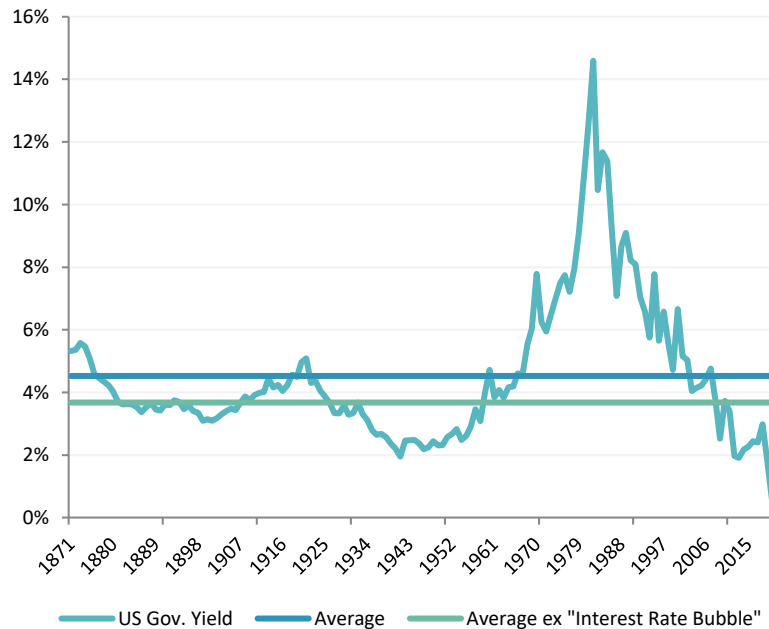
The Challenge



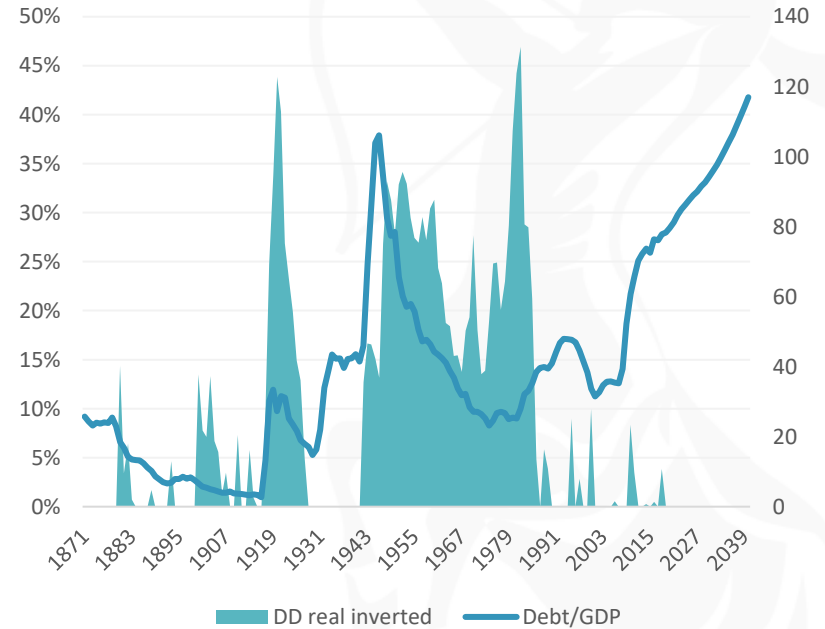
Status Quo

Low or negative bond yields expected to persist

US-Government bond yield*



40 years real drawdown again? **

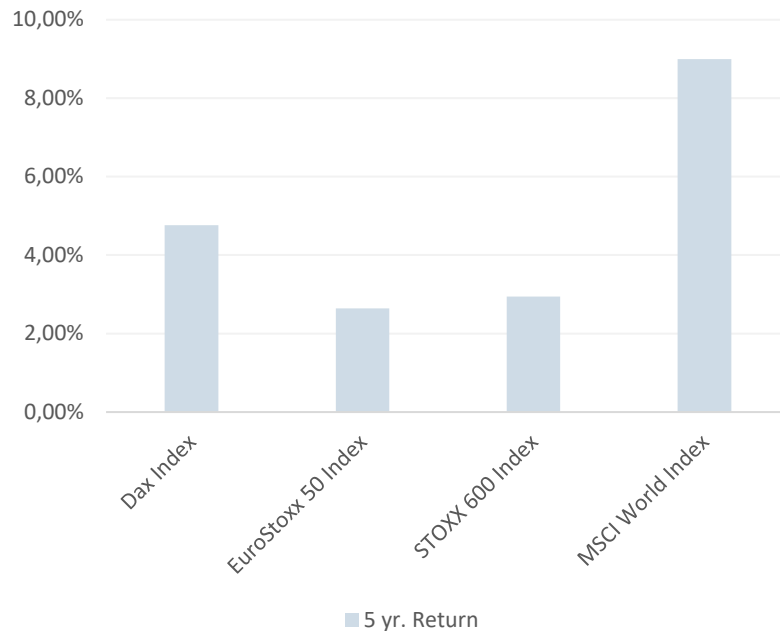


- Low yields are more the rule than the exception in the long run (US 10 yr. average 3,6%)
- “Financial repression” the most probable route to reduce Debt/GDP-ratios
- Yield- or yield curve control in form of quantitative easing is the replacement of US-yield ceiling during the 40’s/50’s of last century
- 110 % Debt/GDP led to 40 years of real drawdowns in US-Government bonds from 1944-85

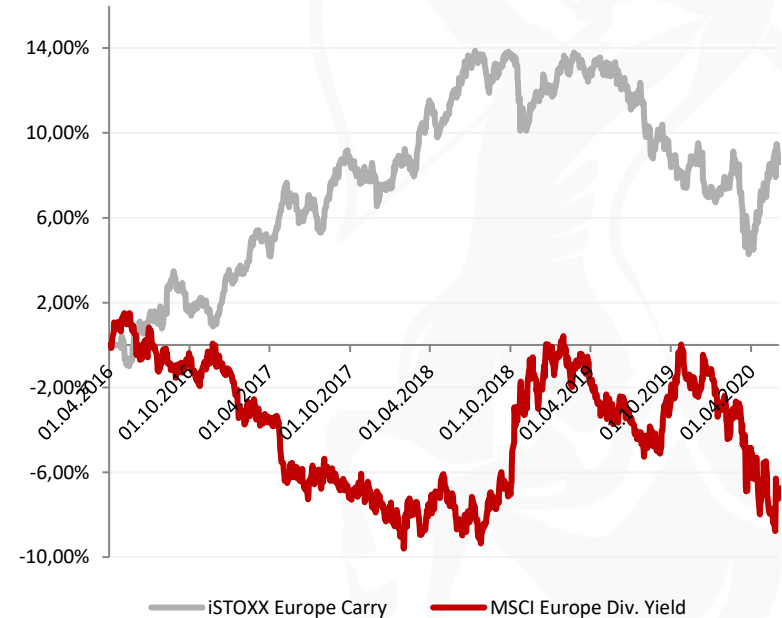
Status Quo

Low returns in European equities – dividend strategies underperformed

Low growth – weak performance



Excess Returns: Carry vs. Dividends

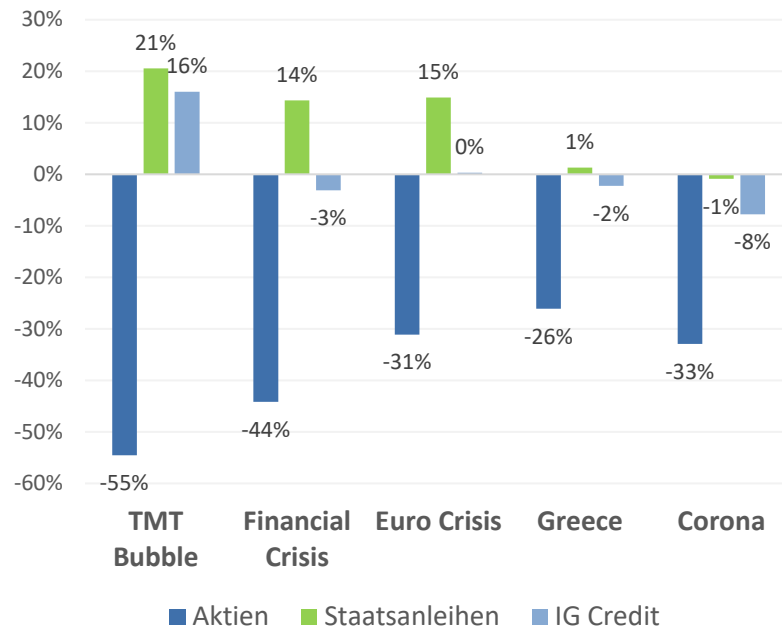


- Index earnings in European equity markets back to 2000 levels in many cases
- Simple dividend investment strategies underperformed for years in all major regions
- Problem will be exaggerated after COVID -19 related cuts

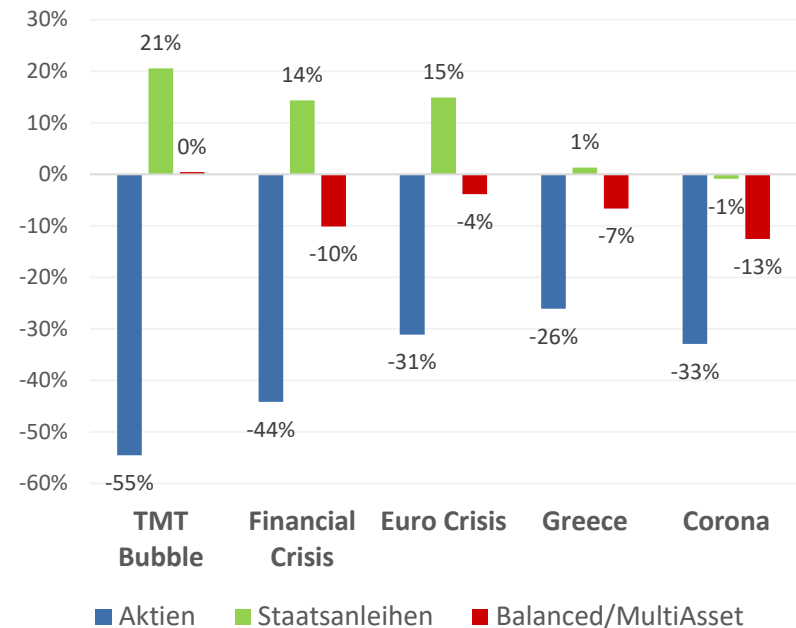
Status Quo

Bonds lost most of their diversification benefits over the last couple of years

Bonds – „return-free risk“



Higher drawdowns in Multi Asset



- Low Yields are a drag on diversification benefits of credit risk free government bonds
- Performance declined with every drawdown in equities
- Compared to former times, investors will have to reduce risky assets or must look for new sources of diversification



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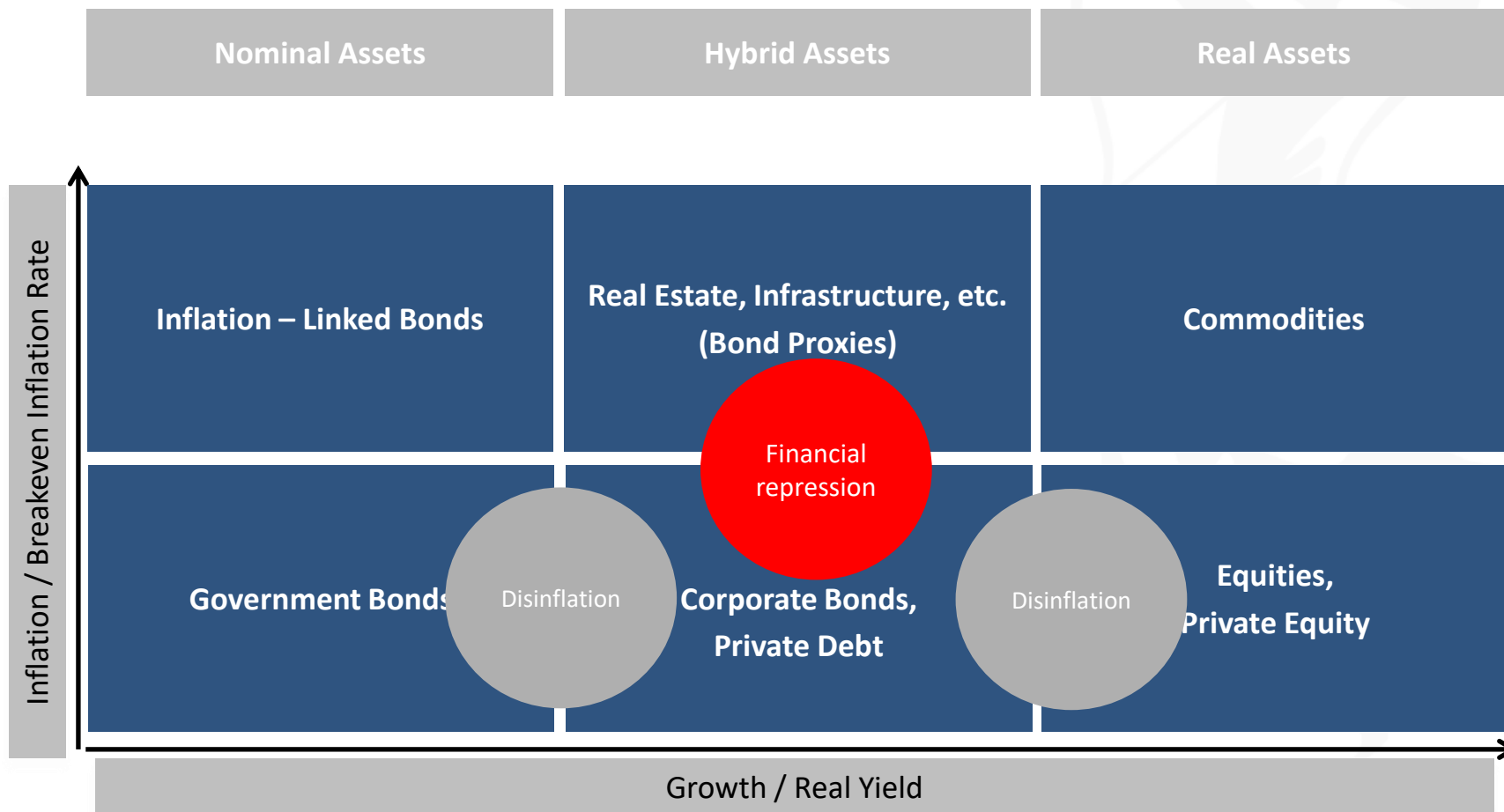
Rethinking the „Core“



Rethinking the Core

Positioning in times of “financial repression”

“Bullet” probably better core position than “Barbell” in Multi Asset



Rethinking the Core

Altering the risk-/return tradeoff

Bullet vs. Barbell on the risk-return curve

Disinflationary environment	<ul style="list-style-type: none">• downward shift of the whole curve<ul style="list-style-type: none">• falling interest rates• falling earnings yields (higher P/E's)• risk curve “butterflies”• beneficial for high quality long duration assets<ul style="list-style-type: none">• long duration government / IG corporate bonds, growth stocks• lower cash flows compensated by rising valuation (capital gains)• “barbell” – positioning preferred
Financial repression	<ul style="list-style-type: none">• downward shift of the whole curve over• risk-/return curve concave and short duration-/ high cash flow assets seem to be undervalued• negative real returns for long duration safe assets and growth stocks highly likely• Investors looking for higher cash flows• “bullet” positioning on the belly of the curve most beneficial position



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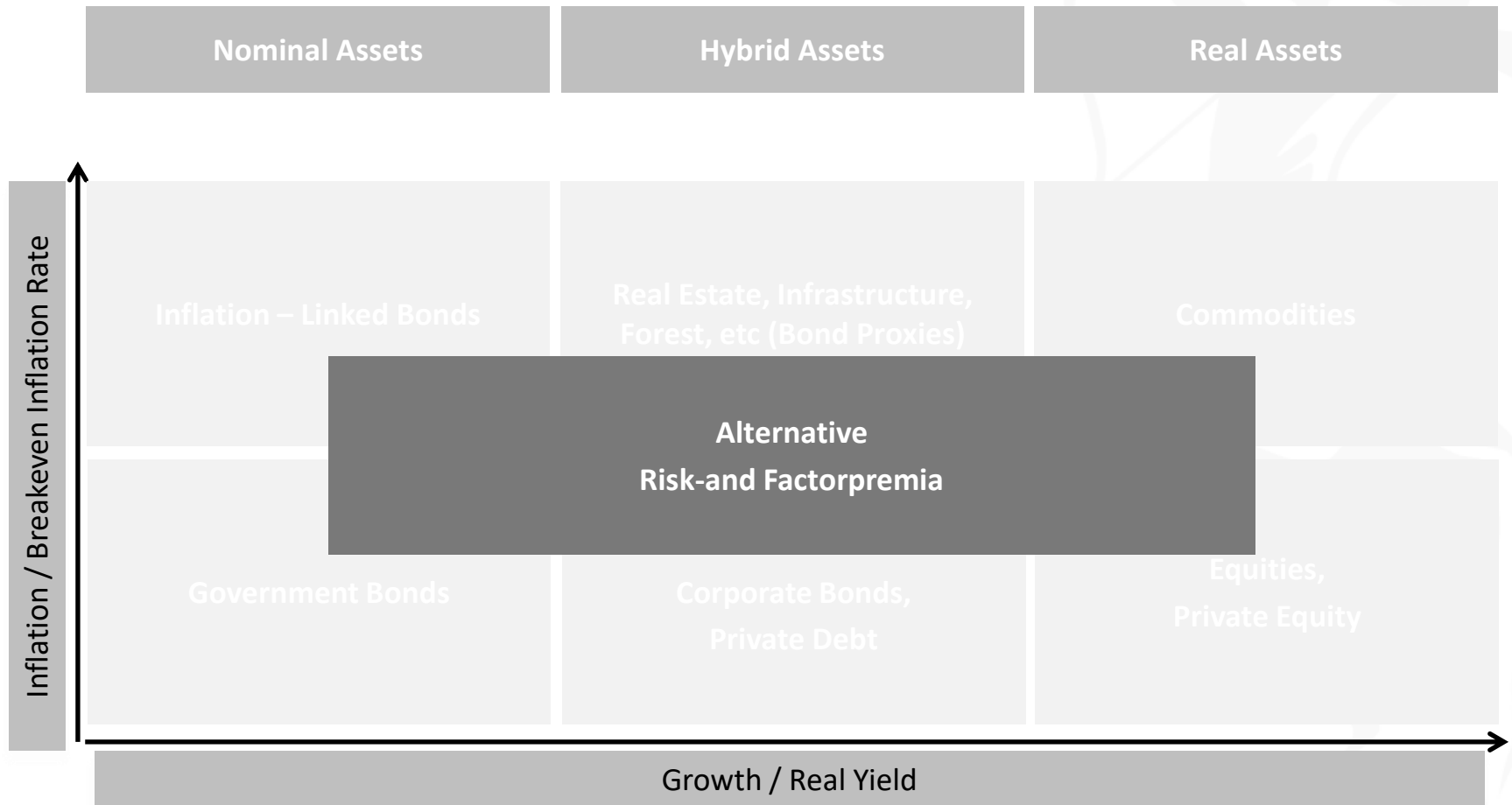
Risk Mitigation Strategies

Alternative sources of return and
diversification

Risk Mitigation Strategies

Alternative Risk-and Factorpremia

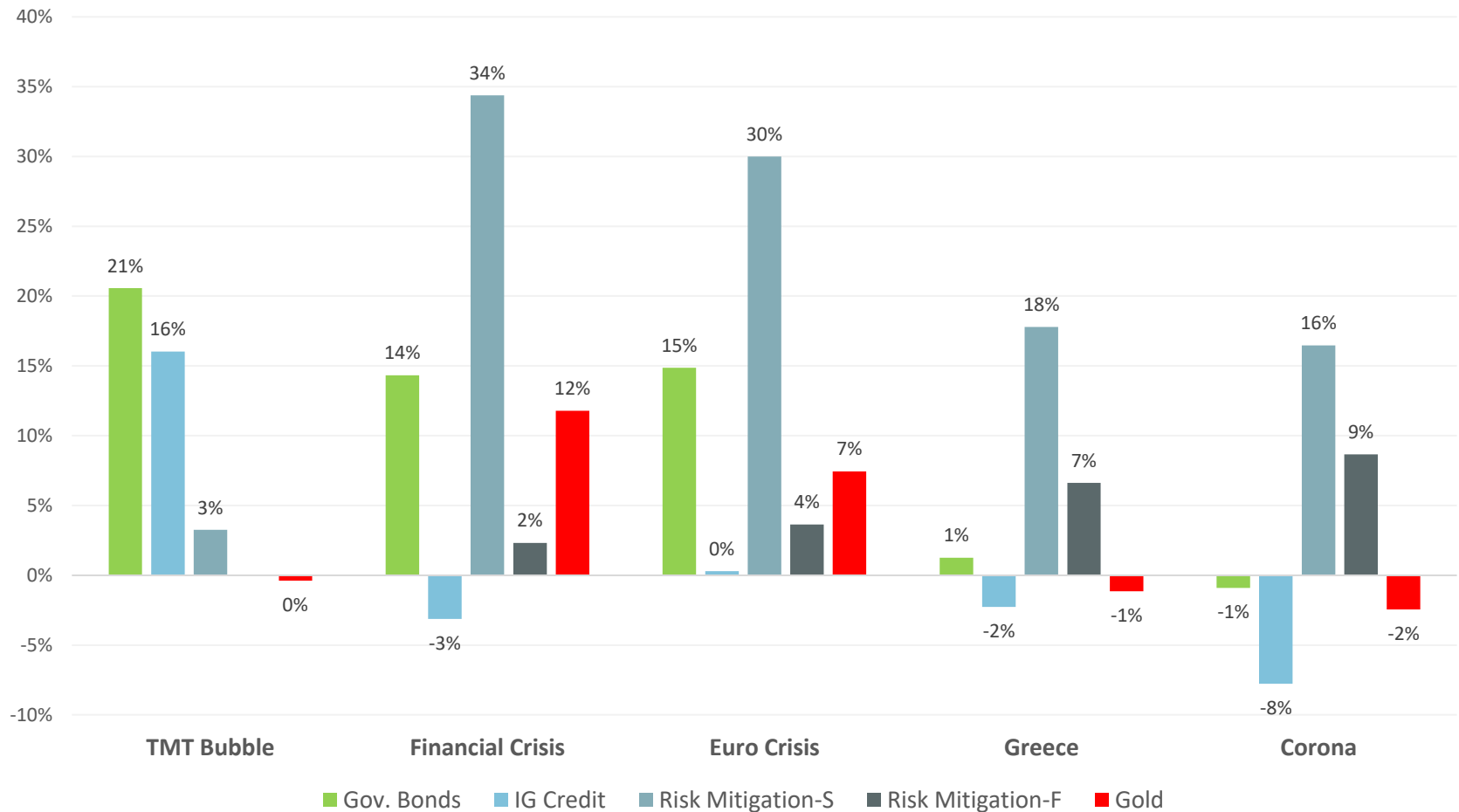
Reduce growth/ inflation dependency by adding alternative risk- and factor premia



Risk Mitigation Strategies

Diversified Income Fund: Gold, REITS, Defensive Factors, China Gov. Bonds...

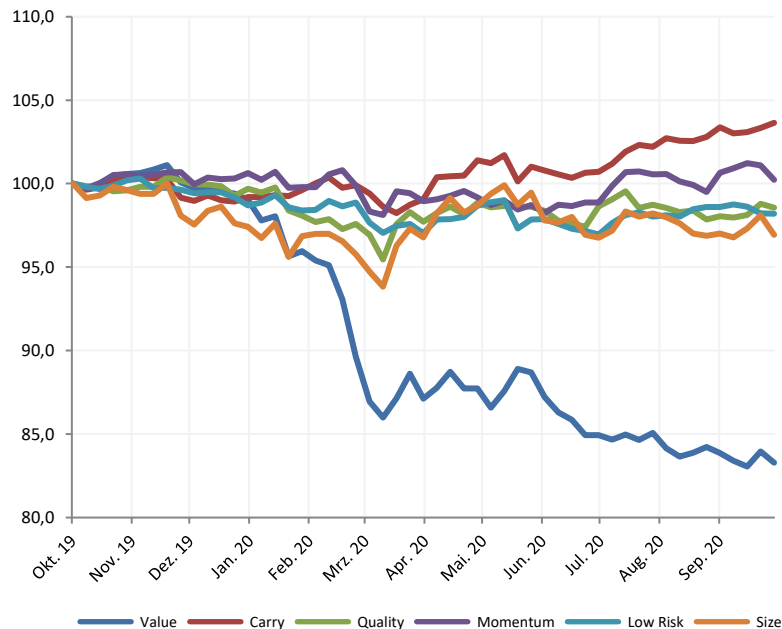
Risk Mitigation strategies more effective than bonds in today's markets



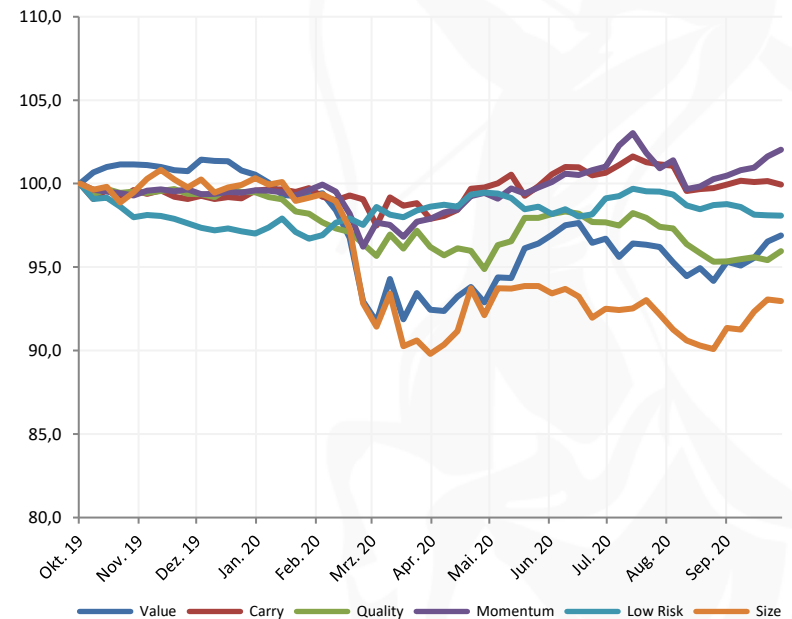
Risk Mitigation Strategies

Single-Factor premia Long/Short one way to achieve that

Europe Excess Returns



US Excess Returns



- iSTOXX factor indexes „Capture Risk Premia“ **as pure as possible** <https://www.youtube.com/watch?v=1qCADcpfNiw>
- European factors tradable using EUREX iSTOXX factor futures <https://www.eurex.com/ex-en/markets/idx/istoxx>
- risk mitigation strategies using factors capitalize on the changing nature and thus the dispersion of these risk premia over time
- they are able to deliver a diversifying return profile, which bonds are unable to provide today



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Rethinking Multi Asset processes

„Total Portfolio Approach“
as an operational concept

Investment Process

Total Portfolio Approach – a better way to achieve desired outcomes

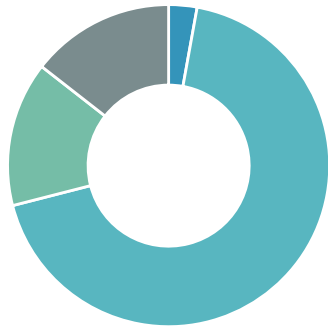
Advantages: more adaptive, better decision-making, integrated risk process

	Traditional Multi Asset	Total Portfolio Approach
Performance comparison	Benchmark/Peergroup	Fund objectives
Measurement of results	Relative to benchmark	Total Return, Fund objectives Return vs. risk-budget
Opportunity Set	Asset classes	Contribution of every investment to Total Return
Diversification by	Asset classes	Risk factors Risk Mitigation –Strategies
Decision making	Comitee	Portfolio manager
Implementation	Specialist teams combat for portfolio weights	Portfolio manager via risk-based allocation

Risk Management Process

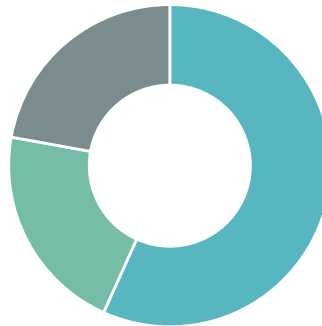
Getting the „nutritions“ right is more important now than the „ingredients“

Asset Allocation



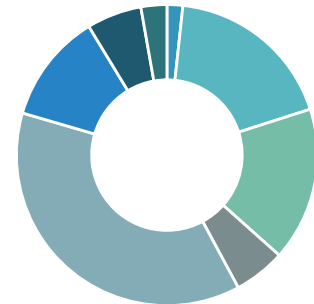
■ Liquidity ■ Bond ■ Equity ■ Alternatives

Risk Allocation



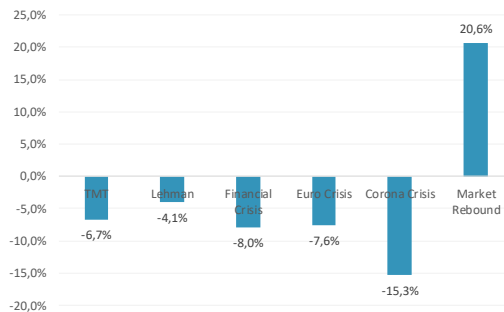
■ Liquidity ■ Bond ■ Equity ■ Alternatives

Risk Attribution

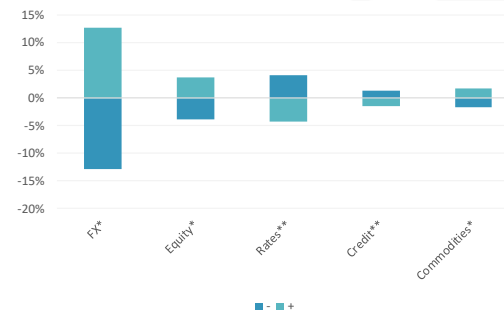


■ Money Market ■ Short Rates ■ Bond Yield ■ CDS Spread
■ Corporate Credit ■ Equities ■ Others ■ Specific

Scenario-based stress test



Shock-based stress test



■ - ■ +

Risk Management Process

Forensic views for a multi-dimensional world

„Equity like“-bonds, „Bond-like“ equities, Gold, hedged factors, leverage

Portfolio Analytics



ALPHA CENTAURI RISK

Diversified Income Fund

Summary

Total Volatility	4,41
Systematic	3,74
Specific	0,68

VaR / Tail Risk

	Day	Month	Year
VaR 95	0,4%	2,1%	7,3%
VaR 99	0,5%	3,0%	10,3%
TaR 68	0,4%	2,1%	7,4%
Tail Risk 68			1,7%

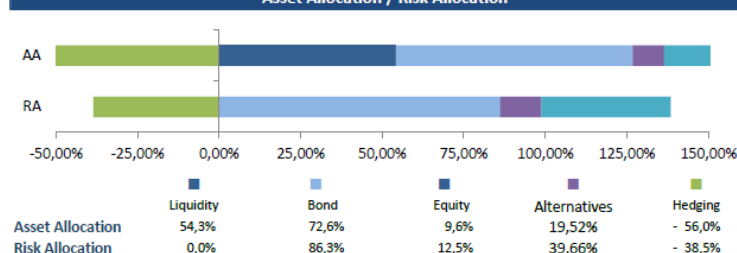
Beta / Correlation

	Beta	Cor.
MSCI World	0,09	0,33
EM CDX	0,09	0,13
EM Equities	0,07	0,32

Top Currency

	AA	RA
USD	94,3%	79,3%
CNY	6,7%	1,3%
EUR	-1,0%	19,3%

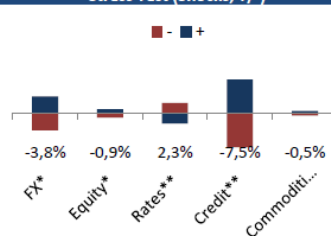
Asset Allocation / Risk Allocation



Top Long Position (Weight)

Cash	54,3%
TAQA ABU DHABI 2024	4,8%
BOAD 2027	4,8%
iSTOXX EU CARRY F Jun20	3,6%
CHINA GOVT BOND 2026	3,4%

Stress Test (Shocks, +/-)



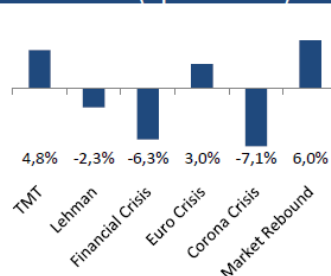
Top Contribution to Total Risk

iSTOXX EU CARRY F Jun20	10,4%
FORD MOTOR CRED 2027	10,4%
iSTOXX EU QUALITY Dec20	10,0%
iSTOXX EU LOW RIS Jun20	9,6%
BOAD 2027	8,0%

Top Allocations

	AA	RA
Liquidity	54,3%	0,0%
Corporate Developed	31,5%	41,3%
Corporate Emerging	29,7%	28,5%
Government Emerging	11,3%	16,4%
Factor Strategies	10,1%	30,0%

Scenarios (Expected Return %)



Top Countries

	AA	RA
UNITED STATES	48,9%	21,5%
UAE	7,0%	6,3%
Global	4,9%	2,8%
LUXEMBOURG	4,8%	7,6%
SNAT	4,8%	8,0%

Detailed Risk Attribution

DM Money Market	0,00		Money Market	0,02	
EM Money Market	0,02				
DM Short Rates	0,01		Short Rates	0,45	
EM Short Rates	0,44				
DM Bond Yield	0,00		Bond Yield	0,48	
EM Bond Yield	0,47				
EM CDS Spread	0,13				
CDS EM Latam	-0,041		CDS Spread	0,13	
CDS EM Eastern Europe	-0,001				
CDS EM Asia	0,183				
CDS EM Others	-0,015				
DM Corp. Credit	0,73		Corporate Credit	1,83	
EM Corp. Credit	1,10				
DM Equities	-0,09				
Equities DM Americas	0,013		Equities	0,55	
Equities DM Europe	-0,267				
Equities DM Asia	0,161				
EM Equities	0,64				
Equities EM Latam	0,088				
Equities EM Eastern Europe	0,024				
Equities EM Asia	0,505				
Equities EM Africa	0,025				
Others	0,29		Others	0,29	
Specific Risk	0,68			0,68	
Total Risk	4,41			4,41	

Brighttalk Multi Asset Summit

Summary

Investing in “the roaring 20’s”

Low returns and diversification opportunities from traditional assets

- **Requirements**

- Alternative sources of return
- New sources of diversification
- Rethinking of investment- and risk management processes

Actionable ideas to improve Multi Asset

- **Rethinking the “Core”**

- “Bullet” should provide better returns than traditional “Barbell”

- **Risk Mitigation strategies**

- “Building better beta” more important than “Searching for alpha”
- Payoff-profile/economics starting point

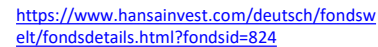
- **Investment Process**

- Total Portfolio Approach might yield better results than committee- based asset allocation

- **Risk Management**

- Risk- based allocation and leverage more effective than weights and 100% long only
- “Getting nutriments right” more important than “getting ingredients right”

SumZero



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