NORTHFIELD

Northfield's 30th Annual Research Conference

Tuesday, September 4, 2018 – Friday 7, 2018

Cliff House
591 Shore Road
Cape Neddick, ME 03902

Since 1989, Northfield's Research Conference has been the premier industry event for analytical research in the management of financial assets. As always, presentations were selected through a formal "call for papers." The 2017 program will include a broad array of topics including asset allocation, market return forecasting, advances in portfolio construction, and several cutting-edge approaches for alpha generation. Our distinguished list of presenters includes thought leaders from all sectors of the financial services industry, including asset owners, asset managers, and financial intermediaries. In aggregate, our twelve presenters have more than *two hundred publications to their credit* including several books that have been industry standards. We believe that no other conference can match this content in offering the ideal combination of academic rigor and industry experience. In keeping with Northfield custom, the conference will take full advantage of our spectacular venue to augment the working sessions with social events and family-friendly activities.

Travel Arrangements and Accommodations

Reservations are on a first come basis so it is a good idea to register early. Please note - we are accepting registrations via online registration only for the conference and hotel accommodations. If you have any difficulties registering, please contact Kathy@northinfo.com for assistance.

Hotel accommodations at the reduced conference rate **must** be arranged by contacting Cliff House at **207-361-6230**, reference **0918NORH** when calling, or visit the registration website by clicking here.

Business Agenda

Wednesday, September 5, 2018

12:30 pm **Buffet Luncheon**

2:00 pm **General Session**
Afternoon sessions are from 1:30 pm – 4:30 pm

2:00 pm **Crowded Trades**
Mark Kritzman, *Windham Capital*

Crowded trades are often associated with bubbles. If investors can locate a bubble sufficiently early they can profit from the run up in prices. But in order to profit from a bubble investor must exit the bubble before the selloff erodes all of the profits. The authors propose two measures for managing exposure to bubbles. One measure, called asset centrality, locates crowded trading which often leads to the formation of bubbles. The other is a measure of relative value, which helps to separate inflationary crowding from deflationary crowding. Neither measure by itself is sufficient for identifying the full cycle of a bubble, but the authors show that together these measures have the potential to locate bubbles as they begin to emerge and to identify exit points before they fully deflate.

3:00 pm **Correlation and Volatility Asymmetries in International Equity Markets**
Randy O'Toole, *Federated Investors*

The co-movement of international equity markets in different return environments is examined using estimates of realized correlation and volatility. Using a simple ordinary least squares (OLS) regression framework, correlations are shown to be similarly elevated in periods characterized by extreme returns in both up and down markets, which contradicts a body of extant research that finds correlations increase in down markets but not in up markets. In contrast, volatility is much greater in down markets than in up markets. This suggests that it is not a lack of diversification that matters for comparative performance in bear markets, but rather the relative magnitude of negative returns typically experienced during such periods.

Thursday, September 6, 2018

8:00 am **Breakfast**

9:00 am **Seminar sessions:**
Morning sessions 9 am – 12 pm

9:00 am **Anchor to Windward**
Harsh Parikh, *PGIM Institutional Advisory & Solutions*

Following the financial crisis, institutional investors began to place greater focus on investment objectives such as downside diversification, lower tail risk, and performance consistency. Absolute return, broadly, incorporates a range of strategies that are designed with these kinds of objectives in mind, and are intended to provide investors with a different payoff profile than traditional equity and bond strategies do. In this paper, we evaluate an array of strategies across the "liquid absolute return" opportunity set, using performance evaluation metrics that are aligned with these common objectives. We introduce a new measure of performance sustainability, the Anchor ratio, which can help investors identify strategies and funds with more consistent and sustained performance, as well as other desirable performance characteristics.

10:00 am **Seasonal Effects and Other Anomalies**
Alexander Kment, *Hull Tactical Asset Allocation*

We revisit a series of popular anomalies: seasonal, announcement and momentum. We comment on statistical significance and persistence of these effects and propose useful investment strategies to incorporate this information. We investigate the creation of a seasonal anomaly and trend model composed of the Sell in May (SIM), Turn of the Month (TOM), Federal Open Market Committee pre-announcement drift (FOMC) and State Dependent Momentum (SDM). Using the total return S&P 500 dataset starting in 1975, we estimate the parameters of each model on a yearly basis based on an expanding window, and then proceed to form, in a walk forward manner, an optimized combination of the four models using a return to risk optimization procedure. We find that an optimized strategy of the aforementioned for market anomalies produced 9.56% annualized returns with 6.28% volatility and a Sharpe ratio of 0.77. This strategy exceeds that Sharpe ratio of Buy-and-Hold in the same period by almost 100%. Furthermore, the strategy also adds value to the previously published market-timing models of Hull and Qiao (2017) and Hull, Qiao, and Bakosova (2017). A simple strategy which combines all three models more than doubles the Sharpe ratio of Buy-and-Hold between 2003-2017. The combined strategy produces a Sharpe ratio of 1.26, with annualized returns of 18.03% and 13.26% volatility. We publish conclusions from our seasonal trend and anomaly model in our Daily Report.

11:00 am **Leveraged ETFs: Are You Prepared for the Volatility Jumps?**
Linda Zhang, *Purview Investments*

Leveraged and inverse ETFs represent one of fast growing areas in the ETF industry, with the global AUM breaking $60 billion. The regulatory bodies in many countries are approving the listing of these products. The recent financial market turmoil in February 2018 has exposed the risk behavior of these ETFs in the time of market stress, which are often misunderstood by investors and can catch them by surprise. In this study, we analyze leveraged ETFs risk profiles in both short-term and long-term periods. As leveraged ETFs and inverse ETFs are often used for short-term trading purposes, understanding the nature of short term volatility is highly critical. We also survey the landscape of the major markets with listed leveraged ETFs outside the U.S., including Asia Pacific and Canada. We examined the volatility behavior of leveraged products in these markets and came to the same conclusion. The near-term volatility jumps more than what the leverage ratio suggested. We've also noticed the degree of jumps vary from market to market. Globally, leveraged and inverse ETFs are growing at a healthy pace, led by a faster growth in Asia in 2016. After Japan, South Korea and Taiwan, Hong Kong became the latest market, allowing both inverse and leveraged products on Hong Kong and China stock indices. It is in the great interest of global investors to fully understand the nature of these instruments to make them effective usage in portfolio management.

12:00 pm **Lunch**

1:30 pm **Seminar sessions:**
Afternoon sessions are from 1:30 pm – 4:30 pm

1:30 pm **Investor Preferences, Corporate Social Performance and Stock Prices**
Eunice Zhan, *Erasmus University Rotterdam*

This presentation investigates whether preference for social performance affects investment decision, leading to price underreaction to mispricing signals and stock return predictability. We find most underpriced stocks with poor social performance have the highest risk adjusted returns, while most overpriced stocks with good social performance have the lowest risk adjusted returns. The results are mainly driven by the stocks held by more socially responsible (SR) institutional investors and are not due to limits to arbitrage. This suggests that socially responsible investors are reluctant to buy underpriced stocks with poor social performance or sell overpriced stocks with good social performance. Such inefficiency is not fully offset by unconstrained investors.

2:30 pm **Time-varying Equity Risk Premium over Long-run Economic Cycles**
Katsunari Yamaguchi, *Ibbotson Associates Japan, Inc.*

This paper estimates monthly time-varying equity risk premium (ERP) in U.S. and Japanese markets over 60 years from 1956 to 2015. We attempt to estimate forward-looking (ex-ante) by a unique way of conversion from historical (ex-post) equity excess return over bond. Equity is regarded as quasi-perpetual bond without maturity but with variable cash flow. Applying relationship in monthly changes between perpetual bond yield and price, we estimated market implied ERP over time and also derived implied equity duration and "real" expected return of equity over the sample period. Comparing U.S. and Japanese results, both markets have seen similar level of historical mean ERP but variation patterns have been different, reflecting different economic cycles.

3:30 pm **Pure Quintile Portfolios**
Ding Liu, AlianceBernstein

In this presentation we propose a new portfolio construction framework called Pure Quintile Portfolios. These portfolios overcome the main drawback of naïve quintile portfolios based on single sorts, namely, not having pure exposures to the target factor. Each pure quintile portfolio has the same exposure to the target factor as its naïve counterpart, but also has zero exposures to all other factors. Therefore, pure quintile portfolios more accurately reflect the cross-sectional distribution of true factor returns. In addition, when we long Q1 and short Q5 to capture factor premia as is most commonly done in research and practice, we find that pure Q1-Q5 portfolio has lower risk and higher Sharpe ratio than naïve Q1-Q5 portfolio for a group of widely used factors, thus providing evidence that our new framework creates more efficient and stable factor premia than naïve quintile portfolios.

Friday, September 7, 2018

8:00 am **Breakfast**

9:00 am **Seminar sessions:**
Morning sessions 9 am – 12 pm

9:00 am **The Cross-Section of Corporate Bond Returns**
Marielle de Jong, *Amundi*

Corporate bond prices are for a large part driven by three sources of risk, by duration-, credit- and liquidity risk. Empirical evidence is given by means of cross-sectional regression analysis.
The evidence sheds new light on an ongoing debate over what factors to focus on in a corporate bond investment. There is no consensus in this domain. To a broad set of traditional factors inherited from a rich bond literature, new ones have recently been added that were hitherto associated to equities, such as size, value and momentum.

The concise risk model we build sets a framework for assessing the pertinence of the new factors with respect to elementary bond risks.

10:00 am **Risk contributions: duality and sensitivity**
Colm O'Cinneide, *QS Investors, LLC*

In a recent paper entitled "The Description of Portfolios", Richard Grinold (JPM 2011) discussed two naturally-arising approaches to decomposing a portfolio according to a given set of factors, which he called the "SX" and "MY" approaches. The SX decomposition is based on "characteristic portfolios" and the MY decomposition is based on "factor mimicking portfolios". I show that the MY decomposition is, in a certain sense, the dual of the SX decomposition, and this perspective leads to some insights. Remarkably, the two decompositions give the same risk contributions. Moreover, in a certain sense, the dual decomposition MY is the only alternate decomposition that produces the same risk contributions as the original decomposition SX. Turning to the second topic, I show that if the risk contributions and risks of the components of a portfolio decomposition are large, then the portfolio risk may be highly sensitive to changes in the risk regime. Intuitively this is because such a portfolio may be the net result of large but statistically offsetting positions and so a change in correlations may cause hedges to break down. This is a motivation for the practice of presenting both the risk contributions and risks of the components in a risk decomposition: the risk contributions alone may hide problematic sensitivity to a regime shift. This analysis points to some ideas for improving robustness in portfolio construction. (This paper is to appear in Quantitative Finance.)

11:00 am **Why Getting Risk Right is Wrong?**
Dan diBartolomeo, *Northfield*

Many investment professionals who use risk models make a common mistake. They assume that a risk model is working well if the amount of volatility realized by a particular asset or portfolio is consistent with what the model had predicted. They believe that volatility forecasts should be an unbiased estimator of subsequent realized volatility. In this presentation we will provide five different rationales as to why seemingly unbiased estimates of volatility are undesirable both statistically and economically. The implications of these arguments are that professional investors routinely take too much risk, back-tests and simulations fail to capture the true risk of strategies, and that evaluation of investment performance is biased toward perceiving luck as skill -- leading to upward biased performance related compensation.

12:00pm **Closing Luncheon**
Our final meal will be a buffet luncheon to encourage everyone to eat together and enjoy a final dose of local camaraderie. If you do need to catch a plane and have to run, there will be boxes available so you can get your sandwich to go.

Venue

Cliff House Maine is located along the beautiful Maine coastline in Cape Neddick. Offering stunning panoramic ocean views, exceptional culinary selections, and more. Cliff House resort has inspiring backdrops for all —each of which feature remarkable sightlines of the southern coast of Maine! While in the tranquil outdoors, take the opportunity to enjoy the peace and solitude of your fall activity and enjoy the views of Maine's sea coast.

Located conveniently near Portland, ME and 1.5-hour drive from Boston.

Calendar

Our event will begin with an unofficial welcome reception and dinner on the evening of Tuesday, September 4th, while the conference meeting sessions will begin on Wednesday, September 5th and finish with lunch on Friday, September 7th. As is customary at Northfield events, a complete recreational and social calendar will compliment the working sessions.

Social Agenda

Tuesday, September 4, 2018

6:00 pm Cocktail Reception and Dinner

Wednesday, September 5, 2018

Breakfast, on your own

Activities Period 8 AM – NOON
We are offering attendees a variety of unique activities to complement our beautiful venue.

ACTIVITES all will conclude in time for lunch at the hotel

KAYAK TOUR: The waters are safe and protected and endowed with wildlife and early American history. Recent tours have spotted nesting eagles, eaglets, Great Blue heron, Turkeys, Red Tail Hawk and Red Fox. Tour will pass by The Wentworth Coolidge mansion (first Royal Governs mansion) as well as Creek Farm, a 19th century Farm house preserved on a 30-acre parcel of land. ***All participants selecting kayak tour must provide HEIGHT and WEIGHT and let us know if they are going with a family member and requesting TANDEM KAYAK for proper reservation.***

COASTAL GUIDED BIKE TOUR: The Island Bicycle Tour is the most popular tour offering for those looking to get a great introduction to Portsmouth and New Castle. On this **2-hour easy to moderate** tour you will get to know the history and culture with a few stops in both cities, including views of Piscataqua River, The Portsmouth Naval Shipyard, Naval Prison and much more! We'll be making **stops at the most popular historic sites in both cities** and includes an individually fitted bike, helmet and water. ***All participants selecting bicycle tour must provide HEIGHT and WEIGHT for proper bike reservation.***

BOATING: View coastal sights from a different perspective – on the water! Scenic cruises of views of Walker's Point, The Nubble Lighthouse, and services to and from Wells Harbor, Kennebunkport, and Perkins Cove. You will observe the hauling of traps, measuring and banding of lobsters, and witness a true "Maine Experience" like no other! This is an educational and entertaining experience for the whole family.

ADVENTURE ZIP LINE TOUR: Go on a true Maine adventure with zip lining and climbing through the trees in Kittery, ME. Our Adventure Zip Line Tours include 3 climbing elements (you must climb up to zip down!) and 6 zip lines on each of our 2 tours! The zip lines themselves range from 75 – 400 feet long. There are bridges and cargo nets you traverse in between some of the zip wire as well. The climbing elements are similar to climbing a ladder. ***Some upper body and leg strength is required.***

GOLF: *Cape Neddick Country Club is located on the southern coast of Maine along scenic Shore Road. Famous golf course architect Donald Ross designed the course's original 9-holes in the early 1900's*
There are also many alternative leisure activities available. Please contact the concierge for any of these non-sponsored Northfield activities.

4:30 pm Special Children's Program
Special event for Children – All children must be picked up by 11 PM

5:30 pm Black Tie Gala reception and dinner
Reminder proper formal attire is required. Tuxedo rental information will be available soon.

Thursday, September 6, 2018

6:00 pm Cocktail reception and dinner