



**2018 Investment Seminar – London**  
**Thursday, April 19, 2018**  
**To be held at Ironmongers' Hall**  
**Shaftesbury Place Barbican London EC2Y 8AA**



The Chartered Alternative Investment Analyst (CAIA) Association is a supporter of Northfield's London Research Seminar.

## **Agenda**

**9:00 Welcome coffee, pastries and Registration**

**9:30 Welcoming Remarks**

**9:30 The Predominant Lack of Market Volatility**  
***Dan diBartolomeo, Northfield Information Services***

*Since the end of the Global Financial Crisis generally, and in recent years even more so, financial markets around the world have experienced unusually low levels of volatility, at least until a recent burst of volatility in February (which has been widely ascribed to gamma hedging).*

*In this presentation, we will describe several different conditions which we believe contribute to this situation. Most importantly, we will present a new theory under which the current high levels of international and political tension around the world reduce current market volatility rather than contribute to it.*

*The presentation will focus on the differences in how investors respond to news (an unanticipated event), scheduled announcements (e.g. an earnings release) and events which are considered inevitable but unknown with respect to time (e.g. the eventual eruption of an active volcano).*

*The final portion will discuss the implications for tactical asset allocation and active portfolio strategies.*

**10:30 Nowcasting - a tool for discretionary and systematic portfolio management**  
***Jasper McMahon, co-founder and CEO, Now-Casting Economics Ltd***

*Statistical models designed to gauge the current state of the economy - overcoming the challenges presented by asynchronous data series, variable publication lags, and extensive revisions - were once the preserve of academics and central banks. No longer. The value of nowcasting models - in generating a timely, robust and consistent signal from the real economy - is now increasingly recognised by fund managers in investment firms of many kinds. Macro funds have been in the vanguard, but the potential value of this type of input is now being more widely tested. Nowhere more so than among systematic funds. How does nowcasting work, and how do portfolio managers - of different kinds - use the data?*

**11:30 Coffee Break**

**11:45 Smart Beta Bond Portfolios**  
***Jason MacQueen, Director of Research, Northfield Information Services***

*In October 2015 we held a webinar on Smart Equity Portfolios. Although Smart Beta ETFs have become very popular, our contention was that the way in which the portfolios were constructed was not very efficient, and that the actual performance of such funds were therefore driven as much by their exposures to other factors as they were by their exposure to the target Style factor.*

*We created a number of optimized Smart Portfolios, in which we deliberately maximized the exposure of each portfolio to the target Style factor, while minimizing its exposure to all other factors as far as possible, consistent with the long-only constraint. These Smart Portfolios' performance compared very favorably with many of the Smart Beta ETFs available in the market at the time.*

*In this research exercise, we are looking at using the composition of the Smart Equity Portfolios to build a set of corresponding Smart Corporate Bond portfolios. The holding of each equity is replaced with a corporate bond issued by the same company. To do this, we use the Merton formulation of a corporate bond as effectively consisting of a combination of the underlying equity and some (risk-free) treasury bonds.*

#### **12:45 Lunch**

#### **14:00 Application of the Risk Systems That Read®: the Wynn Resorts Story**

***Mike Knezevich, Technical Director-Investment Analytics, Northfield Information Services***

*In December of 2017, Northfield introduced the first commercially available factor risk models that incorporates computerized analysis of news text directly into volatility risk forecasts for individual stocks, corporate bonds, industry groups and ETFs based on market indices. Market events in January 2018 provided several excellent examples of why we believe that Risk Systems That Read® is the most significant innovation in factor risk models in more than three decades. Amongst the most notable case illustrating how recent news events drove financial market outcomes is Wynn Resorts.*

*Content of thousands of news articles are now part of the input for the full range of models available from Northfield on a daily basis. The line of research that led to this innovation stretches back to 1997, and includes five published papers by Northfield staff [diBartolomeo and Warrick (2005), diBartolomeo, Mitra, Mitra (2009), diBartolomeo (2011,2013,2016)]. Beyond the obvious improvement in risk estimation, the method has important implications for alpha generation by both quant and traditional for active managers.*

#### **15:00 Coffee Break**

#### **15:15 The Use of Factor Risk Models in the Presence of Higher Moments**

***Dan diBartolomeo, Founder and President, Northfield Information Services***

*Implicit in the design of traditional linear factor models is the concept that the distribution of individual asset returns is at least symmetric if not Gaussian. This leads many to believe that it is not possible for factor risk models to do a good job of dealing with risk for securities where there is a structural expectation of skew or kurtosis in the asset return distribution, as would commonly arise from many assets such as options or "structured products." As such, there is a belief that the portfolio risk of portfolios containing assets with non-linear behavior must be evaluated through "simulation and repricing."*

*In this presentation, we will show that repricing is not necessary, or even desirable under the vast majority of cases. We will discuss how the higher moments of the return distribution of individual assets can be sufficiently represented in the context of factor models, and how this information can be combined into portfolio level risk following the methods described in Satchell and Hall (2013). Finally, we will show that our representation of higher moments is sufficient to allow for effective portfolio optimization in the presence of non-zero estimation error of future portfolio returns and portfolio (i.e. the real world).*

#### **16:15 Concluding remarks**