NORTHFIELD

Northfield’s 25th Annual Newport Seminar

Wednesday, October 13, 2021

International Tennis Hall of Fame, 194 Bellevue Avenue, Newport, RI

We are pleased to invite you and your colleagues to our annual Newport seminar. The purpose of the seminar is to present recent research and technical advances to our clients and friends while enjoying the many pleasures afforded by our unique venue.

Given the global stresses induced by the COVID-19 pandemic, we have endeavored to formulate a robust agenda worthy of an in-person event. Our choice of topics is intended to reflect both analytical advances in investing, and the current interest in making the investment industry a positive contributor to the world at large. As a traditional center of American wealth, Newport serves as the perfect backdrop to consider the broad context of the impact of finance on society.

Our meeting venue, The Newport Casino was designed as a social and sporting club and was the center of cultural life for the Astors, Vanderbilts and Newport Society in the "Gilded Age." Designed by Stanford White and considered a masterpiece of Victorian shingle-style architecture.

As always, our meeting date has been selected to coincide with the US Professional Championships of Court Tennis. An ultimate illustration of “sustainability,” Court tennis is the medieval progenitor of all modern racquet sports. It has been played in the current form for about *seven hundred years*, including many royal devotees such as Louis XIV and Henry VIII making it perhaps the world’s most exclusive sport. Quantitative finance professionals will appreciate that due to the complexity of matches, a paid expert is required just to keep score.

After tennis on Wednesday afternoon, we will move to the Forty 1º North Hotel and Marina in the Newport yachting district for a final presentation and a waterfront dinner party. We look forward to seeing you!

View from the USTA Wing & Porch overlooking one of the grass courts.

Marina view, Forty 1º North

Registration, Travel Arrangements and Accommodations

There is no charge for participation in any aspect of this event. We will accept any donation you might care to make on behalf of the Pine Street Inn, Boston’s primary homeless shelter. Registrants are responsible for the cost of their transportation and lodging. Please note - we are accepting registrations online only at **https://www.northinfo.com/events.php**. As always, attendees are welcome to bring a guest for tennis and dinner. **We are subject to a requirement from our venues that all participants and guests must confirm they are fully vaccinated for COVID 19 before arrival at the event.**

For those planning to spend the night in Newport, ***please remember that this is a BUSY time in NEWPORT and most hotels have very limited space.*** In addition to 41 North, the Viking Hotel, Gurney’s Resort, the Newport Harbor Marriott and Newport Harbor Hotel and Marina are recommended. Newport also has many delightful inns: further information is available at **https://www.newportinns.com**. For all questions, please contact Kathy Prasad at 617-208-2020 or **kathy@northinfo.com**. The deadline for all reservations is Monday, October 4th, 2021.

International Tennis Hall of Fame
194 Bellevue Avenue
Newport, RI 02840
Phone : 401-849-3990

For more information regarding Tennis Hall of Fame
https://www.tennisfame.com

Forty 1 º North
351 Thames Street
Newport, RI 02840
Phone: (401) 846-8018

For more information regarding Forty 1 º North
Forty 1º North – Newport's Premiere Waterfront Hotel and Marina (41north.com)

Agenda

8:30 AM **Continental Breakfast**

9:00 AM **Welcome**

9:10 AM **The Inefficient Markets Hypothesis**

Jason MacQueen, Smart Portfolio Strategies

The Efficient Markets Hypothesis (Fama, 1970) rests on the prior work of MPT (Markowitz, 1952) and CAPM (Sharpe, 1964). The EMH states all stocks are fairly priced all the time. One logical consequence is the assertion that the market itself is an efficient portfolio. Academic studies argue that the market (represented by some cap-weighted index) can't be beaten and cite the regular failure of actively-managed portfolios to do so as supporting evidence. There is an obvious alternative view as to why professional active managers regularly underperform the market, despite their stock selection skills. Outperformance based on security selection skill requires the portfolio to be constructed in a way that efficiently reflects the manager's skill and minimizes exposure to unintended bets (i.e. noise). This presentation introduces a *general measure of portfolio inefficiency* which can then be used compare the inefficiency of different portfolios. Our empirical evidence reviews several style factor portfolios across various heuristic methods for portfolio weighting. Finally, we apply our new measure of inefficiency to the most common benchmark, the S&P 500.

9:50 AM **Better Private Equity Benchmarking**

Emilian Belev, Northfield Information Services

With the evolution of private assets from an exotic experiment to sought-after driver of yield and return in institutional portfolios, serious challenges emerged to appropriately review and forecast benchmark relative performance. The main difficulty relates to the fact that unlike publicly traded investments, the values and returns reported by private asset investment managers are very subjective, making it difficult to perform the usual benchmark construction process where one can rely on a particular investment or a combination of investments to be an appropriate and unbiased gauge for the relative performance of another investment. We will make an overview of the attempts made by the industry to operate in the face of this challenge. Consequently, we will describe four approaches that, with some modifications, overcome the shortfalls of pre-existing methodology, and have distinct applications in the institutional investment process. Those methods can be categorized as the private-to-private returns, private-to-public-plus-margin returns, public-discounted-paid-in multiples, and liability-relative benchmarking. *Related paper forthcoming in Journal of Index Investing.*

10:30 AM **Coffee Break**

10:45 AM ***Two Views of Retail Investing***

A Consumer Safety Approach to Personal Financial Planning

Zvi Bodie, Boston University

This presentation will argue that the proper starting point for investment policy for retail investors is to set goals that *are feasible with safe investments*. Among the key considerations of such portfolios is role of special purpose securities such as US Treasury Series I Bonds. We will then consider two key concepts for retail investors, the characterization of "shortfall risk" and the extent to which reliance on expectations of "the long run" is both paradoxical and flawed. The final portion of the presentation will consider the potential for the financial services industry to more widely provide standardized insured investments.

Resilient Portfolios for Exceeding Hard Thresholds

Jarrod Wilcox, Wealthmate, Inc.

Complex systems frequently are stable against small disturbances but break down when losses exceed a critical threshold. Examples in finance include bankruptcy, the loss of an important client, and, it can be argued, failure to accrue investments needed to insure even the minimum required to fund satisfactory retirement. The dominant paradigms from the golden age of the birth of modern finance paid little attention to thresholds. The resulting omission is made worse by markets subject to occasional deep losses characterized by structural change, negative return skewness and high kurtosis. In this presentation, we discuss how expected utility can be refreshed as a practical portfolio construction method for resilience. We will deal with higher return moments, disaster scenarios, multiple time horizons, and even uncertainty in the location of the dividing line between success and failure.

12:05 PM **Widely Distributed Investment Analytics**

Daniel Mostovoy, Northfield Information Services

The global trend toward decentralized operations in financial services has only been accelerated by COVID 19 pandemic and the resulting move toward "work from anywhere" operations. For several years, Northfield has been moving our existing investment systems to the Northfield hosted online platform. This presentation will demonstrate the key capabilities that allow users material operational advantages. The platform provides four different workflow modes. First, a *fully interactive mode* covering a wide range of analytical tasks. Second, there is a *full SaaS/API layer* to integrate Northfield data and computations into in-house systems. Third, a *large batch* mode for tasks that must be carried out over large numbers of portfolios in wealth management and enterprise risk applications, with aggregated reporting. Fourth, a *scheduled reporting mode* for autonomous production of regulatory and other routine reports. In addition, the platform offers a range of data enrichment capabilities, extensions to into back-office operations, and SOC-2 data security compliance.

12:45 PM **A Newport Luncheon**

1:45 PM **Risk Regulation of Mutual Funds**

James Cataldo, Consultant and Georges Tsafack, University of Rhode Island

The introduction of SEC rule 18F-4 is poised to make value-at-risk (VaR) a key regulatory metric for mutual funds, adding to its already widespread application in financial institution risk management. It is therefore critical to appropriately assess the quality of VaR forecasts and reporting. We show that even an unbiased estimator of variance is likely to produce a systematic "overviolation" of VaR limits. We then propose a practical adjustment to account for the issue. A Monte Carlo study illustrates the overviolation problem and the effectiveness of the adjustment. An application to Fama–French portfolios returns series highlights the need to further account for tail behavior in the data. We further discuss issues of variance and VaR measurement of interest to scholars and practitioners.

2:25 PM **Public Bond Issuance and Persistent Inequality**

Nicole Boyson and Weiling Liu, Northeastern University

When school districts issue municipal bonds to finance education improvements, we find that it leads to positive outcomes, including higher test scores and home prices. However, despite these tangible benefits voters in poor school districts are significantly less likely to approve bond issuance. One potential driver behind this reluctance is that poor school districts face higher issuance costs. To better understand why issuance costs are higher, we investigate constraints that disproportionately impact poor districts. We find three explanations: property tax constraints, marketability, and urgency of funding. First, poor districts generally offset property tax constraints by delaying debt payments, issuing zero-coupon bonds and bonds with longer maturities. Second poor districts are more likely to obtain credit guarantees and choose negotiated over competitive offerings to increase the marketability of their bonds. Third, we find that poor districts issue bonds more quickly after authorization, choosing urgency over a more favorable rate environment. Overall, these choices help poor districts pass the debt they need for infrastructure repairs, but they also come with higher costs of issuance. Ultimately, we show that access to public capital markets is significantly harder for poorer school districts, potentially perpetuating the education inequality we see across the United States today.

3:05 PM **Court Tennis Rules Demonstration**

3:30 PM **Quarter Final Match, the US Pro Court Tennis Championships**

6:00 PM **Reception, Presentation, and Dinner, Forty 1º North**

ESG and the Four Horseman of the Financial Apocalypse

Dan diBartolomeo, Northfield Information Services

The ongoing COVID 19 pandemic has sharpened the attention of the financial community to the impact of rare but extreme events. Even before COVID, investor attention to environment and social issues had heightened markedly. In this presentation we will examine how our research predicts that war, pandemic, corruption, and climate change impact financial markets and the prosperity of both nations and individual households.