NORTHFIELD
EUROPE / MIDDLE EAST

2019 Investment Seminar – Abu Dhabi
Monday, April 8, 2019
To be held at Beach Rotana
10th Street, Al Zahiya Area - Abu Dhabi

Agenda

9:00 Welcome coffee, pastries and Registration

9:30 Welcoming Remarks

9:30 Multi-Asset Class Risk Assessment for Asset Owners: Concepts and Methods
Dan diBartolomeo, Northfield Information Services

This presentation will address a number of topics relating to the multi-asset class risk assessment services we provide to large asset owners. We will begin with the introduction of several risk assessment concepts that are of particular relevance to asset owners. Next we will consider the analytical challenges of producing coherent market risk assessments across a broad range of asset types (the problem of "Everything, Everywhere"). We will then consider liquidity risk both from the perspective of intrinsically illiquid assets (e.g. real estate), and the possible market impact involved in trading very large positions in what otherwise would be considered liquid securities. The presentation will next be focused on examples of how multi-asset class risk assessments can improve asset allocation decisions, as well as provide a clearer view of the reporting and analytical decomposition of risk. A final comment will illustrate the how a large asset owner might consider the tradeoffs between the costs and benefits of more elaborate (and potentially expensive) risk assessment efforts.

10:30 Common Equity Factors in Corporate Bond Markets
Demir Bektic, Deka

Size, value, profitability, investment, momentum and beta factors have been extensively studied for equity markets, but their impact on corporate bond markets is much less explored. Since structural models based on contingent claims link credit and equity securities, we study if these factors extend their success in equity markets to credit markets. While all factors exhibit economically and statistically significant excess returns in the U.S. high yield market, we find mixed evidence for U.S. and European investment grade markets. Nevertheless, we show that investable multi-factor portfolios outperform the corresponding corporate bond benchmarks on a risk-adjusted basis. Finally, our results highlight the impact of equity characteristics on the joint return dynamics of equities and corporate bonds.

11:30 Coffee Break

11:45 How (Artificial) Intelligent is your Investment Decision?
Franita (Erasmus) Neuville, CFA, Refinitiv

After 40 years without significant change, investment research is on the cusp of a revolution. During a 2018 study, we identified three factors which will shape the future of investment research: 1) Alternative Data; 2) Artificial Intelligence; and 3) Changing Relationships between Buy- and Sell-side. This presentation will focus on the first two topics, which are also central to mitigating investment risk by increasing the information available to analysts and portfolio managers during the investment decision making process prior to any funds being committed.

Going forward Alternative Data and Artificial Intelligence, which are very intertwined as AI facilitates Alternative Data in many cases, will play a growing role in understanding, measuring and monitoring risks and risk exposures of investments, and will become an integral part of fund managers' risk infrastructure. Our survey showed that 70% of respondents indicated they currently use alternative data or plan to in the next 12 months in their decision making process and the same survey showed that, even though, only 17% of firms currently use AI as part of their investment process, 56% expect to use it in the next few years.

Sentiment analysis, shopping and spending patterns, shipping data and crop health data are just a few examples of Alternative Data being used to analyze investments better by mitigating unforeseen risks.

In turn, combinations of Artificial Intelligence, Natural Language Processing and Quants are being implemented in the investment decision making and risk management processes through the development of models which identify credit and earnings surprises.

Finally, technologies such as Machine Readable News, Big Data, Intelligent Tagging and Cloud Computing are all either being implemented or being looked at by the leading fund management firms across the globe to make the collection, ingestion and deciphering of data more effective.

How data is accessed and intelligence extracted to manage investment risk is being transformed – are you ready?

12:45 Lunch

14:00 Risk Management Priorities for Asset Owners: What Senior Management and Trustees Need to Know.
Mike Knezevich, Northfield Information Services

In the aftermath of the Global Financial Crisis, risk management has become a mantra among large asset owners. Unfortunately, much of this attention is misguided and ineffective because it confuses the appearance of risk management (e.g. scheduling frequent committee meetings) and the reality of responsible risk management. In this presentation, we will lay out a prioritized list of steps for effective risk management at the "C-Suite" and board level. While most of the material to be presented will be suitable for all asset owners, we will also spend time to differentiate the needs of defined benefit pension funds, defined contribution funds, endowments, family offices and public mutual funds. Among the topics to be considered are the levels of risk associated with strategic and tactical asset allocation, hedge funds, illiquid investments (e.g. real estate and private equity), and active management. We will also spend time considering the issue of time horizon as most asset owners profess to have a "long term view" but have only a vague notion of the operational aspects of an explicit time horizon for risk. The horizon issue is further complicated in some countries where very short horizon measures suitable for commercial banks (e.g. 1 day VaR) have been incorporated in regulations. Much of the content for this presentation has been incorporated into training materials by the Society of Actuaries, and many of the concepts will be illustrated with sample output from our RAMP risk consulting service package.

15:00 Coffee Break

15:15 Why Getting Risk Right is Wrong?
Dan diBartolomeo, Northfield Information Services

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.

16:15 Concluding remarks

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