REFERENCE LIST

May 2018

Generalized Risk-Based Investing

May 2018 – Emmanuel Jurczenko, Thierry Michel & Jerome Teiletche (Head of Cross Asset Solutions at Unigestion)

Risk-based portfolio strategies - such as Minimum Variance, Maximum Diversification, Equal-Weighted and Risk Parity, to name the most famous - have become increasingly popular in the investment industry due to their return-agnostic and risk management features. In this article, we show that these portfolio construction methodologies are special cases of a generic function defined by two specific parameters: the first one controls the intensity of regularization and the second one determines the tolerance for individual total risk. We investigate the theoretical properties of this class of strategies, giving expressions for solutions under general and specific risk models. This allows us to discuss important distinctive features of these portfolios, such as market beta, volatility, or exposure to low-vol/low-beta factors, while not being dependent on a specific sample. We illustrate these theoretical results by an empirical investigation of a large sample of international developed market equities over the 2002-2012 period.

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Volatility-of-Volatility Risk

May 2018 – Christian Schlag (Goethe University Frankfurt), Ivan Shaliastovich (University of Wisconsin), Julian Thimme (Goethe University Frankfurt - House of Finance) & Darien Huang (Cornell University - Department of Finance)

We show that time-varying volatility of volatility is a significant risk factor which affects the cross-section and the time-series of index and VIX option returns, beyond volatility risk itself. Volatility and volatility-of-volatility measures, identified model-free from the option price data as the VIX and VVIX indices, respectively, are only weakly related to each other. Delta-hedged index and VIX option returns are negative on average, and are more negative for strategies which are more exposed to volatility and volatility-of-volatility risks. Volatility and volatility of volatility significantly and negatively predict future delta-hedged option payoffs. The evidence is consistent with a no-arbitrage model featuring time-varying market volatility and volatility-of-volatility factors, both of which have negative market price of risk.

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Active Risk-Based Investing

May 2018 – Emmanuel Jurczenko & Jerome Teiletche (Head of Cross Asset Solutions at Unigestion)

Risk-based investment solutions are seen as incorporating no views. In this article, we propose an analytical framework that allows the introduction of explicit active views on expected asset returns in risk-based solutions. Starting from a Black-Litterman approach, we derive closed-form formulas for the weights of the active risk-based portfolio, and identify their main determinants. We discuss implementation aspects and show how our framework is related to other popular active investing methodologies. We illustrate the methodology with a multi-asset portfolio allocation problem using views based on macroeconomic regimes over the period 1974-2013.

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May 2018

How We Run Our Money: Louvre Endowment Fund

May 2018 – Carlo Svaluto Moreolo (Senior Staff Writer at IPE)

Last year the Louvre was the most visited museum in the world, with more than 8m visitors. Its more than 72,700 square metres of gallery space also makes it one of the largest museums in the world. "Heir to the century of the Enlightenment and the French Revolution", as its website proudly says, the Louvre hosts one of the world's finest art collections. It is one of the most powerful symbols of human achievement.

Much has been said about the Louvre and its significance. But few will know that it is also the leading actor in a smaller, but nevertheless important, revolution that is taking place in the French institutional investment sector.

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Interest Rates: Opinion divided on rate impact

May 2018 – David Turner (Contributing editor at IPE)

US stock markets have fallen on signs of inflationary pressure, which suggests higher interest rates. Many long-term stock investors say interest rate rises will not hurt the market. Others say rate rises will damage US stocks, partly because valuations are high. Interest rates are expected to rise slowly.

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Banks explore new data techniques to tackle money laundering

May 2018 – Anna Gilmour (Editor at Risk Management)

It pays to know your customers. Just ask US Bank, smarting from a $600 million fine for anti-money laundering violations in February. Or Deutsche Bank, fined $630 million for similar failings last year. Authorities around the world are keen for lenders to develop strong know-your-customer (KYC) procedures, and are prepared to levy big penalties on banks that fall short. As a result, firms are looking to new data-based technologies to sharpen up their compliance and help avoid regulatory punish.

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European investment fund growth slows

May 2018 – Louie Woodall (Editor of Risk Quantum)

European investment fund growth pared back in the first quarter, falling 20 basis points from end-2017, largely driven by the sluggish performance of bond funds. At end-March, the growth rate of all euro area investment funds was 8.3%, down from 8.5% at end-2017, continuing a downward trend in evidence since January. Bond funds slowed the most, with a growth rate of 8.2% at end-March, compared with 10.6% at end-2017. On the flipside, hedge funds grew the fastest, hitting a growth rate of 10.9.

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Financial Crises: Awaiting the Minsky moment

May 2018 – David Turner (Contributing editor at IPE)

A Minsky cycle is the gradual accumulation of excessive debt, which inflates asset prices. This is followed by a market crash, which deflates them as debt is reduced. A Minsky moment is the point when the crash happens. Most analysts do not see a Minsky moment in a large developed economy as imminent. However, the US could see a Minsky moment before other economies, because of expected rate rises.

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Estimating Private Equity Returns from Limited Partner Cash Flows

May 2018 – Andrew Ang, Bingxu Chen, William N. Goetzmann & Ludovic Phalippou

We introduce a methodology to estimate the historical time series of returns to investment in private equity funds. The approach requires only an unbalanced panel of cash contributions and distributions accruing to limited partners and is robust to sparse data. We decompose private equity returns from 1994 to 2015 into a component due to traded factors and a time-varying private equity premium not spanned by publicly traded factors. We find cyclicality in private equity returns that differs according to fund type and is consistent with the conjecture that capital market segmentation contributes to private equity returns.

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Is Proprietary Trading Detrimental to Retail Investors?

May 2018 – Falko Fecht (Department of Finance, Frankfurt School of Finance and Management), Andreas Hackethal (Goethe University Frankfurt) & Yigitcan Karabulut (Rotterdam School of Management, Erasmus University)

We study the conflict of interest that arises when a universal bank conducts proprietary trading alongside its retail banking services. Our data set contains the stock holdings of every German bank and those of their corresponding retail clients. We investigate (i) whether banks sell stocks from their proprietary portfolios to their retail customers, (ii) whether those stocks subsequently underperform, and (iii) whether retail customers of banks engaging in proprietary trading earn lower portfolio returns than their peers. We present affirmative evidence for all three questions and conclude that proprietary trading can, in fact, be detrimental to retail investors.

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UPCOMING EVENTS

31st International Congress of Actuaries (ICA 2018)

4th–8th June 2018, Berlin, Germany

Like no other metropolis in Europe, Germany's capital symbolizes the breakdown of old structures and the beginning of a new era of understanding and cooperation. May the unique atmosphere of a city that has re-invented itself in recent decades inspire you to be an integral part of a vibrant International Congress of Actuaries in 2018. Come and join colleagues working together, at an event without cultural or geographical barriers.

Find out more about the ICA 2018

Virtual 31st International Congress of Actuaries (VICA 2018)

4th–8th June 2018, Berlin, Germany

Virtual ICA will be available from 4th to 8th of june. AFIR/ERM section is proudly sponsor of VICA, therefore all AFIR/ERM members will ve able to enter and enjoy total acces of Virtual ICA 2018.

As AFIR/ERM members you'll have full access to online presentations and live streaming all the way from Berlin, Germany.

Find out more about the Virtual ICA 2018

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UPCOMING EVENTS

"Derivatives Challenge, John Hull award"

April 9th- June 11th, On-Line

Torneo único en su tipo en México y LatAm. Tiene una duración de dos meses. Durante este tiempo podrás operar contratos de Futuros y Opciones listados en el Mercado Mexicano de Derivados, MexDer. Los precios y cotizaciones son en tiempo real y durante el torneo, los participantes registrados en tiempo y forma deberán de operar y generar el máximo rendimiento en su portafolio para lograr posicionarse entre los 3 primeros lugares y hacerse acreedores de diversos premios.

For More Information and Registration

Risk Management & Trading Conference

June 20th-23th, Hotel Westin Santa Fé, México

One of the primary objectives of this Conference is to provide through Workshops, Presentations and Round Table Discussions the latest advances in Risk Management, Trading, Technology and Market Regulation, and to transmit all this knowledge by local and international authorities in the field.
Some other objectives of this Conference are to explain and show in detail the current situation and where the Global Financial Industry is heading, advances in Pricing, and how intermediaries and direct or indirect participants of markets need to be prepared to remain competitive in spite of the new challenges and paradigms that are present nowadays.

For More Information and Registration