



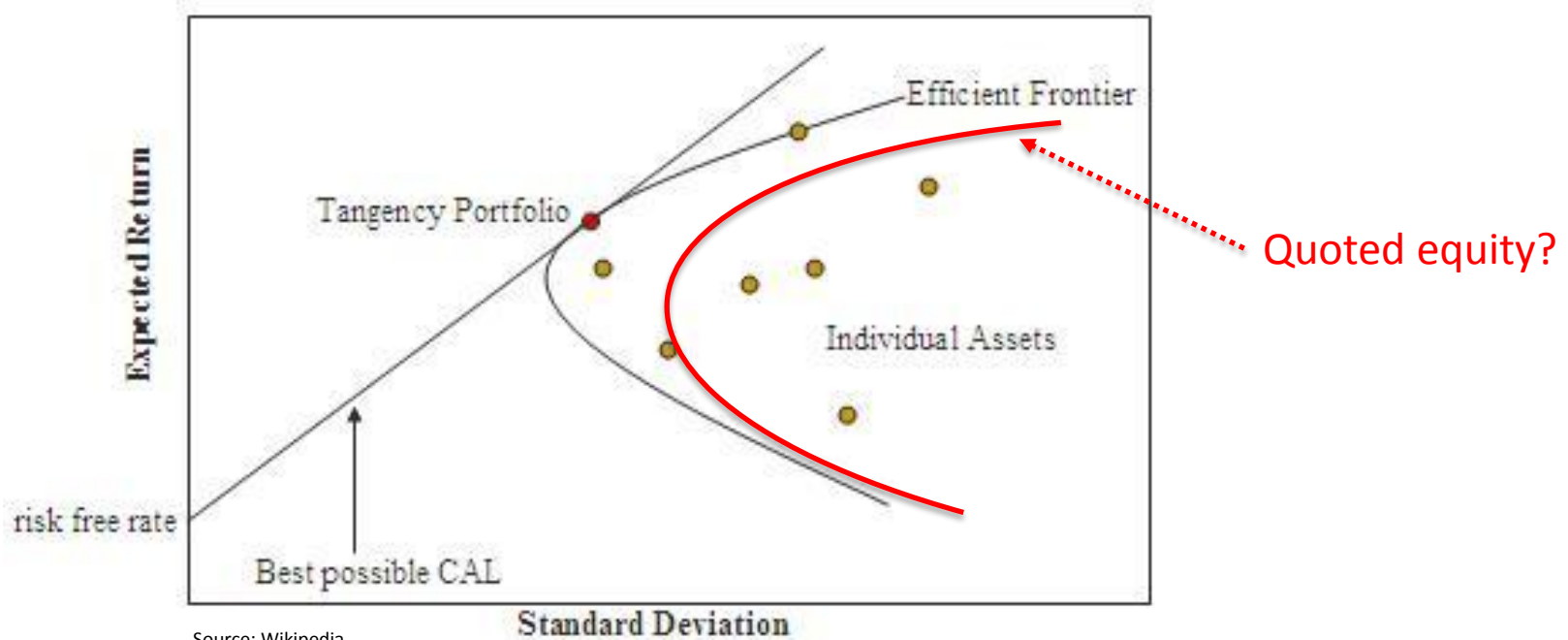
Society of Actuaries in Ireland

α lternative β eta

September 2016



Modern Portfolio Theory



What is a risk asset?

Another way to think about alpha and beta

**Bulk
Beta**

**Smart
Beta**

Alpha

Manager skill

Low

Low to Medium

High

Asset owner
skill

Low

Medium to high

Medium to High

TER bps

5 to 20

15 to 70

60 to 400

Alternative beta & “Smart” Beta

Equities:

Fundamental Indexation;
Adaptive Cap;
Infrastructure

Credit:

Max cap.;
Buy & hold;
Screened

Physical Assets:

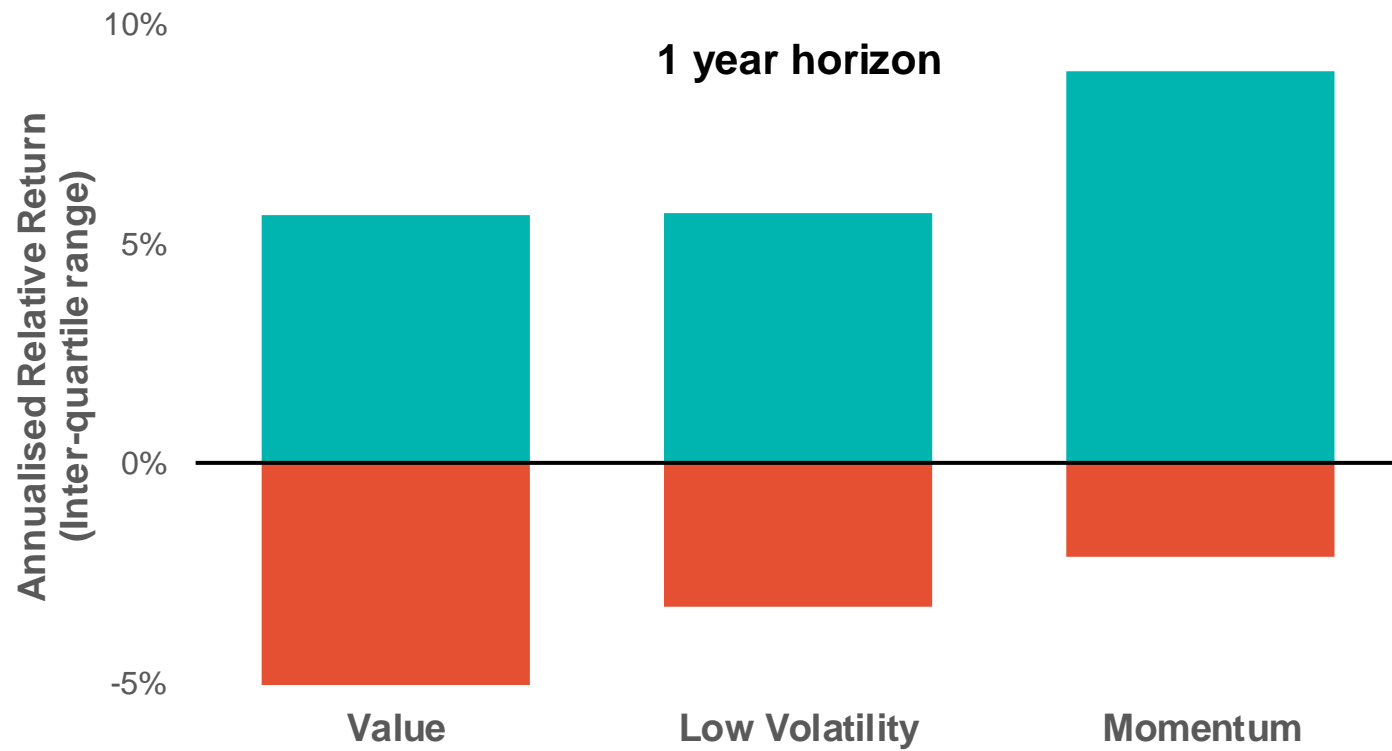
Property;
Secure income;
Commodities;
Land

Trading Strategies:

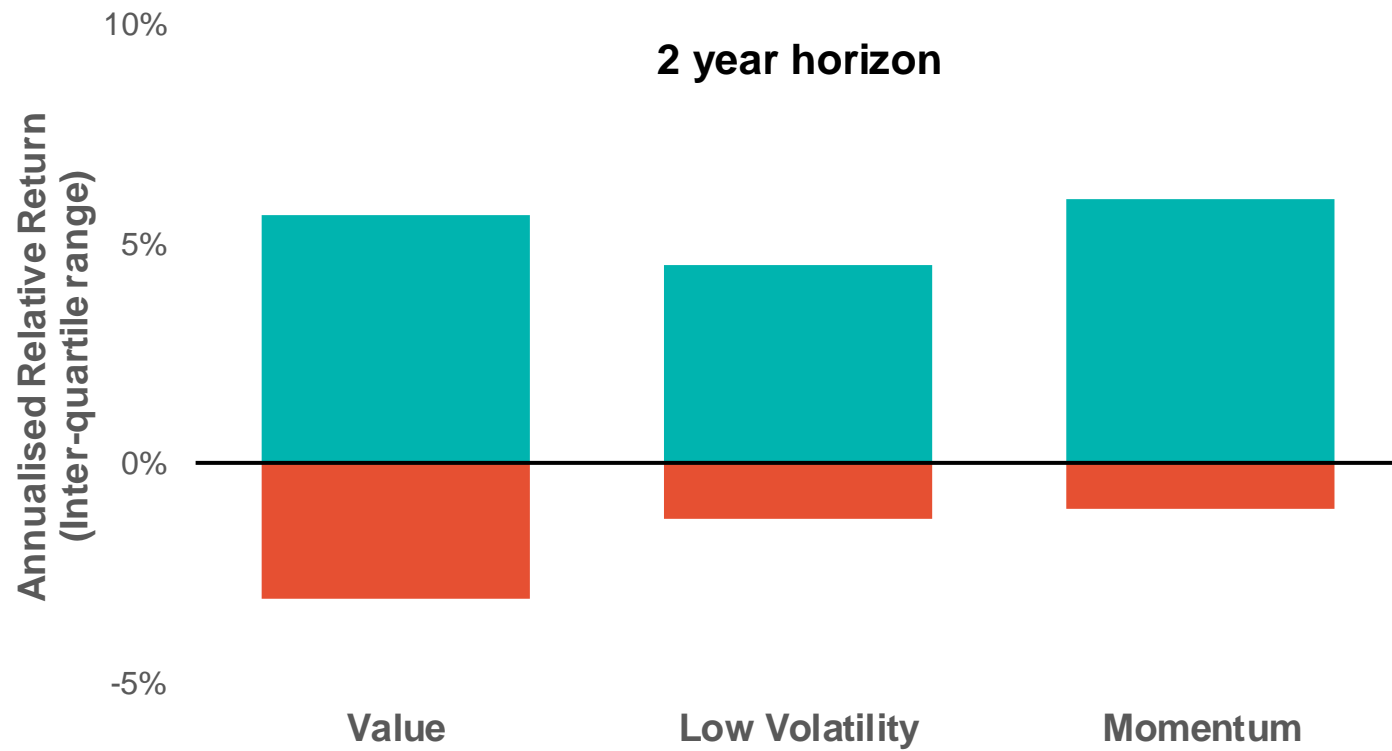
Hedge funds;
Active management;

Alternative Beta:

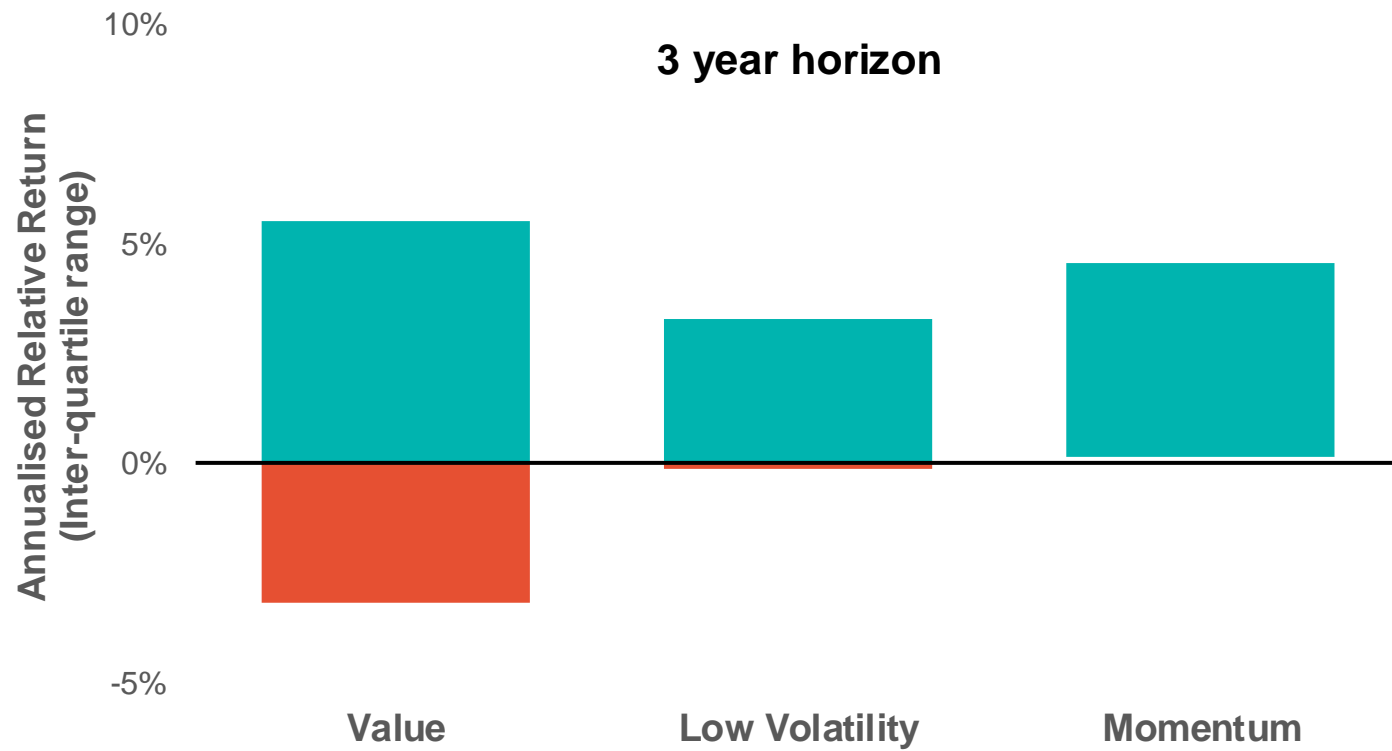
Reinsurance;
Alpha as beta;



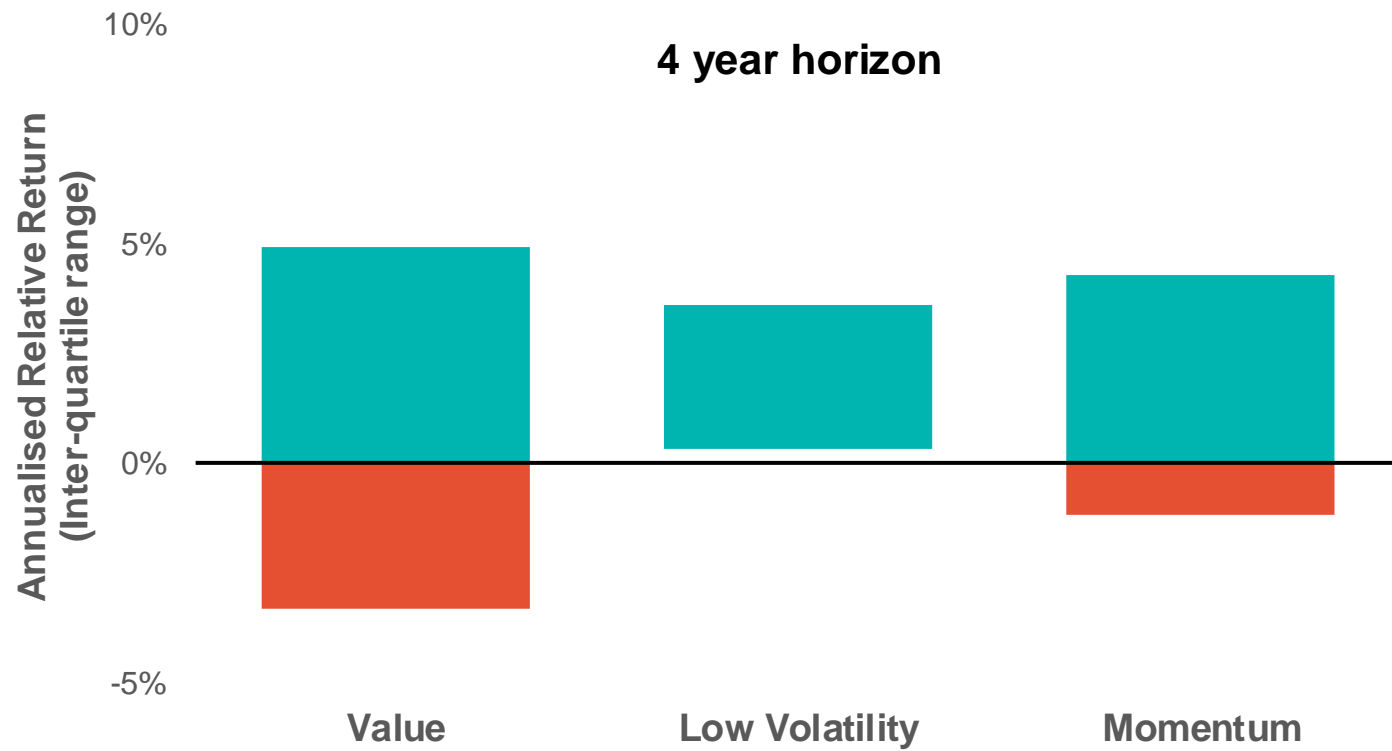
Source: Style Research, Willis Towers Watson



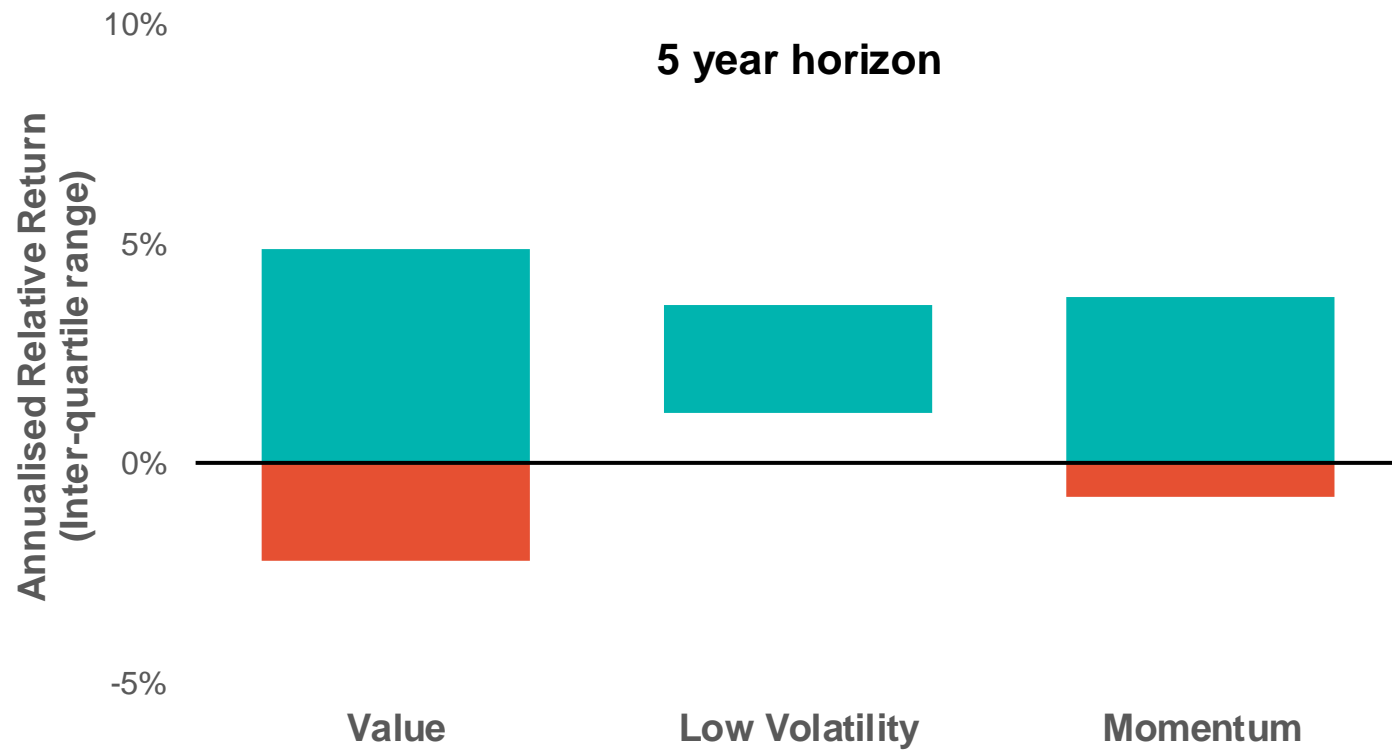
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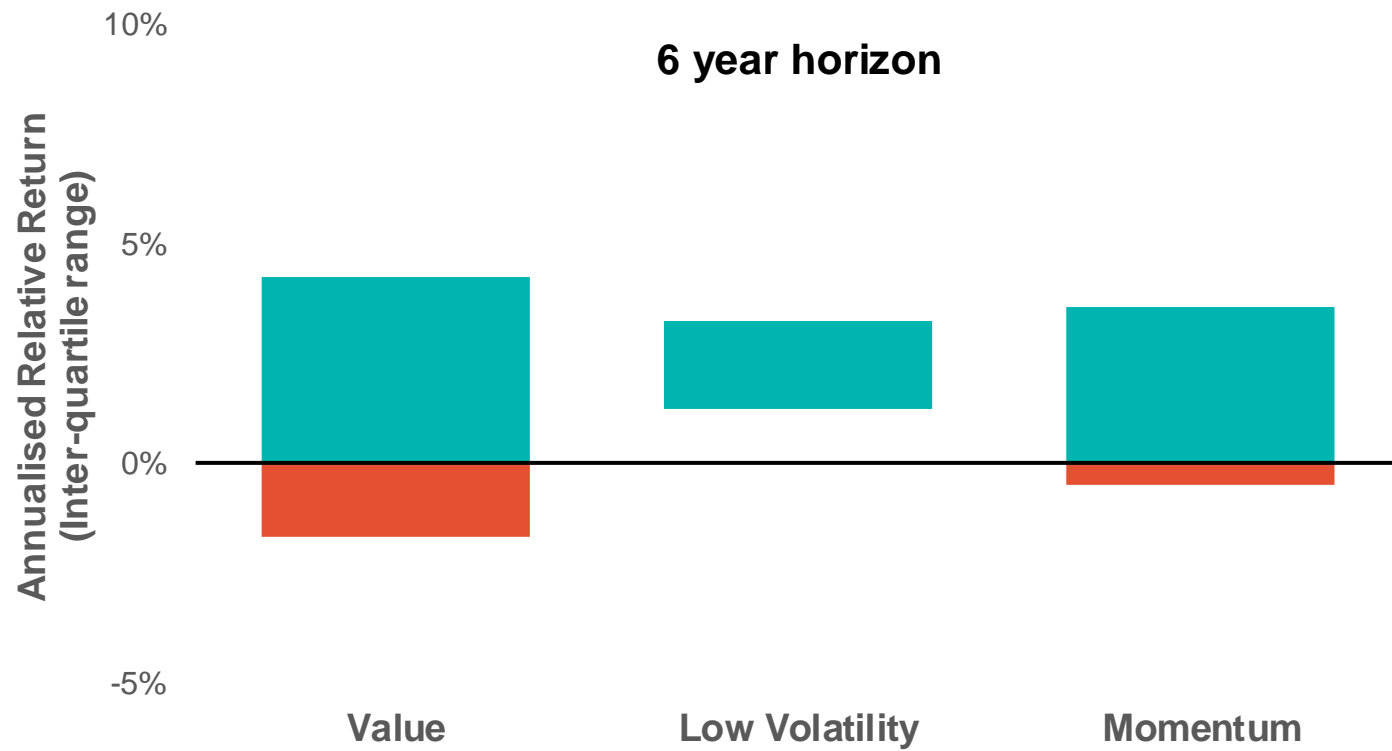
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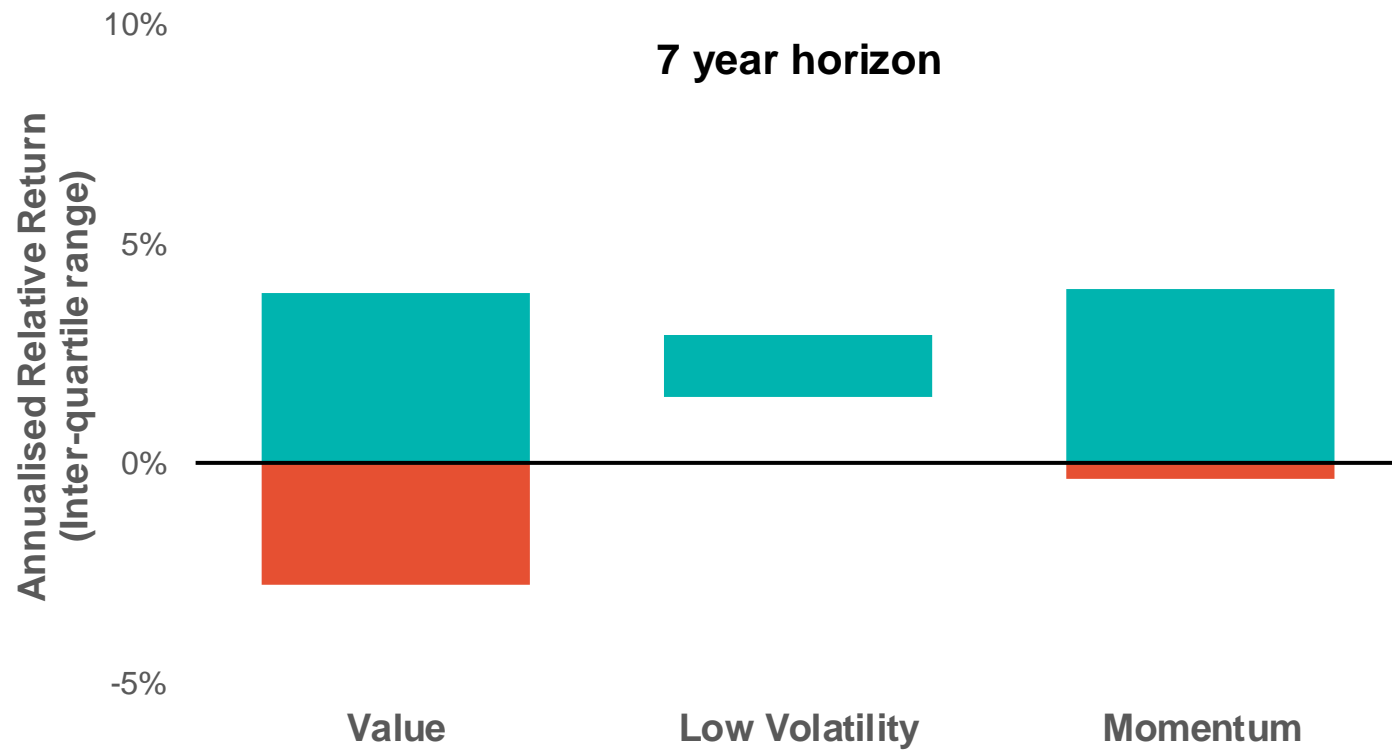
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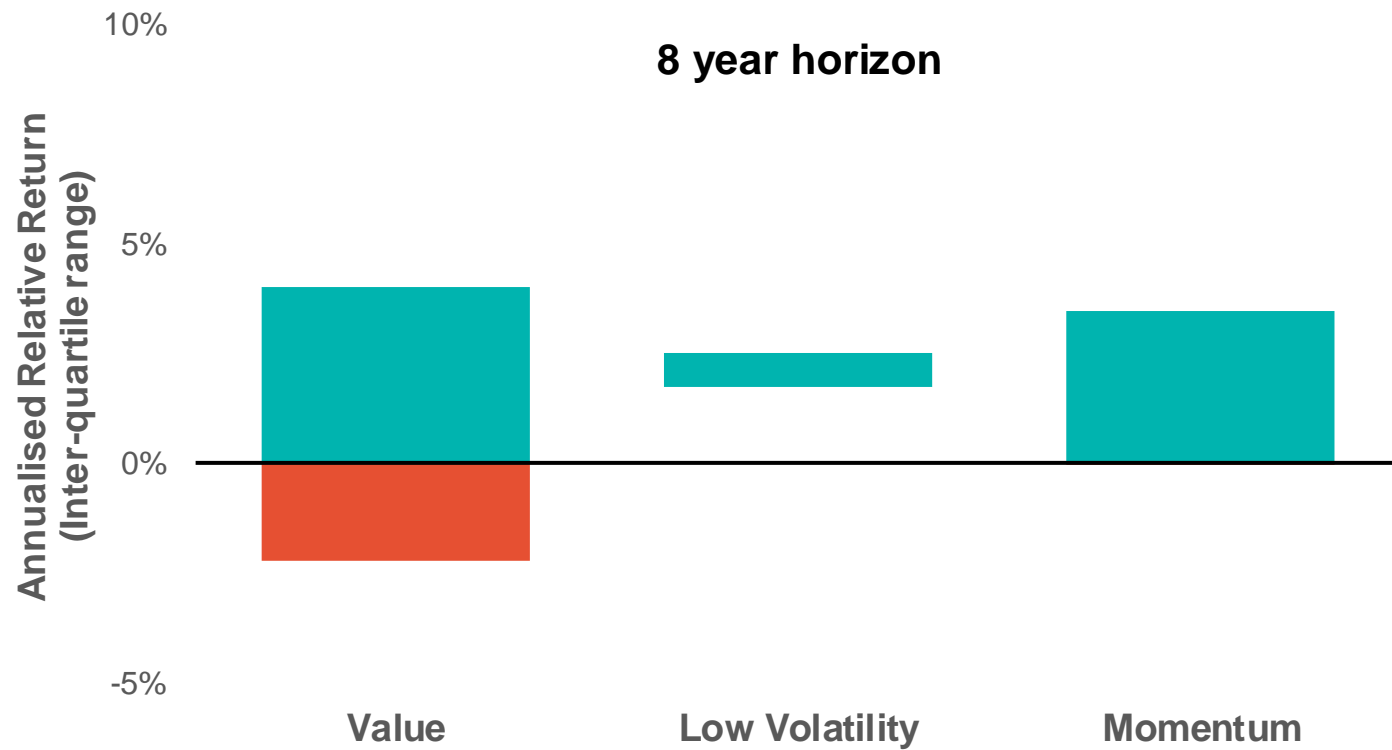
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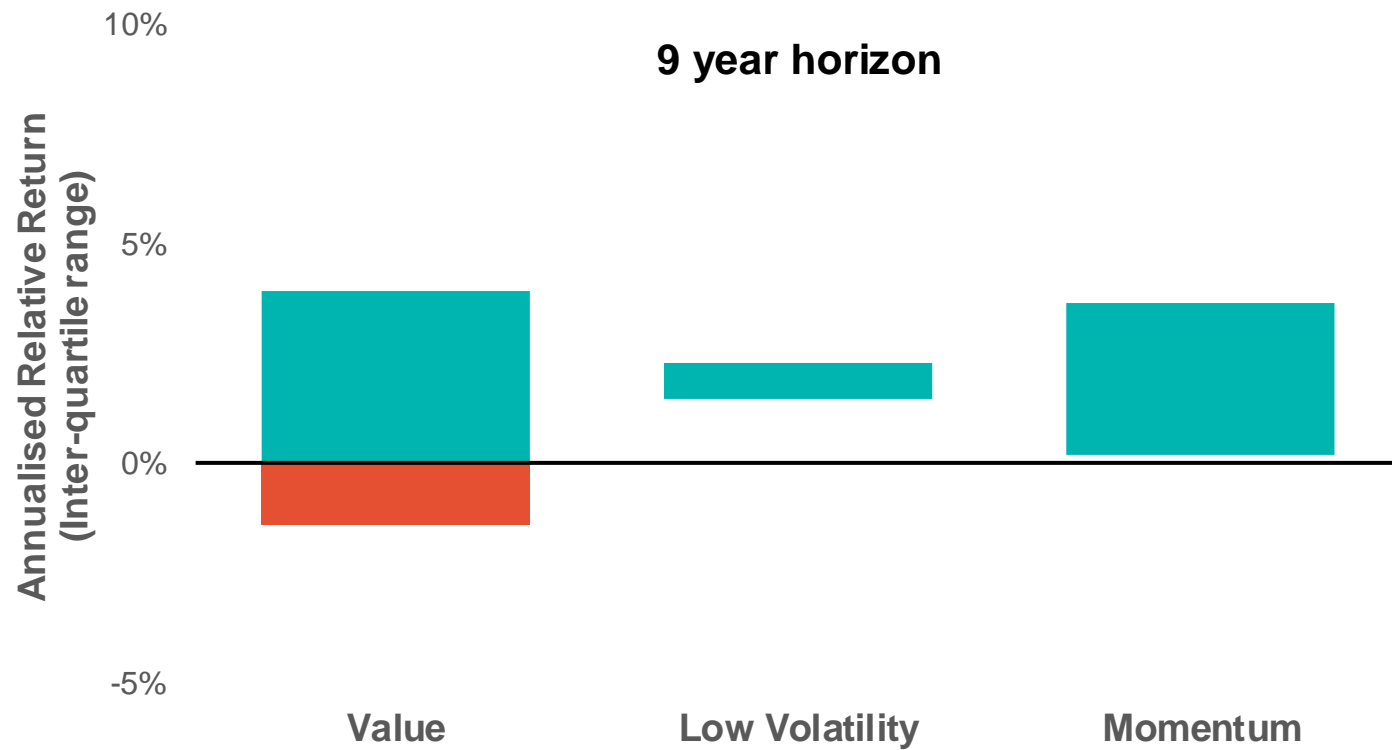
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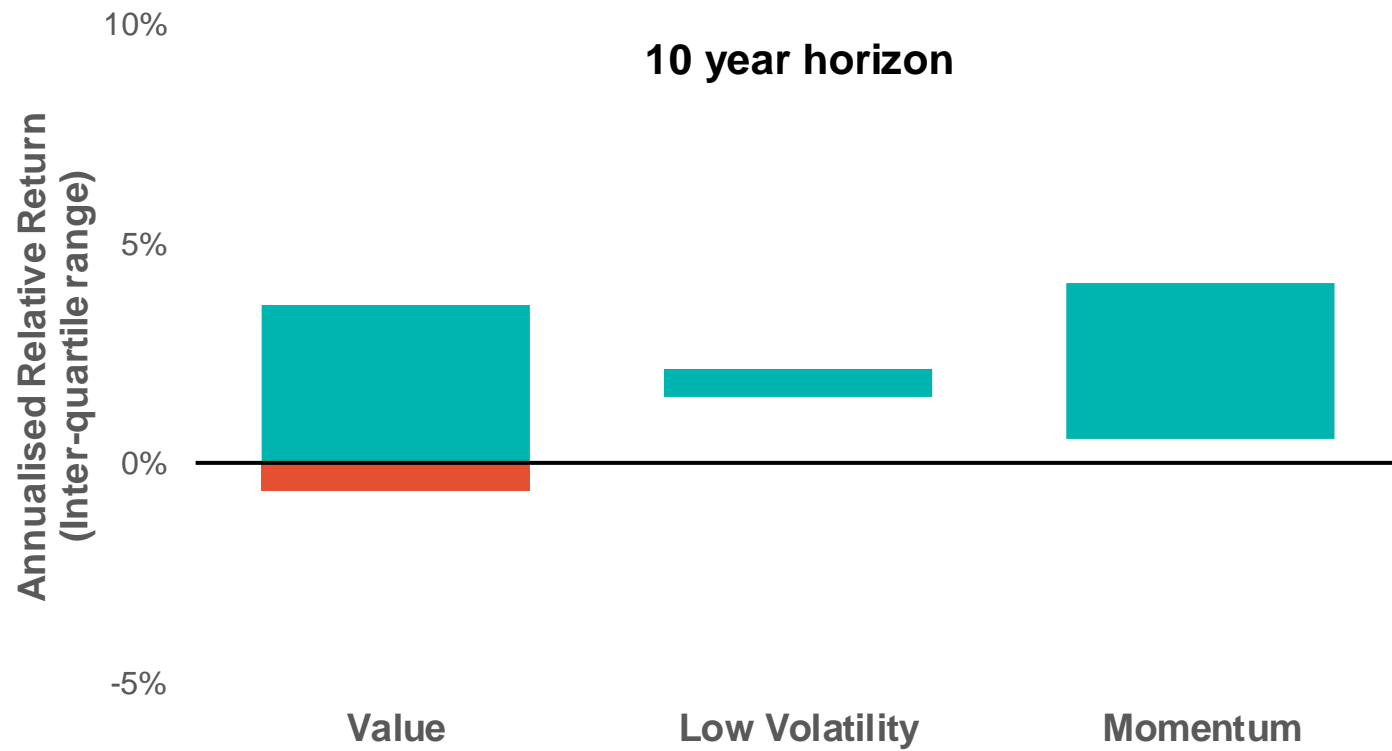
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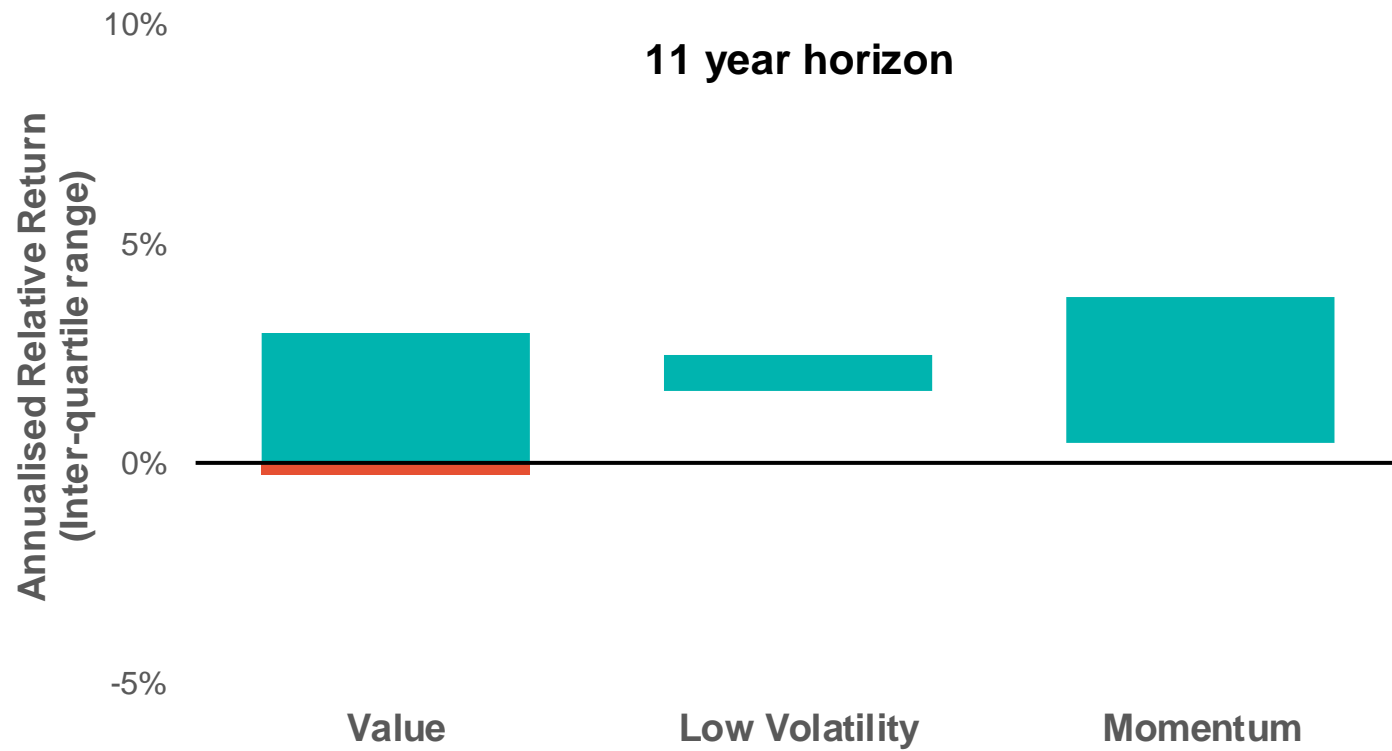
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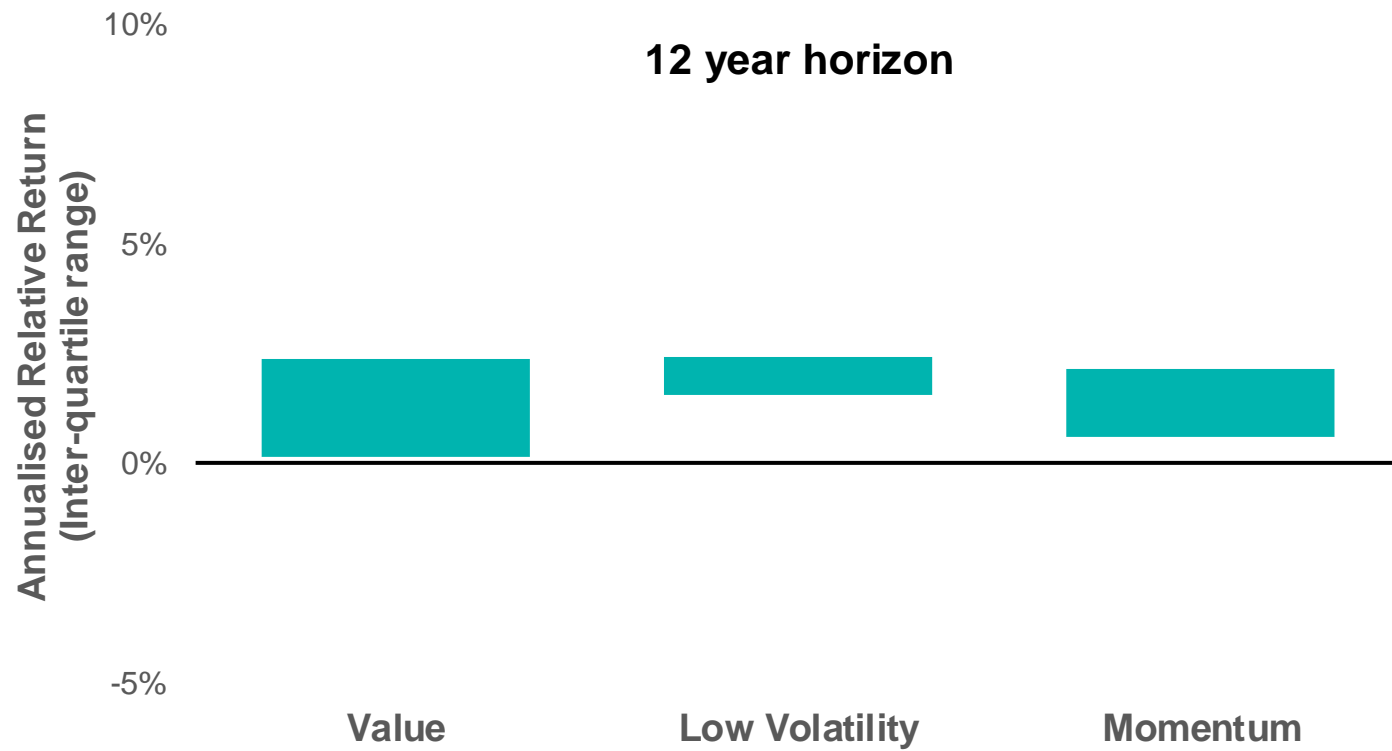
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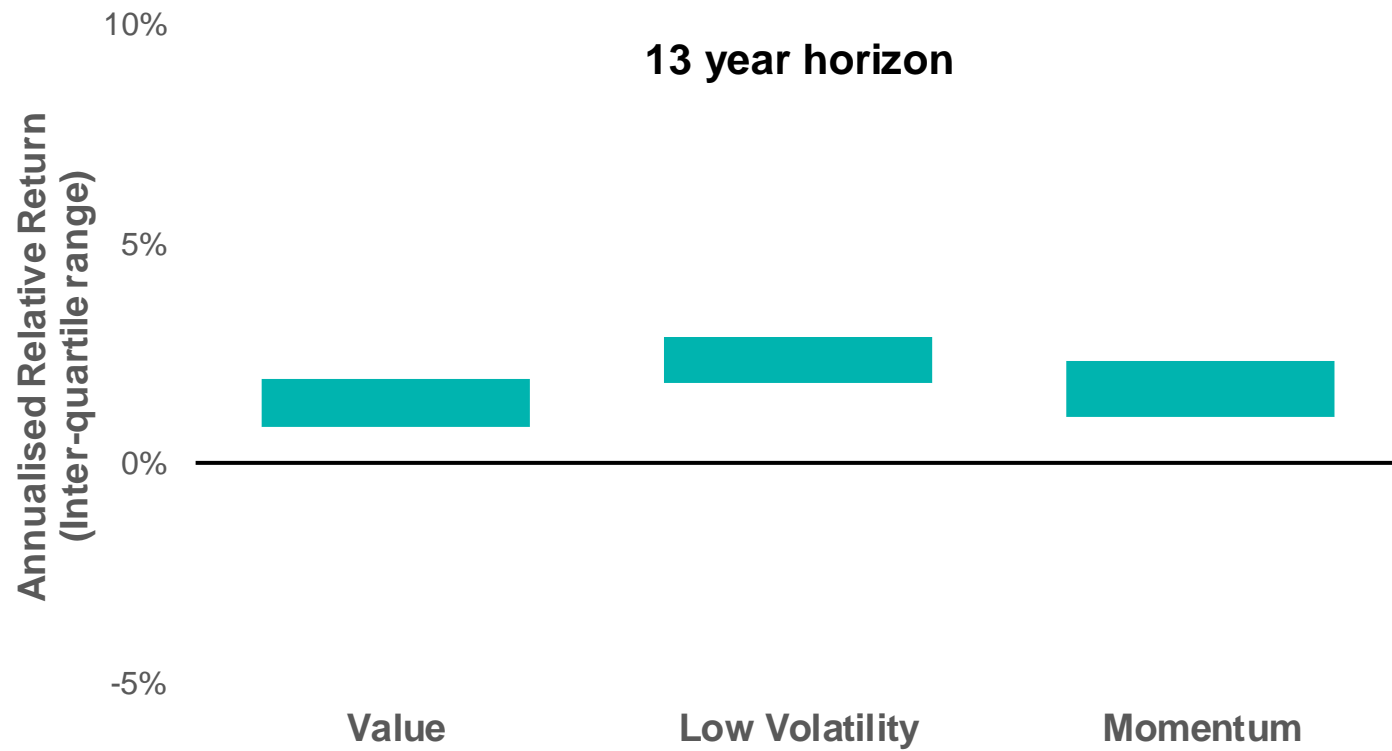
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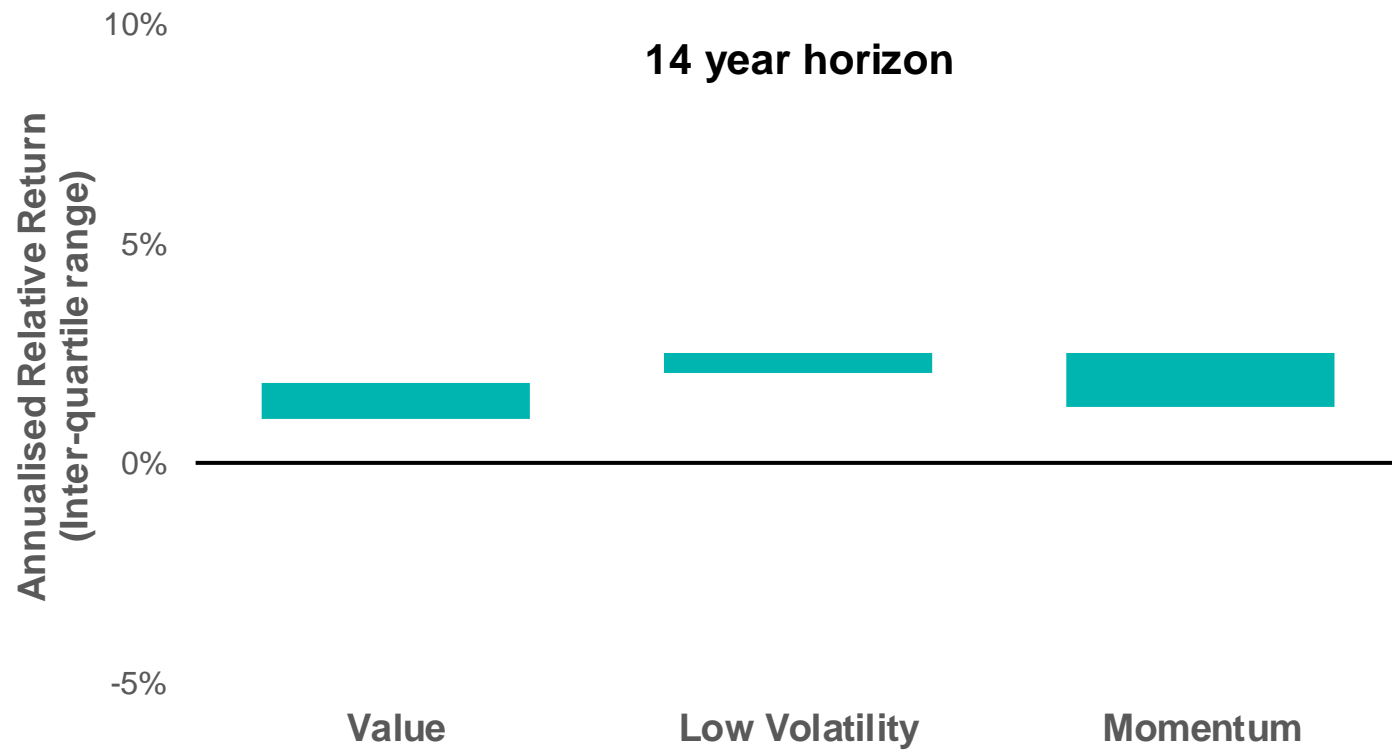
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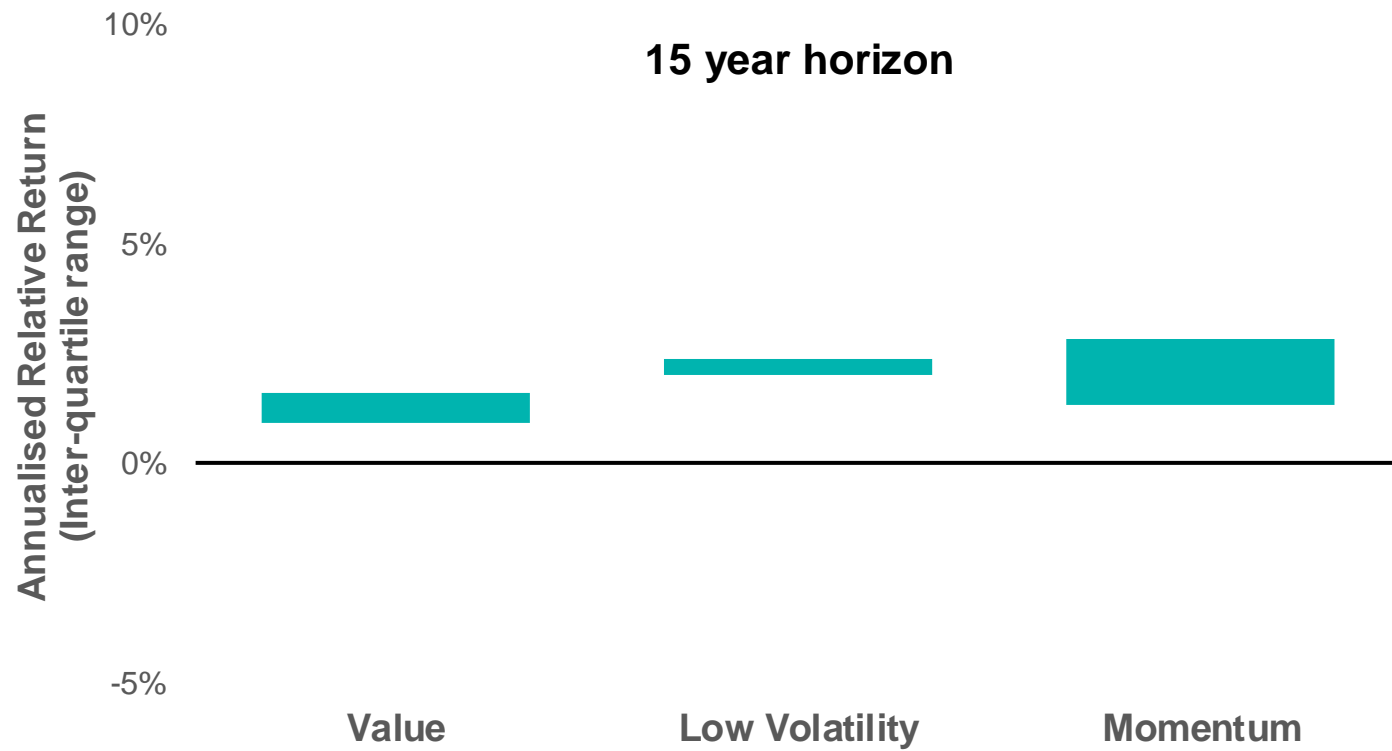
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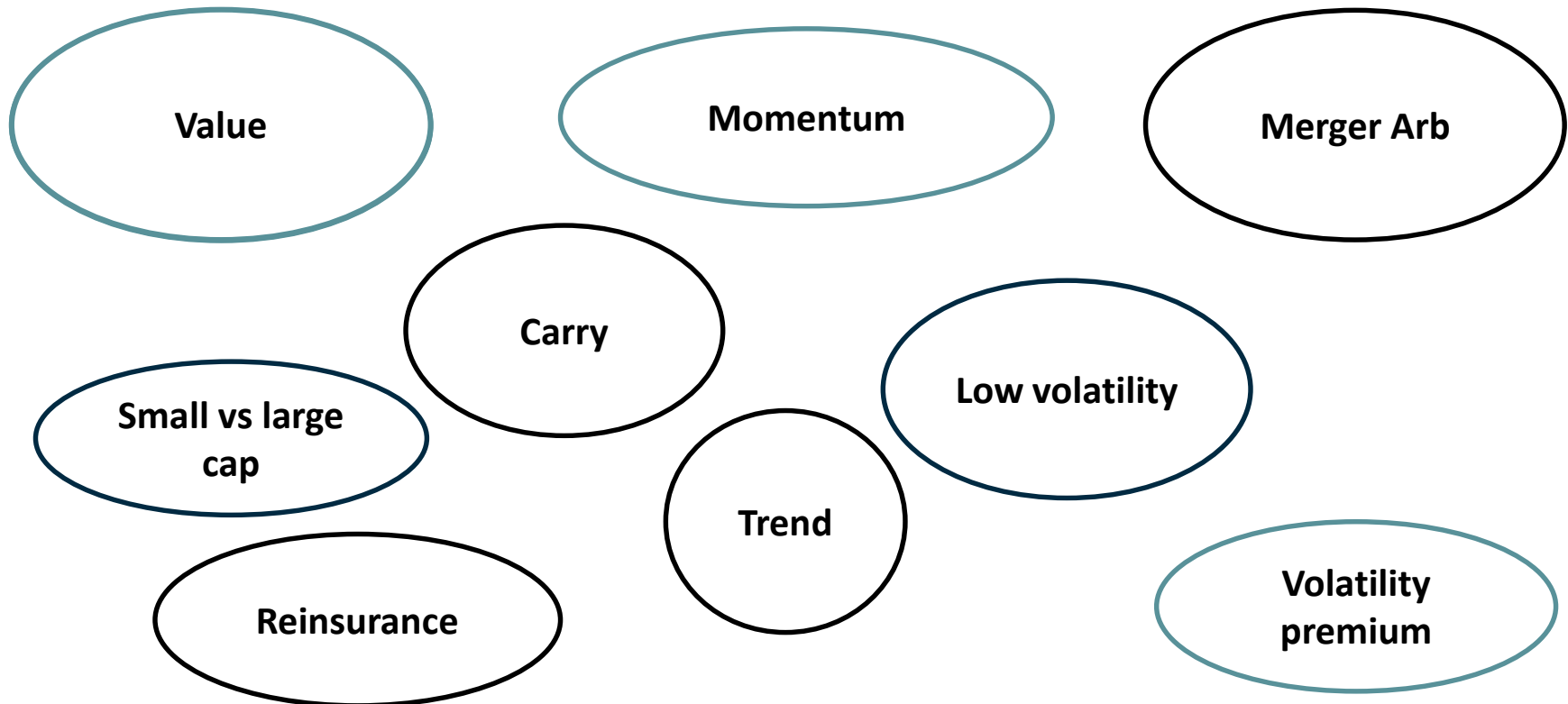


Source: Style Research, Willis Towers Watson



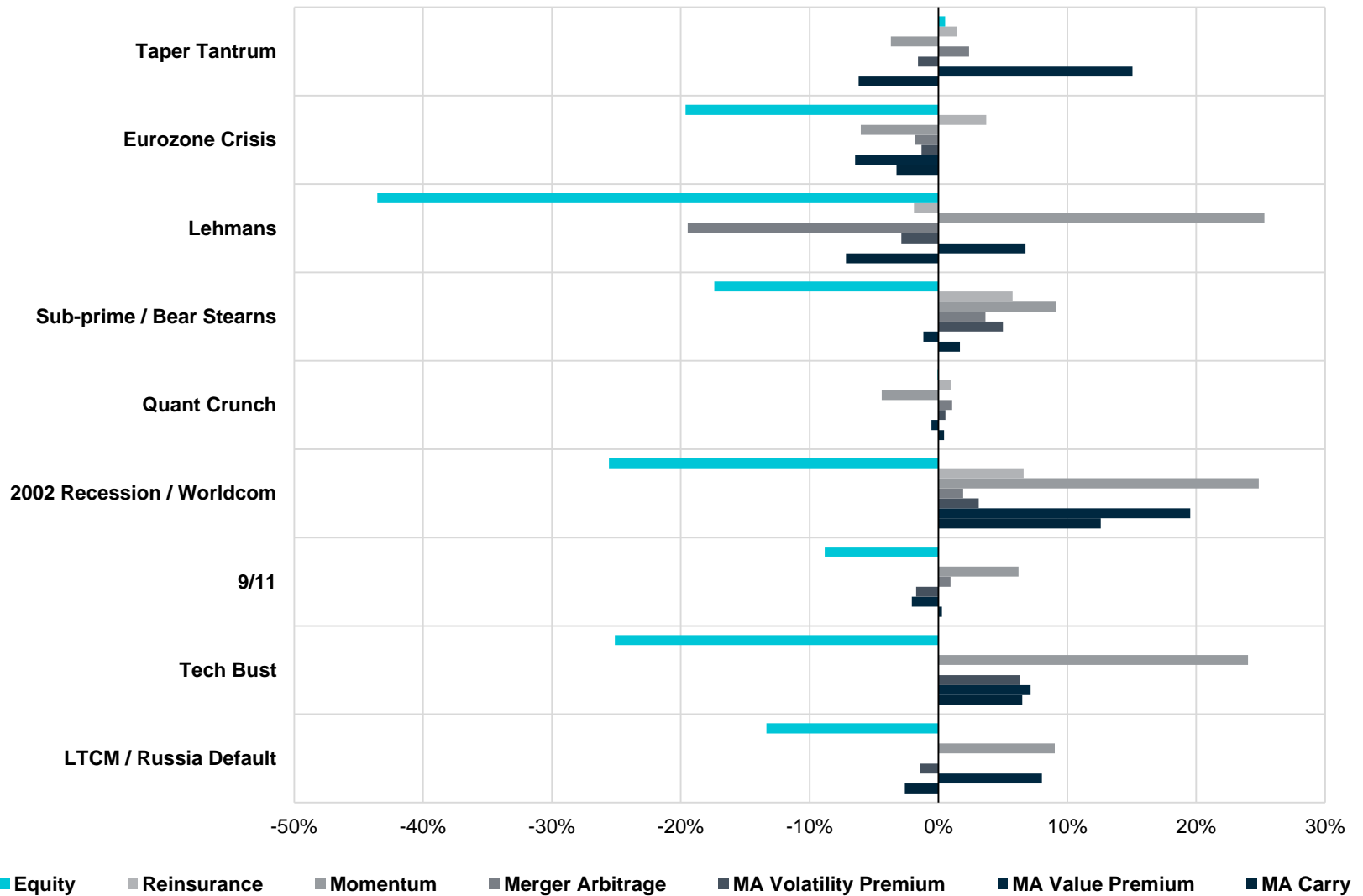
Source: Style Research, Willis Towers Watson

What do we mean by Alternative Betas?



Can be across markets (with derivatives) or across stocks

The attraction – diversifying, especially during market stress



Sources: Various managers, MSCI, UK IPD, Barclays Capital