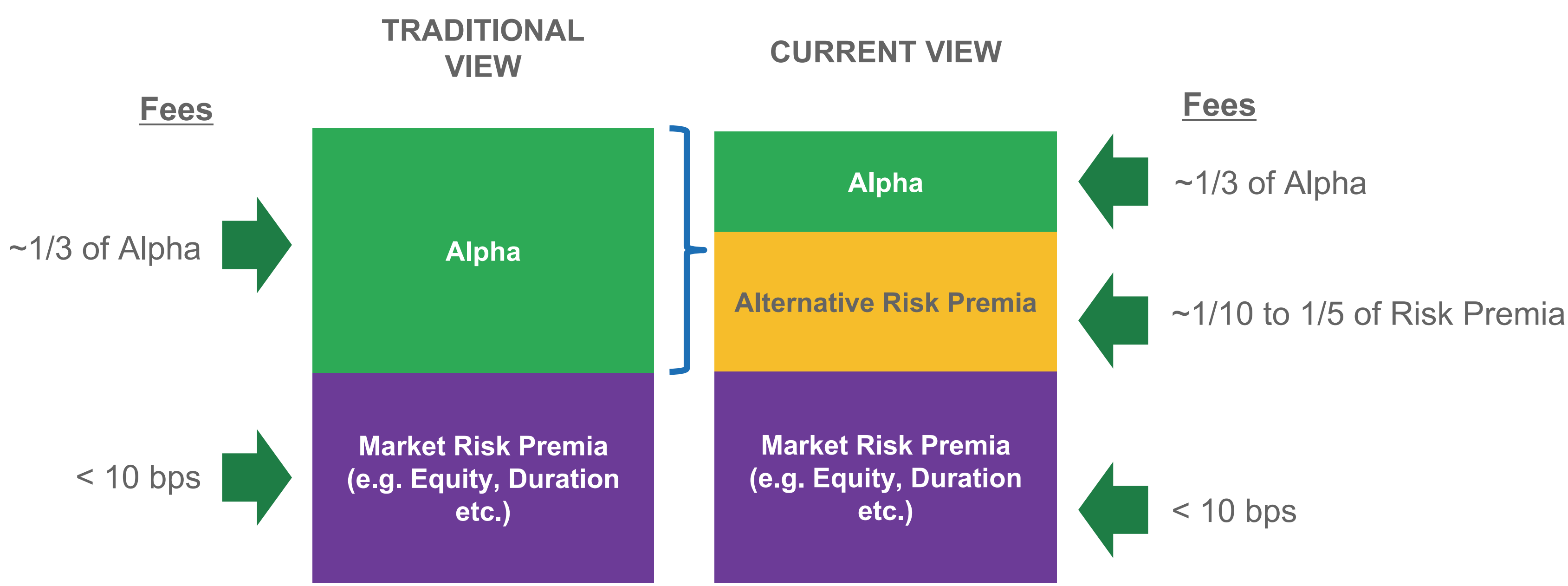
WSIB Perspective on Alternative Risk Premia

Alternative Risk Premia at WSIB

- Traditionally, all returns above the traditional market risk premia (Equity Index, Bond Index etc.) considered value-added or “Alpha”
- Over time, part of this “Alpha” became “Alternative Risk Premia”
- ARP is delivered at a visibly lower cost than true, skill-based alpha



Types of Alternative Risk Premia

- Alternative Risk Premia – a well-defined and repeatable systematic process
- Ways to access:
  - **Style Risk Premia (SRP)**
    - capture well-known style premia such as Carry and Momentum
    - lowly correlated with each other
    - also lowly correlated or uncorrelated with Market Risk Premia, e.g. equity risk premia
    - does not look to replicate a strategy & cannot be translated into hedge fund strategy styles
  - **Hedge Fund (HF) Risk Premia**
    - capture fundamental insights of classic HF strategies such as Macro, Credit, and Equity Long/Short
    - goal is to replicate the methodologies of HF managers in a systematic fashion
    - similar to SRP, lowly or uncorrelated with Market Risk Premia (e.g. equity risk premia)
    - HF could utilize some of SRPs, such as Carry (e.g. Macro strategies use Carry)

Pros and Cons of Alternative Risk Premia

- Pros
  - Academically proven persistent drivers of returns
  - Cheaper than alpha products
  - Long term, positive risk-reward characteristics
  - Diversifying
  - Customizable – instruments, markets and volatility
  - Could be used in an overlay or “portable” format

- Cons/Challenges
  - Could underperform market risk premia
  - Product proliferation and finding the right “fit”
  - Manager selection is key
  - Usually not discretionary and can have extended drawdown periods
  - Use of leverage