UNIGESTION

Alternative Risk Premia: Implementation and Portfolio Construction Matters

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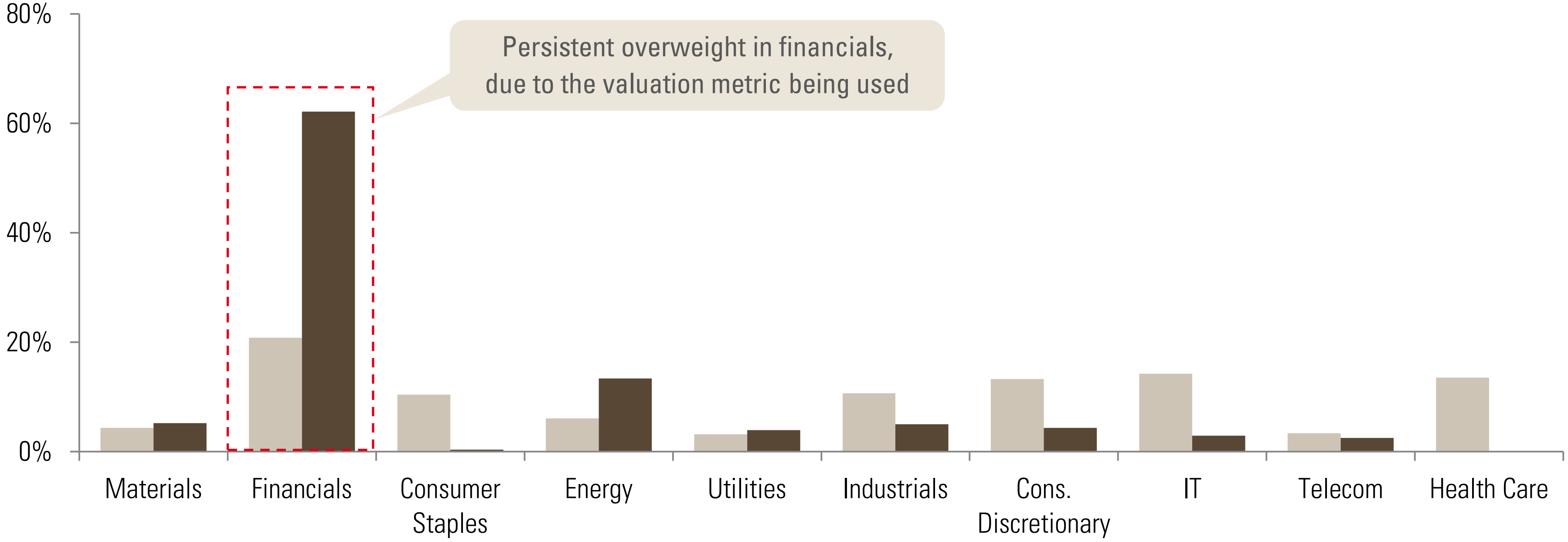
WE GUIDE YOU THRIVE

Taking care of implementation (1): Equity Value example

- Value is important… But what is "Value"?
- Overly-simple "Value" definitions, such as based on Price to Book ratio, are not suitable for all sectors.
- Very concrete implications on portfolios such as diversification or the robustness of results.

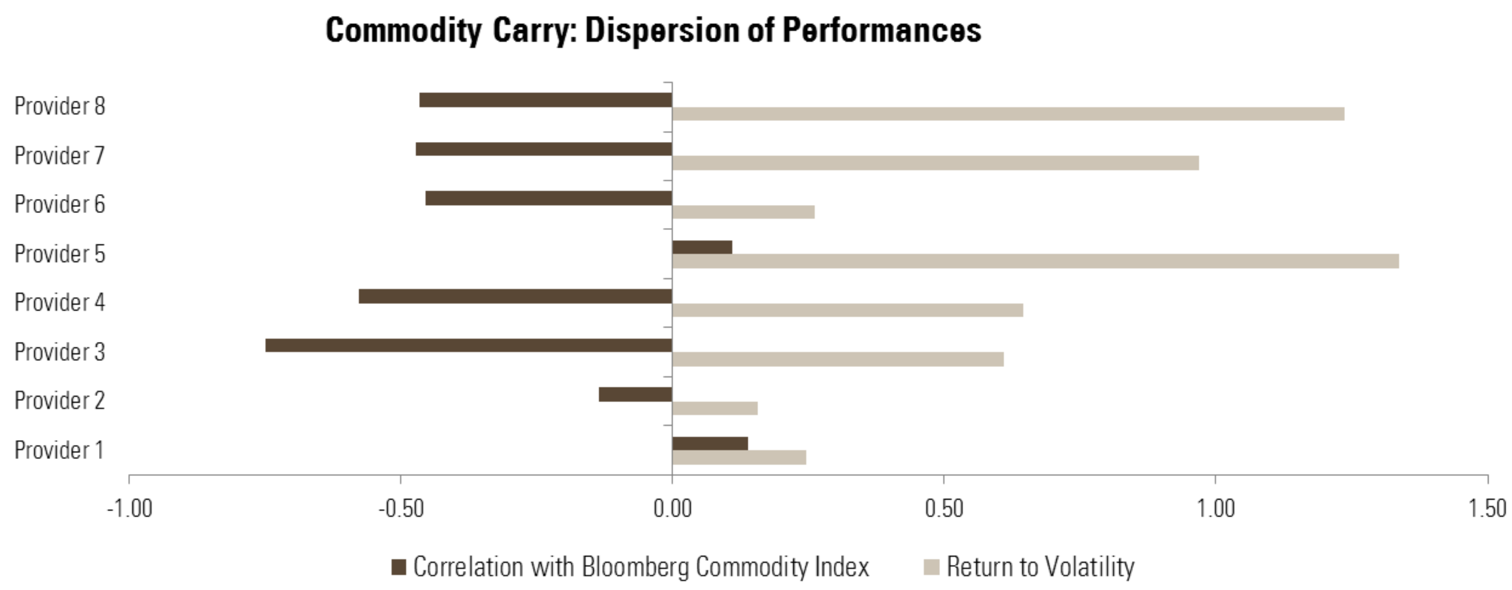
Equity Value: Allocation based on Price to Book ratios



Sources: Bloomberg, MSCI, Unigestion.
Based on MSCI World, data as of 31.12.2015, considering the first quintile of stocks with lowest P/B.

Taking care of implementation (2): Same name but different outcomes

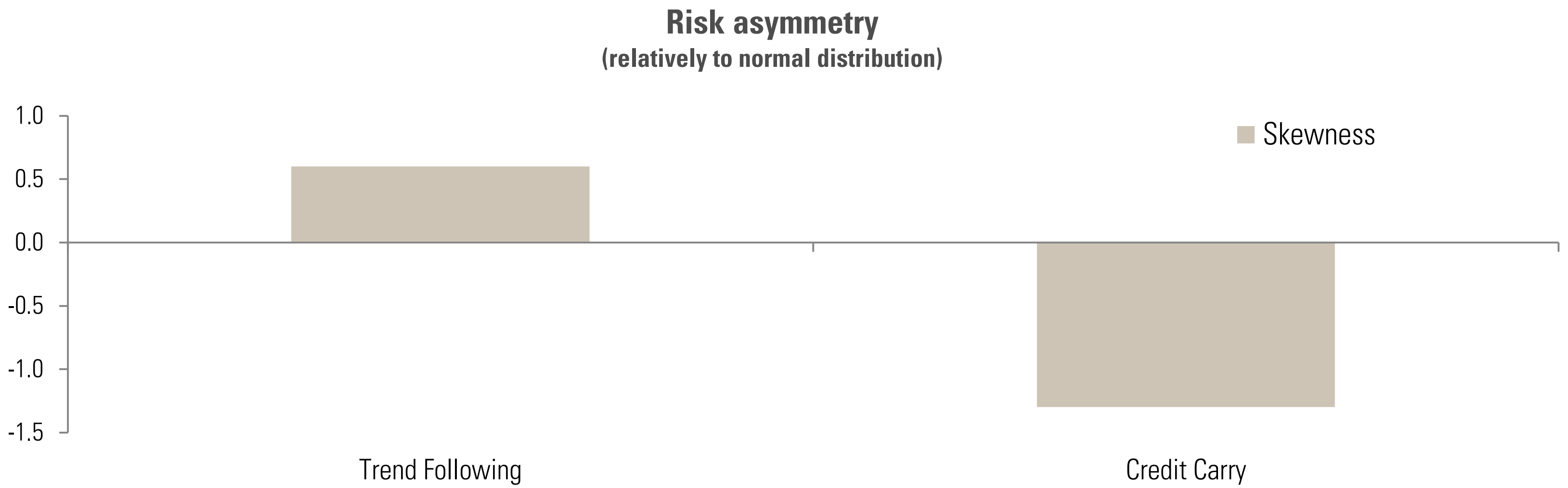
- Strategies with the same name can deliver totally different results
- Example of Commodity Carry
- Differences are exacerbated by characteristics of ARP (e.g. , long-short, leverage)



Source: Bloomberg, Unigestion. Based on weekly returns from January 2015 to November 2016. Past performance is not indicative of future performance. Please refer to the important information on performance at the end of this document.

Taking care of portfolio construction (1): Beware of volatility

- Specific risks, typical of long-short strategies
- Volatility is a too simplistic risk measure
- Expected Shortfall is a better measure to incorporate the various dimensions of risk [1]



Source: Unigestion. Backtested simulation returns are based on data from 29/02/2000 to 31/12/2015 (in USD, gross of fees).

[1] See Jurczenko and Teiletche (2015) "Risk-Based Investing But What Risk(s)?", in Risk-Based and Factor Investing, ISTE Press Elsevier.

Taking care of portfolio construction (2): Do not ignore economic sensitivity

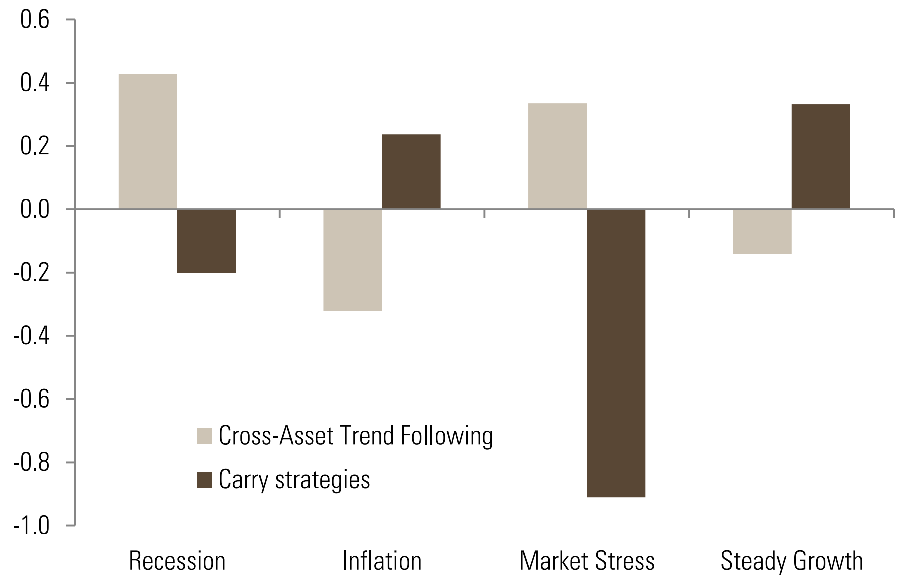
- In the long-run, ARP are modestly correlated and Equal-Risk Contribution [1] is a good starting point….but this is valid in the long-run only

- We need to incorporate the impact of economic regimes on individual ARP and other distinctive performance drivers such as carry [2]

Long-term correlations

	Trend following	Carry Credit	FX Carry	Volatility	Bond Carry
Equity long-short	0.21	0.08	0.03	-0.01	0.13
Trend Following		0.13	-0.12	0.09	0.01
Credit Carry			0.26	-0.11	-0.11
FX Carry				-0.11	0.17
Volatility Carry					-0.06

ARP Sharpe ratios in different regimes



Source: Unigestion. Return figures are based on hypothetical backtest simulations from 31.12.2000 to 31.10.2016 in USD, gross of fees.
Past performance is not indicative of future performance. Please refer to the important information on performance at the end of this document.

[1] See Maillard, Roncalli, and Teiletche (2010), "The Properties of Equally Weighted Risk Contribution Portfolios", Journal of Portfolio Management 36, 60-70.

[1] See Blin, Ielpo, Lee and Teiletche (2017), "A Macro Risk-Based Approach to Alternative Risk Premia Allocation", Unigestion working paper.