



## Viewpoint

### All About That Beta

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**We continue to believe that, given the low yield environment, in their search for yield, investors are accumulating too much beta risk. With Central Banks threatening the end of QE, it is important to understand your portfolio Beta.**

We attend many conferences and participate in many discussions, and there are many managers and many investors stretching even further for yield. Among the less sophisticated, there appears to be a belief that private assets are immune from beta risk as such assets are not marked, and CRE, direct lending, and private equity remain favorites among family offices. Larger investment managers and some consultants appear to be seeking Emerging Market and Frontier Market investments. A number of funds appear to have given up on markets and are looking even further afield in fintech, AI-driven quant strategies, and cryptocurrencies.

Since our core philosophy is that all markets are linked, and that the same pool of money is chasing all assets, it is important to us to track our relative performance and risk. With that in mind, we have conducted a small study of Beta and correlations between some benchmarks that we could easily access using Bloomberg's data set.

We have not included MBS Mantra's statistics, but you can see those on our Fact Sheets. We continue to have low Beta and high Alpha against most market indicators, and we have structured a version of our portfolio that maintains attractive Alpha while generating negative Beta.

Some observations on what we found interesting in the tables that follow:

- Core Fixed Income continues to have low Beta and correlations to Equities while maintaining a positive level of Alpha relative to Equities (although this is suspect due to the almost zero correlation with equities). This makes a Fixed Income allocation important for Asset Allocation processes to reduce portfolio risk, and FI should remain a part of all portfolios.
- Levered loans are less compelling to us compared to fixed income, in every time period analyzed, with lower Alpha and greater Beta. One could replicate the Beta of Levered loans with significantly higher returns by simply leveraging fixed income.
- The VC Index has large swings in Beta and Alpha, and a VC allocation should be timed correctly.
- Listed Private Equity consistently appears very rich by our standards, with high correlations, high Beta, and large negative Alpha.
- The time for Frontier and Emerging markets was pre-2007.
- The long-term returns from High Yield were mostly realized pre-2013.



- Betas and Correlations appear to be declining versus Equities since 2013 (except in VC). We believe that this is due to the Equities market reaching new highs (we believe we understand why, and have discussed this in previous Viewpoints), and should not be viewed as a reduction in risk of other asset classes, as their Alpha has declined too. All the other asset classes have had corresponding inflows too, reducing their yields and richening them. If Equities sell off, we believe that Betas will rise rapidly.

It should be noted that this analysis was performed on Benchmarks and not the performance of individual managers. Assuming that investment skills still exist and can generate Alpha and reduce Beta, the observations above should not be viewed as conclusions, but give reasons for caution.

We hope you find the data useful. I would love to hear your comments.

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**The source for all the data that resulted in the computations below was Bloomberg.**

Sector	Bloomberg Ticker	1/2005-6/2018		
		Beta	Annualized Alpha	Correlation
<b><u>Versus Equities</u></b>				
Equities	SPX Index	1.0	0%	1.0
Pvt Equity	SPLPEQTY Index	1.6	-8%	0.9
Venture Capital	TRVCI Index	1.1	6%	0.7
Emerging Markets	MXEF Index	1.2	0%	0.8
Frontier Markets	MXFEM Index	0.9	-2%	0.7
REITs	REIT Index	1.3	0%	0.7
High Yield	LF98TRUU Index	0.5	3%	0.7
Levered Loans	IBXXLLTR Index	0.4	2%	0.6
Bond Market	LBUSTRUU Index	0.0	4%	0.0
<b><u>Versus Bonds</u></b>				
Bond Market	LBUSTRUU Index	1.0	0%	1.0
MBS/ABS/CMBS	LD19TRUU Index	0.7	1%	0.9
High Yield	LF98TRUU Index	0.7	5%	0.2
Agency MBS	LUMSTRUU Index	0.7	1%	0.9



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	1/2005-10/2007			11/2007-3/2009		
	Beta	Annualized Alpha	Correlation	Beta	Annualized Alpha	Correlation
<b><u>Versus Equities</u></b>						
Equities	1.0	0%	1.0	1.0	0%	1.0
Pvt Equity	1.0	3%	0.7	1.7	-17%	0.9
Venture Capital	1.7	-5%	0.8	0.9	7%	0.8
Emerging Markets	1.4	23%	0.6	1.4	7%	0.8
Frontier Markets	0.8	25%	0.3	1.1	-14%	0.8
REITs	1.3	1%	0.6	1.6	6%	0.8
High Yield	0.4	2%	0.7	0.6	10%	0.7
Levered Loans				0.5	3%	0.6
Bond Market	0.0	4%	-0.1	0.1	10%	0.4
<b><u>Versus Bonds</u></b>						
Bond Market	1.0	0%	1.0	1.0	0%	1.0
MBS/ABS/CMBS	0.8	1%	1.0	0.7	2%	0.9
High Yield	0.4	5%	0.2	1.3	-21%	0.4
Agency MBS	0.8	1%	1.0	0.6	5%	0.8
	4/2009-7/2013			8/2013-6/2018		
	Beta	Annualized Alpha	Correlation	Beta	Annualized Alpha	Correlation
<b><u>Versus Equities</u></b>						
Equities	1.0	0%	1.0	1.0	0%	1.0
Pvt Equity	1.7	-7%	0.9	1.1	-2%	0.8
Venture Capital	1.2	0%	0.8	1.4	9%	0.7
Emerging Markets	1.3	-9%	0.8	1.0	-6%	0.6
Frontier Markets	0.8	0%	0.7	0.6	-5%	0.5
REITs	1.2	5%	0.8	0.7	3%	0.5
High Yield	0.5	9%	0.7	0.4	1%	0.7
Levered Loans	0.4	5%	0.7	0.2	1%	0.6
Bond Market	0.0	6%	-0.2	0.0	3%	0.0
<b><u>Versus Bonds</u></b>						
Bond Market	1.0	0%	1.0	1.0	0%	1.0
MBS/ABS/CMBS	0.7	1%	0.9	0.7	1%	0.9
High Yield	0.4	18%	0.1	0.5	4%	0.3
Agency MBS	0.7	0%	0.9	0.7	1%	0.9



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