

Asset Management Forum on 12th September 2007

organized by

**Center of Competence Finance in Zurich (CCFZ)
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New trends in Asset Management

Abstracts

Key Trends and Developments in Institutional Asset Management *By Thomas-Anton Heinzl and Ilias Läber*

Seen from the outside, the business of managing money appears to be a calm, serene industry with attractive economics. We believe, however, that a revolution is taking place. Underneath the tranquil surface, we see a proliferation of products, and a blurring of the frontiers between traditional asset managers and investment banks, hedge funds, PE companies, and insurance companies, among others. We also find new forms of interaction between clients and product providers, along with regulatory changes, and a shift in demand away from traditional, actively managed mandates toward passive and high-alpha/alternative investments. In a brief presentation, we will talk about the key trends that will affect asset management in the next 5-10 years, and the impact they will have both on asset managers and their clients.

Recent Advances in Portfolio Construction *By James Sefton*

Portfolio construction is now central to the modern investment process. The renewed interest is driven by two developments; an increased focus on risk control and recent theoretical advances that have overcome the stability problems of earlier implementations.

This lecture will provide an overview of these advances and discuss how these can be incorporated into the investment process. In particular, it will summarise recent work on 'signal' or forecast conditioning, and both robust and dynamic portfolio construction. The talk will be predominantly aimed at practitioners, but will aim to develop the technical intuition simultaneously.

SMARTer Portfolio Construction in the 21st Century

By Curt Custard

Portfolio construction has moved on a lot over the last 30 years. Technology has advance dramatically over the last 20yrs so why hasn't portfolio construction? Theory and practice have advanced to allow the investor to focus more explicitly on his investment goals yet many investors still apply traditional techniques to markets that are evolving and integrating rapidly. Modern portfolio construction can identify risks, show where active management pays dividends, and give some expectation of returns all in a simple language that investors can easily understand.

Statistical Arbitrage Based on No-Arbitrage Models

By Liuren Wu

The past decade has witnessed tremendous advances in our understanding, development, and implementation of no-arbitrage models in pricing fixed income, credit, and equity derivative securities. In this presentation, I propose a novel application for no-arbitrage models. I show how no-arbitrage models provide the natural basis for building statistical arbitrage strategies on derivative securities.

Instead of using no-arbitrage models for relative pricing, I propose to use them as a decomposition tool that decomposes each derivative security into two orthogonal components. The first component is captured by the systematic factor dynamics embedded in the no-arbitrage model, whereas the second component represents the pricing residuals of model, the variation of which is mainly driven by short-term liquidity shocks and temporary market dislocations. With this decomposition, we can form derivative portfolios that are immune to systematic risks, but are fully exposed to the short-term statistical arbitrage opportunities. I use examples from various markets to illustrate the promise of this new application.