Alternative Investing

Understanding Alternative Risk Premia

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While equities and bonds are often viewed as reliable sources of long-term returns, many investors are perhaps overly-dependent on them. As such, we believe that investors can benefit by diversifying to other sources of return – such as a market-neutral Alternative Risk Premia (ARP) strategy.

In our paper, we illustrate that harvesting six well-known long/short risk premia – Value, Momentum, Carry, Defensive, Trend and Volatility – across multiple liquid asset groups may have the potential to deliver attractive risk-adjusted returns. This is because correlations across risk premia and asset groups tend to be low, resulting in strong diversification benefits when combined in a single portfolio.

Additionally, we demonstrate that a market-neutral ARP strategy has generally low-to-no correlation to a traditional 60/40 or hedge fund portfolio and, when added to either, may improve risk-adjusted returns. With the many benefits that an ARP strategy can bring, we believe it can function as a core alternative solution in investors' portfolios.