



Press Release

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Risk allocation strategies applied to alternative risk factors could be more relevant than hedge fund replication for harvesting alternative risk premia

In a new study entitled “Factor Investing and Risk Allocation: From Traditional to Alternative Risk Premia Harvesting”, drawn from the Lyxor Asset Management research chair on “Risk Allocation Solutions”, EDHEC-Risk extends the analysis of factor investing beyond traditional factors and seeks to investigate **what the best possible approach is for harvesting alternative long short-risk premia**.

There is a growing interest amongst sophisticated institutional investors in factor investing. It is now well accepted that the average long-term performance of active mutual fund managers can, to a large extent, be replicated through a static exposure to traditional factors, which implies that traditional long-only risk premia can be most efficiently harvested in a passive manner.

By looking beyond traditional factors, this research does indeed identify other strategies that serve to harvest alternative risk premia. While the replication of hedge fund factor exposure appears to be a very attractive concept, the authors find that hedge fund replication strategies achieve in general a relatively low out-of-sample explanatory power, regardless of the set of factors and the methodologies used. **Their results also suggest that risk parity strategies applied to alternative risk factors could be a better alternative than hedge fund replication for harvesting alternative risk premia in an efficient way.**

A key challenge for the alternative investment industry remains the capacity to **develop investable efficient low-cost proxies for harvesting alternative risk premia** not only in equity markets but also in the fixed income, currencies and commodity markets.

Commenting on this study, Thierry Roncalli, Head of Research & Development at Lyxor Asset Management, said: “The results of EDHEC-Risk Institute question the role of alternative risk premia in a low or negative interest rate environment. We already knew them as diversification assets, but this study shows that they are potential candidates as performance assets. Therefore, this research opens a door for reconsidering the traditional equity/bond asset mix policy.”

A copy of “*Factor Investing and Risk Allocation: From Traditional to Alternative Risk Premia Harvesting*” can be downloaded via the following link:

[EDHEC Publication Factor Investing and Risk Allocation: From Traditional to Alternative Risk Premia Harvesting](#)

This research was supported by Lyxor Asset Management as part of the research chair at EDHEC-Risk Institute on “Risk Allocations Solutions”. This chair aims to develop academic insights that can be used towards the design of high-performance multi-asset investment solutions, based on specific investor needs.



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About Lyxor

Lyxor Asset Management - The Expert in all modern investment techniques

Lyxor Asset Management, a subsidiary of Société Générale Group, was founded in 1998 and counts 600 professionals worldwide managing US\$ 127.9bn* of assets.

Lyxor customizes active investment solutions as the expert in all modern investment techniques: ETFs & Indexing, Alternative, Structured, Active Quantitative & Specialized investments. Supported by strong research teams and leading innovation capabilities, Lyxor’s investment specialists strive to optimize performance and risks across all asset classes.

Experience driven by acknowledged research

Recognized in the industry and among academics alike for its research in macroeconomics, quantitative and alternative investments, Lyxor is also known for the publication of proprietary portfolio management models and white papers, which have been widely referenced in the most important financial research publications. The close synergies established between portfolio managers and Lyxor’s independent research department allow for the development of reliable and innovative investment solutions in each of Lyxor’s areas of expertise.

Advanced risk management culture

Alternative, ETFs & Indexing, structured, active quantitative & specialized investments, Lyxor’s investment solutions all have to address risk issues. Lyxor’s ability to offer transparent and sustainable sources of performance results from its established experience in risk management. The Risk Department thus ensures independent risk monitoring throughout the entire lifecycle of all investments relying on rigorous portfolio management processes and constant monitoring.

* USD 127.9 bn - Equivalent to EUR 116.3 bn - Assets under management and advisory as of May 31st, 2015.

About EDHEC-Risk Institute

Since 2001, EDHEC Business School has been pursuing an ambitious policy in terms of practically relevant academic research. This policy, known as “Research for Business”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results.

Among these areas, asset and risk management have occupied privileged positions, leading to the creation in 2001 of EDHEC-Risk Institute, which has developed an ambitious portfolio of research and educational initiatives in the domain of investment solutions for institutional and individual investors.

This institute now boasts a team of close to 50 permanent professors, engineers and support staff, as well as 38 research associates from the financial industry and affiliate professors. EDHEC-Risk Institute is located at campuses in Singapore, which was established at the invitation of the Monetary Authority of Singapore (MAS); the City of London in the United Kingdom; Nice and Paris in France. The philosophy of the institute is to validate its work by publication in prestigious academic journals, but also to make it available to professionals and to participate in industry debate through its position papers, published studies and global conferences.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, www.edhec-risk.com, which is entirely devoted to international risk and asset management research. The website, which has more than 70,000 regular visitors, is aimed at professionals who wish to benefit from EDHEC-Risk's analysis and expertise in the area of applied portfolio management research. Its quarterly newsletter is distributed to more than 200,000 readers.

EDHEC-Risk Institute also has highly significant executive education activities for professionals. In partnership with CFA Institute, it has developed advanced seminars based on its research which are available to CFA charterholders and have been taking place since 2008 in New York, Singapore and London.

In 2012, EDHEC-Risk Institute signed two strategic partnership agreements, with the Operations Research and Financial Engineering department of Princeton University to set up a joint research programme in the area of asset-liability management for institutions and individuals, and with Yale School of Management to set up joint certified executive training courses in North America and Europe in the area of risk and investment management.

As part of its policy of transferring know-how to the industry, EDHEC-Risk Institute has set up ERI Scientific Beta. ERI Scientific Beta is an original initiative which aims to favour the adoption of the latest advances in smart beta design and implementation by the whole investment industry. Its academic origin provides the foundation for its strategy: offer, in the best economic conditions possible, the smart beta solutions that are most proven scientifically with full transparency of both the methods and the associated risks.

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