

Case Study - August 2015 - Large Dutch Asset Manager - Asset Class: Long Only Funds

THE PROBLEMS

AlternativeSoft was approached by a major Asset Manager based in the Netherlands to help provide extensive fund analytics and outperformance analysis for their teams selecting Long-only funds and constructing portfolios containing them.

In particular they were struggling to understand their funds relationships with major factors affecting the performance of the market in general and wanted to ensure they had every tool at their disposal to select the best funds that outperform their benchmarks throughout all market conditions.

The organization in question had reached the limit of what was possible with internally built solutions and calculations and needed a polished solution to rely upon to consistently deliver crucial information for Fund Selectors and Portfolio Managers.

THE SOLUTION

The AlternativeSoft platforms range of Asset Selection and Portfolio Construction functions allows the practitioners in questions to manage, share and store proprietary and 3rd party data in one centralized location and perform extensive vast levels of outperformance analysis on these funds. In particular, AlternativeSoft's "Long-only" functionality allowing practitioners to develop customized rule based outperformance analysis specific to their market views allowed them to select the best funds that consistently generated returns above their benchmarks during all market conditions.

The organization in questions were focused on selecting managers whose returns were not affected heavily by alterations in Interest Rates. Our software allowed Portfolio Managers to identify managers who consistently delivered outperformance during periods of interest rate fluctuation as well as performing excellent on a risk/return basis and build better performing portfolios were more transparent and better understood than before thanks to the vast level of analytics available at the aggregate portfolio level.

	Difference in Annualized Return (Asset-Benchmark 1) Last 3 years		Difference in Annualized Return (Asset-Benchmark 1)		Annualized Outperformance vs Benchmark 1		Annualized Outperformance vs Benchmark 1 Last 1 year		Annualized Outperformance vs Benchmark 1 Last 5 years		Annualized Outperformance vs Benchmark 1 Last 3 years		Annualized Outperformance vs Benchmark 1 Given VIX increase by +5%		Annualized Outperformance vs Benchmark 1 Given High VIX >17%		Annualized Outperformance vs Benchmark 1 Given Negative S&P500 <0%		Annualized Outperformance vs Benchmark 1 Given Increase in credit spread > +0.4%	
	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Candriam Equities L Biotechnology C USD Acc	25.61%	1	10.00%	7	10.00%	7	36.75%	1	18.48%	1	25.61%	1	59.70%	2	-	0.39%	24	-3.92%	29	
JPMorgan Funds - Global Healthcare A (dist) - GBP	18.84%	2	12.72%	2	12.72%	2	33.26%	2	13.05%	4	18.84%	2	-42.39%	30	-	28.37%	3	-8.57%	31	
JPMorgan Funds - JPMorgan Global Healthcare A (dist) - USD	17.68%	3	11.00%	5	11.00%	5	17.37%	6	13.59%	3	17.68%	3	-16.10%	20	-	14.10%	9	46.89%	1	
AT MLP Fund, LLC	15.41%	4	14.40%	1	14.40%	1	4.91%	18	16.47%	2	15.41%	4	80.94%	1	-	-4.81%	32	8.34%	16	
JPMorgan Funds - Europe Equity Plus X (acc) (perf) - EUR	12.97%	5	3.96%	22	3.96%	22	19.65%	5	6.41%	8	12.97%	5	-24.82%	23	-	9.39%	16	1.29%	22	
Parvest Equity USA Mid Cap Classic EUR-Capitalisation	9.55%	6	4.35%	20	4.35%	20	20.45%	4	3.53%	13	9.55%	6	-28.25%	27	-	9.28%	17	-5.94%	30	
Neptune UK Mid Cap A Acc	9.41%	7	10.74%	6	10.74%	6	16.79%	7	8.23%	5	9.41%	7	-25.94%	25	-	21.45%	4	11.77%	11	
MFS® Meridian Funds - European Smaller Companies Fund Cla	8.73%	8	7.47%	12	7.47%	12	26.27%	3	7.15%	6	8.73%	8	-45.44%	31	-	12.06%	13	0.80%	23	
Majedie UK Focus Class A	7.70%	9	7.06%	14	7.06%	14	7.98%	12	1.90%	23	7.70%	9	-25.92%	24	-	11.97%	14	32.50%	6	
Marlborough Special Situations Fund Class P Acc	6.96%	10	11.61%	3	11.61%	3	9.49%	10	6.01%	9	6.96%	10	-35.36%	28	-	12.96%	11	2.77%	17	
Henderson UK Equity Income & Growth Fund Z Inc	6.62%	11	6.98%	15	6.98%	15	2.78%	23	4.51%	12	6.62%	11	-16.40%	21	-	13.95%	10	15.84%	7	
Marlborough Special Situations A Acc	5.79%	12	11.39%	4	11.39%	4	8.60%	11	5.33%	11	5.79%	12	-36.97%	29	-	12.76%	12	2.77%	17	

1. Select long only funds which generate significant outperformance during periods of interest rate fluctuation to identify the best funds

Assets	Benchmark 1	Return Last 1 year	Annualized Return	Annualized Volatility	Beta to Individual Benchmark 1	Annualized Alpha vs Individual Benchmark 1	Ann. Tracking Error vs Individual Benchmark 1 (Beta= 1)	Max Drawdown
Alger American Asset Growth Fu		12.16%	20.91%	11.71%				-7.90%
AT MLP Fund, LLC	HFRI Relative Value (Total) Index	6.40%	23.28%	9.12%	2.54	5.20%	7.52%	-7.21%
BlackRock ACWI ex-US Index Fu	Russell 1000 Growth Index	-1.60%	11.09%	13.74%	1.01	-8.46%	8.32%	-13.84%
BlackRock California Municipal	Russell 1000 Growth Index	4.27%	5.47%	6.01%	0.02	5.32%	12.28%	-11.64%
Brown Advisory US Equity Grow	Russell 1000 Growth Index	8.36%	16.67%	12.96%	1.12	-4.96%	5.01%	-10.27%
Candriam Equities L Biotechnol	Russell 1000 Growth Index	41.88%	42.84%	18.62%	1.01	20.04%	15.09%	-14.53%
Discovery Global Opportunity Fi	Russell 1000 Growth Index	2.31%	8.30%	11.64%	0.23	4.09%	14.06%	-14.17%
ECF Value Fund II, L.P.	Russell 1000 Growth Index	-7.03%	15.78%	11.19%	0.83	-0.65%	6.91%	-11.01%
ECF Value Fund International Lt	Russell 1000 Growth Index	-7.86%	15.02%	11.29%	0.84	-1.40%	6.98%	-11.53%
Fidelity Funds - America Fund A	Russell 1000 Growth Index	10.87%	21.02%	11.04%	0.96	1.32%	3.74%	-8.86%
Franklin DynaTech Fund Adviso	Russell 1000 Growth Index	10.57%	20.43%	13.60%	1.13	-3.04%	6.08%	-11.72%
Henderson Horizon Fund - Glot	Russell 1000 Growth Index	5.67%	14.64%	13.64%	1.16	-7.27%	5.81%	-12.05%
Henderson Horizon Global Tech	Russell 2000 Value Index	6.36%	14.94%	13.64%	0.67	2.49%	10.98%	-12.05%
Henderson UK Equity Income &	Russell 2000 Value Index	6.45%	20.80%	10.31%	0.43	12.13%	11.54%	-5.48%
Investec UK Special Situations S	Russell 2000 Value Index	5.02%	15.33%	10.10%	0.42	7.27%	11.58%	-5.34%

2. Once outperformers are identified select the funds with the lowest beta and lowest tracking error quickly and easily

Statistics	Asset Graph	Strategy Graph	Asset Weights	Strategy Weights
Alger American Asset Growth Fund A	5.58%	9.90%	15.00%	15.00%
BlackRock ACWI ex-US Index Fund Class K shares	5.00%	15.00%	14.45%	12.62%
BlackRock California Municipal Opportunities Fund Inv	0.00%	0.00%	0.00%	0.00%
Brown Advisory US Equity Growth S A	5.00%	15.00%	9.15%	7.95%
Candriam Equities L Biotechnology C USD Acc	0.00%	0.00%	0.00%	0.00%
Fidelity Funds - America Fund A-Acc-USD	0.00%	0.00%	0.00%	0.00%
Franklin DynaTech Fund Advisor Class	0.00%	0.00%	1.32%	2.99%
Henderson Horizon Fund - Global Technology Fund A	5.00%	15.00%	15.00%	15.00%
Henderson Horizon Global Technology Fund H1 USD I	5.00%	15.00%	15.00%	15.00%
Henderson UK Equity Income & Growth Fund Z Inc	0.00%	0.00%	0.00%	0.00%
Investec UK Special Situations S Acc Net	0.00%	0.00%	0.00%	0.00%
JOHCM UK Equity Income A GBP Acc	0.00%	0.00%	0.00%	0.00%
JPM Highbridge US STEEP A (acc) - USD	5.00%	15.00%	15.00%	15.00%
JPMorgan Funds - Europe Equity Plus X (acc) (perf) - El	0.00%	0.00%	0.08%	1.44%
M&G Global Dividend USD A	5.00%	15.00%	15.00%	15.00%
Majedie UK Focus Class A	0.00%	0.00%	0.00%	0.00%
MFS® Meridian Funds - European Smaller Companies	0.00%	0.00%	0.00%	0.00%
Natixis Actions US Growth I USD	1.42%	0.10%	0.00%	0.00%
Natixis International Funds (Lux) I Harris Associates U.S	0.00%	0.00%	0.00%	0.00%
Neptune UK Mid Cap A Acc	0.00%	0.00%	0.00%	0.00%

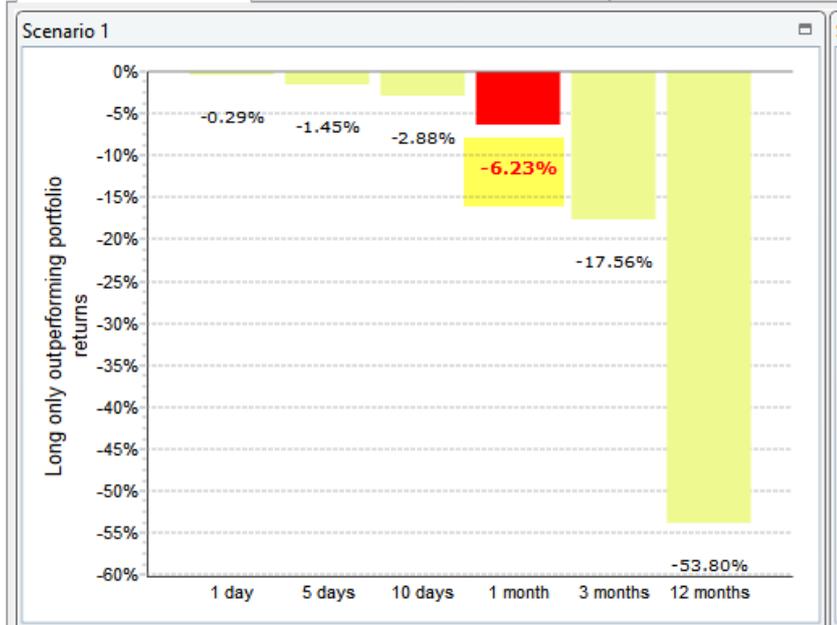
3. Build an optimized portfolio with only the best funds using a number of optimization techniques and in depth analytics to find the best portfolio

Names	Current values (m)	Change in values (m)	New values (m)	New weights	Optimized Weights	Contribution to Annualized Volatility						
						Good	0.57%	1.14%	1.70%	Bad		
Alger American Asset Growth Fund A	20.00		20.00	5.00%	15.00%	0.78%	0.79%					
BlackRock ACWI ex-US Index Fund Class K shares		20.00	20.00	5.00%	14.45%	0.80%						
BlackRock California Municipal Opportunities Fund Inv	4.00		4.00	1.00%		0.01%	0.01%					
Brown Advisory US Equity Growth S A	20.00		20.00	5.00%	9.15%	0.72%	0.74%					
Candriam Equities L Biotechnology C USD Acc	20.00		20.00	5.00%		0.73%	0.74%					
Fidelity Funds - America Fund A-Acc-USD	60.00	-20.00	40.00	10.00%		1.52%			2.27%			
Franklin DynaTech Fund Advisor Class	20.00		20.00	5.00%	1.32%	0.75%	0.76%					
Henderson Horizon Fund - Global Technology Fund A		20.00	20.00	5.00%	15.00%	0.82%						
Henderson Horizon Global Technology Fund H1 USD I					15.00%							
Henderson UK Equity Income & Growth Fund Z Inc	20.00		20.00	5.00%		0.69%	0.70%					
Investec UK Special Situations S Acc Net						0.00%						
JOHCM UK Equity Income A GBP Acc	20.00		20.00	5.00%		0.69%	0.70%					
JPM Highbridge US STEEP A (acc) - USD	20.00		20.00	5.00%	15.00%	0.76%	0.77%					
JPMorgan Funds - Europe Equity Plus X (acc) (perf) - El	29.00		29.00	7.25%	0.08%	1.03%	1.03%					
M&G Global Dividend USD A					15.00%	0.00%						
Majedie UK Focus Class A	44.00	-20.00	24.00	6.00%		0.77%	1.44%					
MFS® Meridian Funds - European Smaller Companies						0.00%						
Natixis Actions US Growth I USD	5.00		5.00	1.25%		0.17%	0.17%					
Natixis International Funds (Lux) I Harris Associates U.S	8.00		8.00	2.00%		0.30%	0.30%					
Neptune UK Mid Cap A Acc	55.00	-20.00	35.00	8.75%		1.07%	1.72%					
Cash	55.00	20.00	75.00	18.75%		0.00%						
Total (21 assets):	400.00	0.00	400.00	100.00%	100.00%	Good	0.00%	0.57%	1.14%	1.70%	Bad	2.27%

4. Perform "What if" Portfolio Construction: analyze fund contributions to a variety of metrics, such as volatility, and alter allocations to build better portfolios instantly and re-assess at both the aggregate portfolio and individual fund level

		Scenario 1			
Factors		Expected Monthly Return	Explicit Monthly Return	Implicit Monthly Return	Number of standard deviations away from the mean
<input checked="" type="checkbox"/>	Change in Term Spread (10y-3m US)	0.60%		-0.02%	2.13
<input type="checkbox"/>	Change in Credit Spread (BAA-AAA Moody)	0.00%			-0.01
<input type="checkbox"/>	Fama/French Global Small-Large	0.00%		0.01%	-0.01
<input type="checkbox"/>	Fama/French Global Value-Growth	0.00%		0.05%	-0.03
<input type="checkbox"/>	S&P500 Index	0.00%		0.54%	-0.13
<input type="checkbox"/>	Russell 1000 Index	0.00%		0.74%	-0.17
<input checked="" type="checkbox"/>	BofA Merrill Lynch US Corp 3-5yr Total Retu	-5.00%		0.39%	-4.63

Stressed Return by Period Stressed Return Decomposed by Factors Stressed Return versus Fac



5. Stress test your portfolio using multi-factor regressions:

Analyze

susceptibility to

scenarios of your

choosing using a

vast variety of

factors such as

changing Interest

Rates to

understand how

well your portfolio is

protected and to

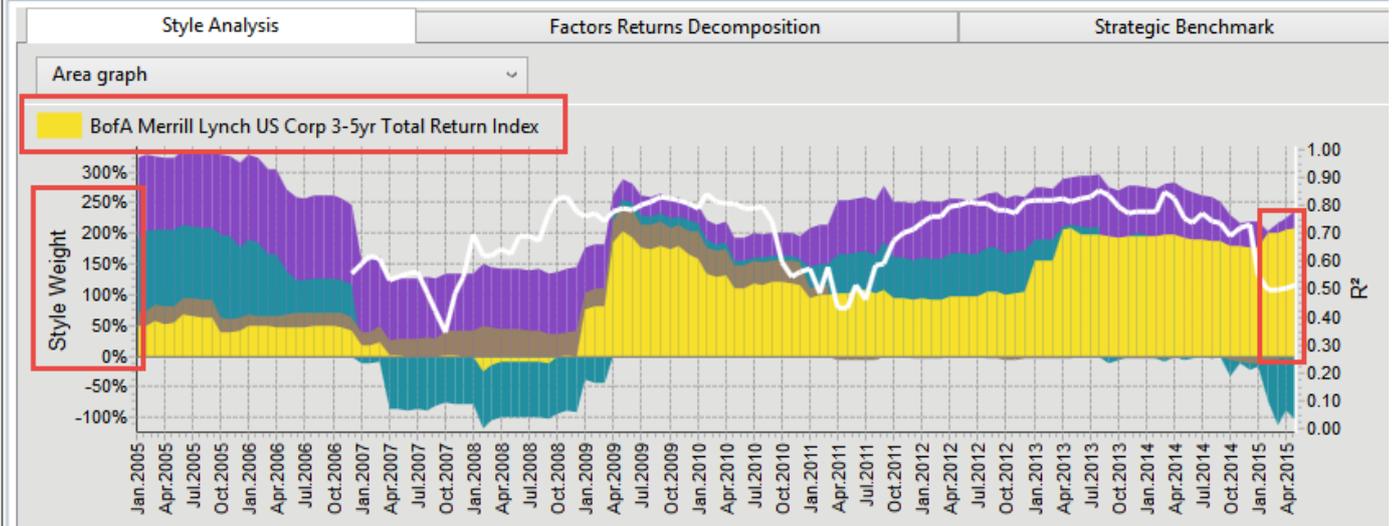
identify funds that

are at risk of

underperformance

Portfolio	Factor Status	Annualized Total Alpha	Annualized Tracking Error	Annual Information Ratio	t-stat (Alpha Significance)
Franklin DynaTech Fund Advisor Class	⬇️	2.42%	7.25%	0.33	1.10
Henderson Horizon Fund - Global Technr	⬇️	1.42%	9.33%	0.15	0.53
Henderson Horizon Global Technology I	⬇️	1.36%	9.33%	0.15	0.51
Henderson UK Equity Income & Growth	⬇️	6.79%	9.73%	0.70	2.15
Investec UK Special Situations S Acc Net	⬇️	3.61%	8.50%	0.42	1.35
JOHCM UK Equity Income A GBP Acc	⬇️	2.95%	9.31%	0.32	0.99
JPM Highbridge US STEEP A (acc) - USD	⬇️	1.38%	7.07%	0.19	0.63
JPMorgan Funds - Europe Equity Plus X	⬇️	3.76%	10.09%	0.37	1.07
M&G Global Dividend USD A	⬇️	-1.83%	7.23%	-0.25	-0.84
Majedie UK Focus Class A	⬇️	4.95%	8.84%	0.56	1.65
MFS® Meridian Funds - European Smal	⬇️	8.05%	9.40%	0.86	2.74
Natixis Actions US Growth I USD	⬇️	0.78%	7.79%	0.10	0.36
Natixis International Funds (Lux) I Harris	⬇️	5.01%	7.04%	0.71	2.47
Neptune UK Mid Cap A Acc	⬇️	9.44%	8.70%	1.09	3.42
Cash	⬇️				

Kalman Filter (unconstrained beta, beta sum≠100%) Recommended



6. Use the Style Analysis function to better understand market exposures: identify funds highly exposed to an increase in interest rates for example. Make decisions to consider altering your portfolios composition in order to remove high susceptible funds and stress your new portfolio to assess the success of your proposed trades.

AlternativeSoft
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