The big themes from the 2019 Jacobi Client Forum

This week marked the first inaugural Jacobi client forum in San Francisco. Over $1 trillion of assets under management were represented with clients visiting from across the States, UK and Australia. Risk-factor investing, portfolio optimisation frameworks and dynamic asset allocation were the hot topics debated in a mix of panel discussions and practical training forums. So what was on top of investors' minds?

Despite the benefits, risk-factor investing is still in its infancy

The allure of risk-factor frameworks for analysing, customising and managing multi-asset portfolios is well understood, yet there is still a tendency to rely on traditional asset class approaches across the industry. For those that have embraced it, applying better regional diversity, increasing use of alternatives and reducing traditional equity exposures are common themes within portfolios. How best to treat and model illiquid assets was a hot topic and, in recognition that risk factor loadings fluctuate, emphasis is increasingly on regime-dependent approaches.

Overcoming the evils of portfolio optimization

Portfolio optimisation divides opinion among asset allocators and quant analysts. Despite the error maximization problem of a traditional mean-variance approach (i.e. highly sensitive to errors in inputs), much discussion was on ways to overcome the limitations. Different approaches centred on using Black-Litterman, Robust and Step-optimisation techniques, as well as simply changing the objective of analysis to identify optimal portfolio *changes* rather than the optimal portfolio. Investor objectives are also getting more complex. ESG, liquidity and multi-period aspects are important considerations for many clients. This leads to either additional constraints being imposed or complicated multi-dimensional objective functions.

Finding the sweet spot between SAA and TAA

Cycle-Aware Asset Allocation is a relatively new approach to allocating across asset classes to improve risk-adjusted returns. Yet investors are still considering how best to reconcile strategic, cycle-aware, dynamic and tactical approaches. And keeping track of potentially overlapping active positions can be a problem – decisions all the way down to security selection can amplify single factor exposures. Irrespective of the best approach, having a complete, accurate and timely view of the entire portfolio is crucial.

No matter how good your portfolio design is, how you engage also matters

A common pain point in most investment processes is how portfolio analysis and recommendations get communicated to stakeholders. Clients had varying experiences in the way decisions can be shaped by other key stakeholders in their process, such as an end client, an investment committee or trustee board. While the future will continue to see increasing use of quantitative techniques, most practitioners agreed that the best approaches still draw heavily on fundamental human input. Getting the best from both these worlds and drawing on learnings from behavioural finance will be important ingredients for good investment decision making in the decade ahead.

A big thanks to our clients from the Jacobi Team