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PERSPECTIVES

THERE'S BETA IN MY ALPHA! (PART 2)

June 8, 2016

Topics: Risk Management

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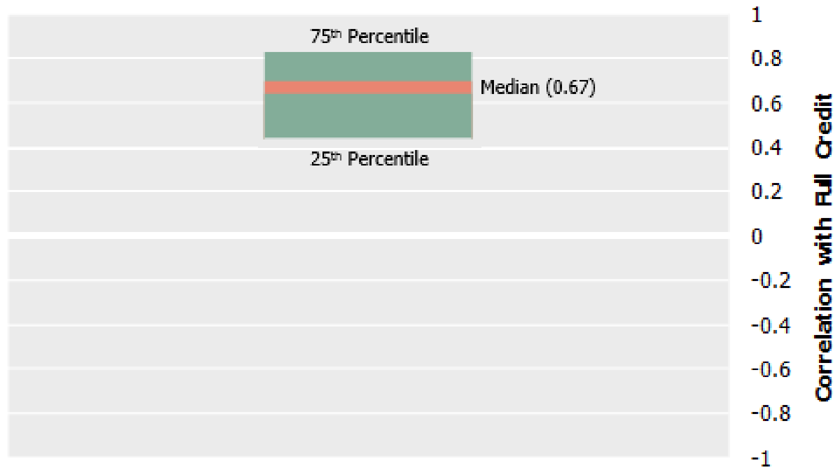
I received some feedback asking whether the high correlation of managers both to beta and to each other applies to "Aggregate" managers as well. As a brief follow-up to the previous post, I thought I would share results we obtained from the eVestment Analytics database of managers benchmarked to the Barclays Aggregate index.

The bottom-line: Aggregate managers are *even more* highly correlated with the credit markets and with each other than are Long Gov/Credit managers. For example, the Aggregate managers' excess performance had a median correlation with the credit market of nearly 0.7. Alternatively, the "beta" of the managers' excess return to the credit markets is about 0.2, an implied average overweight to credit of 20%!

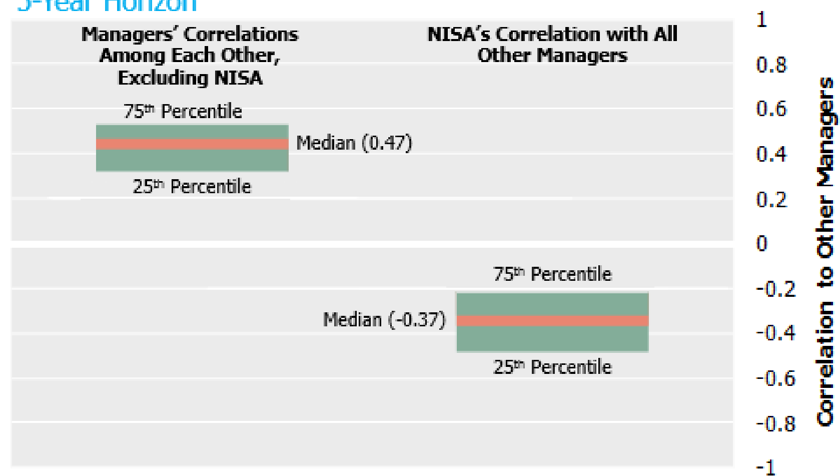
We have updated the earlier graphs to reflect our new findings.

Exhibit I: Aggregate Managers' Performance - Correlation with the Barclays Full Credit Index, 5-Year Horizon



Source: Based on data from 03/31/11 through 03/31/16 from eVestment Analytics, Bloomberg, and Barclays.

Exhibit II: Aggregate Managers' Correlation Among Each Other, 5-Year Horizon



Source: Based on data from 03/31/11 through 03/31/16 from eVestment Analytics, Bloomberg, and Barclays.

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