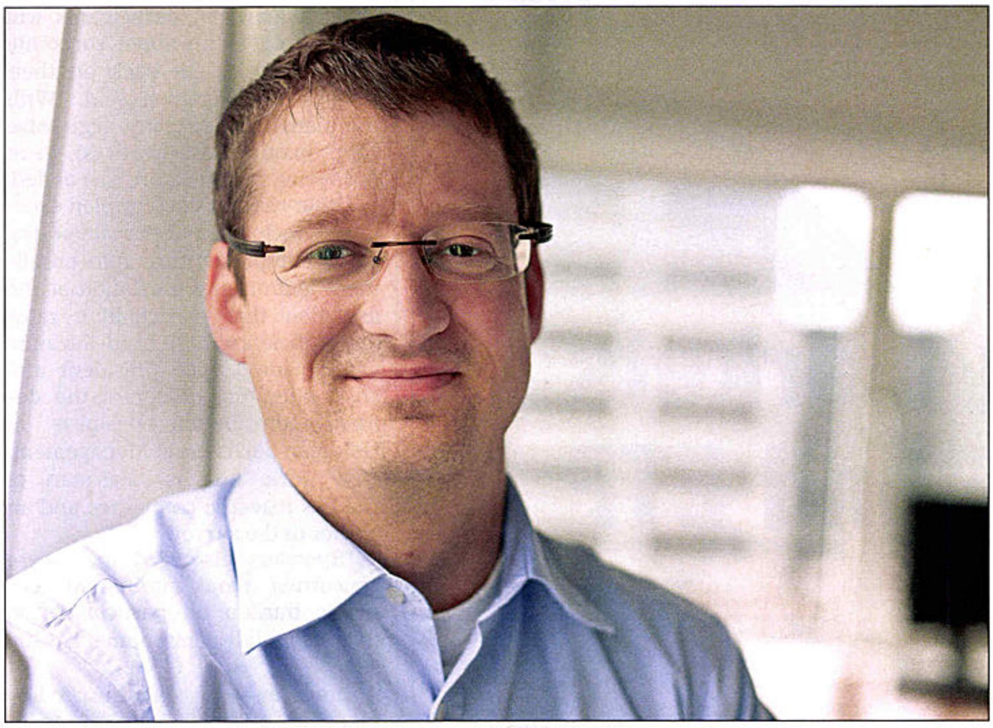
Pensions&Investments

N° and issue date : 121210 - 10/12/2012
Circulation : 49847
Frequency : Fortnightly
PensionsInvts_121210_5_1.pdf
Page : 5
Size : 13.36 %
414 cm2

Website: http://www.pionline.com/apps/pbcs.dll/frontpage



INCREASING: Ramon Tol says Blue Sky Group is considering putting 15% to 20% of equities in smart beta.

Money Management

Attraction to smart beta grows, as does complexity

Second generation spurs questions of portfolio balance

By Thao Hua

Smart beta is cutting deeper into traditional passive strategies and displacing more actively managed portfolios, according to consultants, managers and pension fund executives.

But the second generation of smart beta — also known as alternative beta or advanced beta – also introduces sharper tools for slicing beta, requiring more in-depth understanding of how these strategies combine within investment portfolios, consultants and academics said.

In the past year, specialist managers such as Research Affiliates LLC, TOBAM and Lombard Odier Investment Managers saw significant jumps in asset flows into their smart-beta strategies, despite a difficult environment for the overall asset management industry. While new mandates tended to be a shift from traditional cap-weighted indexes, some investors are using smart beta as an alternative to actively managed strategies, consultants said.

"The next question is how to balance the whole portfolio in terms of active vs. smart beta," said Philip Tindall, senior investment consultant at Towers Watson & Co., Reigate, England. "Put it another way: How much of the active portfolio is effectively smart beta? That's a legitimate question to ask right now."

Ramon Tol, fund manager-equities at Blue Sky Group Inc., Amstelveen, Netherlands, said executives at the fiduciary manager are considering increasing smart-beta exposure to 15% to 20% of the total equity portfolio. "That's about where we think it should be to have a meaningful impact on the risk-adjusted return of the overall equity portfolio," he said.

Blue Sky Group, which invests about 40% of its €16 billion ($21 billion) in total assets under management in equities, already doubled its smart-beta allocation in September to 10% of the total equity assets, from 5%. Blue Sky Group uses three smart-beta equity strategies – "two minimum-variance mandates, including one with a slight dividend

[*See* **BETA** *on page 31*]

BETA

Continued from page 3

yield tilt and better performance in up markets, plus a maximum diversification strategy," according to Mr. Tol. He declined to confirm the strategies' managers.

"We felt that 5% just doesn't have a meaningful impact on the overall risk/return of the portfolio," said Mr. Tol, whose company is the fiduciary manager for KLM Royal Dutch Airlines pension funds among other clients.

As of the end of October, Towers Watson's clients already have added \$3.3 billion in new smart-beta mandates globally compared with \$3.1 billion for all of last year, according to data from the firm.

Tobam UK