

# quant Capital – Hubbis Conference



August 14, 2013

## ➤ **Variety of products**

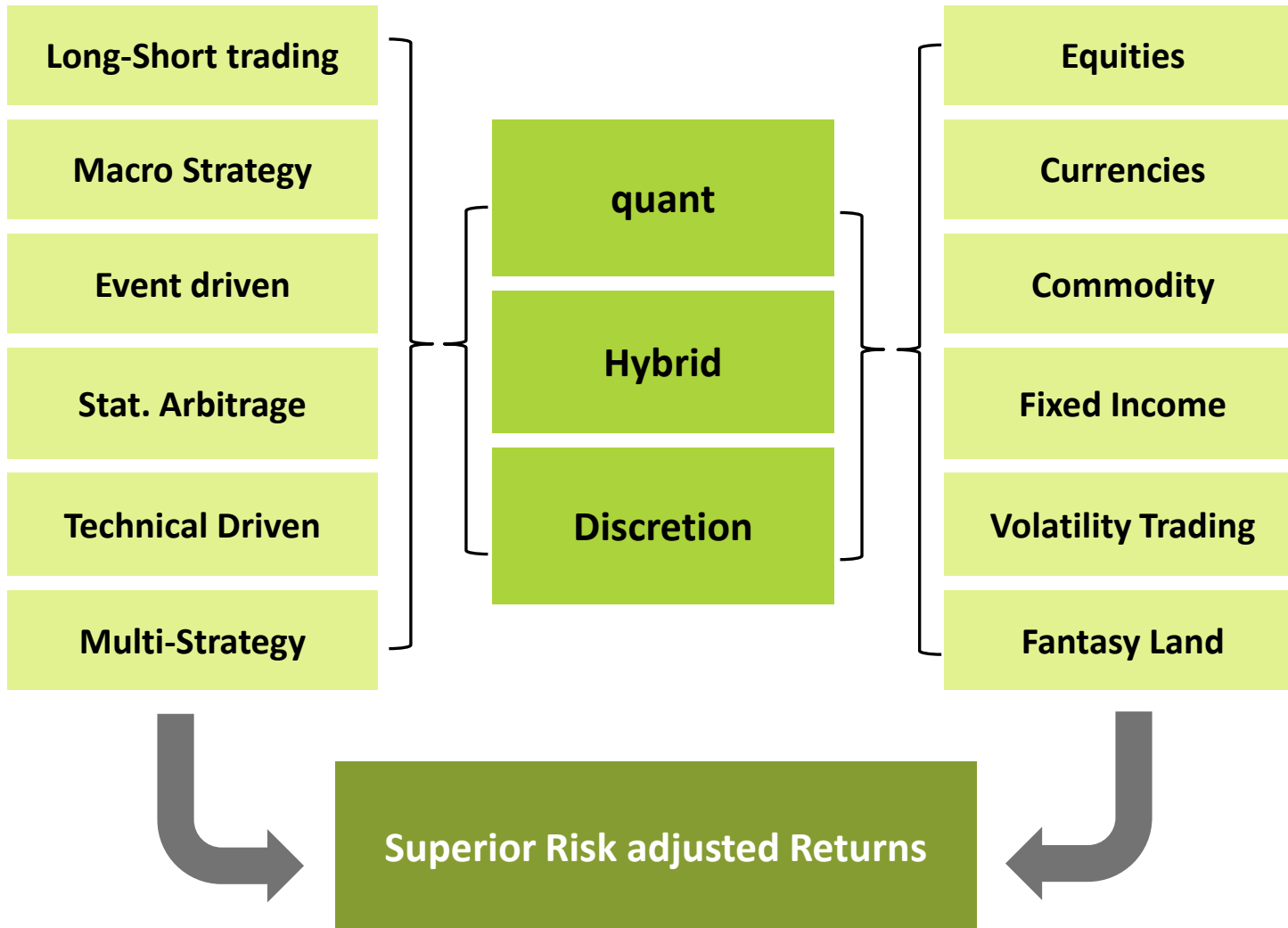
- Exotic risk – reward combinations possible
- Low correlation with existing assets

## ➤ **Race ahead of benchmark**

- Absolute return desire
- Pay for alpha only, not beta

## ➤ **Problems with existing fund structures**

- Far too many regulatory constraints
- Fees not commensurate with Performance
- Hopefully, new category will provide some answers



- 3 Ps: Philosophy, People and Processes
- Return source / EDGE
- Track record / pedigree of partners
- Strong risk management rules
- Disclosures and transparency
- Underlying and exit liquidity
- Fraud prevention / tail risks

## ➤ Return v/s appropriate Risk

- Small cap portfolio benchmark BSE500
- Illiquidity premium
- Short some improbable event
- Implicit risks (credit/sovereign/political/event specific)

## ➤ Return characteristics

- Large infrequent returns or vice versa?
- Volatility / drawdowns
- Correlation wrt. Benchmarks
- Regime shifts



- **Behavioral / Technical / Systematic focus**
- **Doesn't preclude Value emphasis**
- **Systematic**
  - remove emotion
  - Always account for all information
  - Improve breadth of stocks
  - "codify" learning
- **Measurable is reliable!**

**Too Complex**

**Black box**

**Trust Machine?**

**Illiquids**

**No Story**

**Short Term?**

**High fees**

**High Leverage**

**Unregulated**

## ➤ Reality

- AIF regulations ensure reasonable leverage, fees, and other protections
- Short term trades, but rigorously researched long term focused methods
- Strategies range from simple futures trading to CDO tranches, take your pick
- Final decision based on financial intuition rather than machines



# Thank you

612, maker chambers IV, nariman point,  
mumbai 400 021, india  
phone 91 22 4088 0100, 3025 0100  
fax 91 22 4088 0198, 3025 0198

**quant**  
analysis adds up